



Custodian of the Two Holy Mosques
KING ABDULLAH BIN ABDULAZIZ AL SAUD
King of the Kingdom of Saudi Arabia



His Royal Highness
CROWN PRINCE SALMAN BIN ABDULAZIZ AL SAUD
First Deputy Prime Minister and Minister of Defence



His Royal Highness
PRINCE MUQRIN BIN ABDULAZIZ AL SAUD
Second Deputy Prime Minister and Advisor to the King



His Royal Highness
PRINCE SAUD BIN NAYEF BIN ABDULAZIZ AL SAUD
Governor of Eastern Province

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BOARD OF DIRECTORS



Mr. Sulaiman Al-Kadi
Chairman



Mr. Abdullah Al-Othman
Vice Chairman



Mr. Walid Al-Shoaibi
Member



Mr. Wasef Al-Jabsheh
Member



Mr. Khalid Al-Rajhi
Member



Dr. Solaiman Al-Tuwaijri
Member



Mr. Hassan E. Al-Kabbani
Member



Mr. Waleed Al-Jaafary
Member



Mr. Abdulaziz S. Al-Rebdi
Member



Mr. Jameel A. Al-Molhem
Member

Management Team

Executive Management

1	Johnson Varughese	Chief Executive Officer
2	Salah Mohammed Al-Jaber	VP – Sales and Marketing
3	Wasif Farooq Minhas	VP – Technical
4	P Kumar	Chief Financial Officer (Acting)

Operating Departments

1	Turki Abdulaziz Al-Buraik	HR, Administration & Public Relations Manager
2	Anas Ebrahim Al-Khayez	Compliance Officer
3	Saleh Diyab Al-Enzi	Regional Manager – Eastern
4	Abdullah Hamdan Al-Zorgi	Regional Manager – Western
5	Hussein Al-Thuniyan	Regional Underwriting Manager – Central
6	Jamal Hassan Habeeballah	Regional Underwriting Manager – Western
7	Mannan Mahboob	Senior Underwriting Manager
8	SasiRoopan	Manager Claims – Non-Motor
9	Riyadh Bakatheer	Manager Claims – Motor
10	M. Saood Hashim	Internal Auditor
11	G. Sridhar	Manager – IT
12	Bander Al-Suhaimi	Commercial Manager
13	Badruddin Ali Wangde	Senior Manager – Reinsurance
14	Fouad A. Al-Asiri	Sales Channel Development Manager

Report of the Board of Directors for the year ended 31 December 2013





Message from the Chairman of the Board of Directors

Dear Shareholders,

I am pleased to present the report of the Board of Directors of your Company for the year 2013. It is encouraging to note that in the fifth year of its progress the Company has reported positive performance for three years in succession with a net profit of SR 24.6m for the year 2013 compared to SR 18.8m for 2012.

There has not been a more challenging time for the Kingdom's developing insurance market than what was seen during the year 2013. The regulators have sought to strictly bring-in reserving requirements on insurers which have impacted almost the entire insurance market. While from a long-term view this step will result bringing in much needed discipline in the way business is conducted, many companies including Wala'a have had to report constrained results for the year under review. However, 2014 is likely to witness changes coming in a significant measure for the betterment of the insurance industry.

Given the demographics, increasing national levels of spending on infra-structure and huge potential for insurance penetration available in the Kingdom, all responsible insurers can operate with a successful model which could result in producing decent levels of returns to all stakeholders. One of very important remedial measure that the industry is seeking to achieve at this moment is to bring price-stability in compulsory lines which is aimed at avoiding unhealthy situations and helping all players to perform in a fair and equitable manner. We are confident that the industry's leaders will work towards this objective.

The vision of growth and development perceived by the Kingdom's wise leadership has also provided increased opportunities for all economic sectors to be benefitted. The Kingdom's gross reported insurance premiums have also grown from SR 22.5 billion in 2012 to SR 24.6 billion in 2013. This change will result in overall benefit for the industry going forward.

During 2013, Wala'a recorded gross written premium nearly 50% higher compared to previous year; however, this increase could not significantly help in attaining growth in operating surplus. To counter this situation, the management team has come up with a strong plan for growth for 2014 and beyond, where operating surplus can be attained.

The Board of Directors likes to thank the shareholders for their trust and confidence and the work-force of the Company for their dedicated efforts and hard-work in the year and hope that this will continue in the future. The encouragement given to national employees to excel in their role and performance has been another prominent factor to note in the year under review. Wala'a had 53% nationals at the end of 2013 and continuous efforts are in place to achieve improvement in this percentage. The Company also appreciates the trust and faith placed by business partners in the chart of progress and heartily acknowledges their support. The Board looks forward to continuing and holistic success for the Company.

Yours truly,
Sulaiman A. Al-Kadi



Message from the Chief Executive Officer

Dear Shareholders,

The year 2013 has ended on a level that is even more challenging to the industry than what was anticipated at the beginning of the year. Changes in terms of achieving price-stability based on actuarial-models were expected during the year; however, not all companies chose to adopt this model which resulted in prices of compulsory lines going through immense levels of stress. Towards the end of the year, the regulator insisted on setting up mandatory provisions based on actuarial computation which resulted in nearly the entire insurance industry in the Kingdom reporting disappointing results. Wala'a has followed the regulatory instruction in this regard and this has resulted in reporting a marginal surplus from operating segment for 2013. I am happy to present the following highlights for the year 2013.

Financial

For the year 2013, the net surplus before zakat and unrealized gain on investment is SR 24.6m, compared to SR 18.8m for the year 2012 – arising on account of increase in investment income. Net surplus from insurance operations was a near break-even with SR 262,258 for 2013 compared to SR 15.2m for previous year which is mainly attributable to increase in provisions made as per actuarial calculations.

Rating

It is a matter of delight that during the year 2013, Company's interactive Financial Strength Rating of **B++ (Good)** and Issuer Credit Rating of **'bbb'** from AM Best – both with 'stable' outlook – were reaffirmed. This reflects the sound financial and operational capability demonstrated by the Company, which we intend to strengthen in the years ahead.

Growth strategy and marketing initiatives

We are now pursuing a 3-year business plan which has been prepared for years 2014 and beyond. A balanced mix of insurance portfolio remains as a guiding factor and we are looking to strengthen both retail and corporate segments given the critical developments that have been seen in the market. The compulsory lines of motor and health insurance have witnessed tremendous stress in pricing and distribution patterns. Wala'a has therefore chosen to adopt a very dynamic approach to these two key segments. Business practices and pricing are reviewed regularly by the management team to optimize the performance and improvise upon profitability and efficiency. We actively explore to work with agencies which have established and reliable networks and presence across various geographical areas in the Kingdom, which gives us the advantages of widening our customer-base.

Plans are also in place to implement on-line sale of selected insurance products, and this should help our valued clients to choose and purchase an insurance policy right from the convenience of their desks.

You are requested to note that reference made in this message or other company reports may contain forward looking statements which are based on current plans and assumptions and the actual position might differ from those statements.

Business process improvements

The company-wide ERP is under progressive stages of testing and integration. A key operational module will be going live during 1st quarter of 2014, with remaining modules falling into integration thereafter. An advanced customer-friendly claim-tracking system will be in place and through this facility our clients can inquire into their claim settlement status on a real-time basis. We also plan to extend this system to providing a summarized account and business position to the clients, who can get to see at a glance, the status of outstanding dues and other useful decision making and monitoring information. Our claimants are receiving an automated text-message informing them of the status of their claim process. This has resulted in minimizing the queries handled by customer service team.

Human resources and Saudization

The vision perceived to invest in and develop human resource capital is one of the passionate activities at Wala'a. More number of staff members accredited themselves with IFCE credentials as well as professional insurance accreditation. In addition to this, staff members are encouraged to improve their communication abilities and soft-skills with the help of highly-focused and intensive training programs. Saudization level at end of 2013 stood at little over 53%.

Corporate governance and risk management

While dedicated sections provide more details, it is a matter of satisfaction to note that the company's corporate governance and risk management framework has been strengthened during the year under review. All the functional units are constantly reminded of adherence to the relevant governance requirements.

Facing industry challenges

It is a well-recognized fact that insurance penetration in the Kingdom is yet to reach its full potential. The economic growth drivers are all indicating infusion of higher spending on infra-structure projects which in turn provides growth opportunities for insurance sector. Insurers are actively focusing on the compulsory lines which are highly price-driven. Wala'a is continuously working towards providing highly efficient service to the vast client-base in this business segment. At the same time, with the margins under severe stress, insurers have to tidy-up themselves by providing efficient service at workable prices to produce meaningful operating results. The burden of carrying additional provisions as per actuarial reports has affected the entire insurance industry. Wala'a has also set-up additional provision in the books for the year 2013 which has affected the reported underwriting result. Despite setting up additional provision in our books, it is heartening to note that reported shareholders' equity as at end 2013 is SR 206.7m.

Looking ahead

Our vision to achieve best underwriting practices and customer service will be pursued with greater intent. The underwriting and claims teams are being strengthened and provided with more human resource and technological support to ensure prompt service to the clients.

Acknowledgements

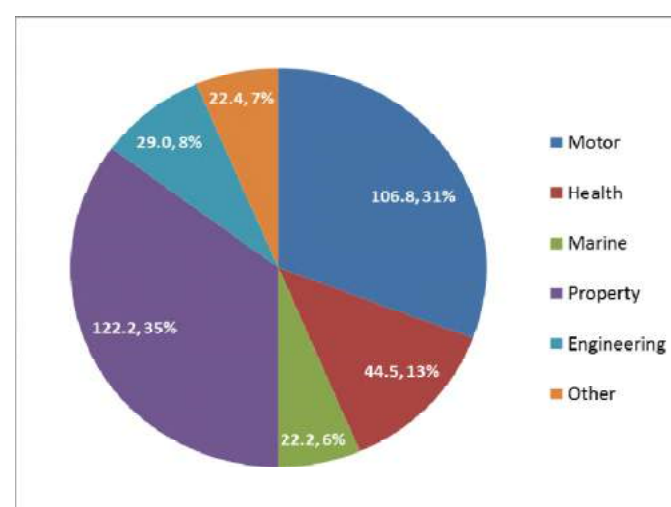
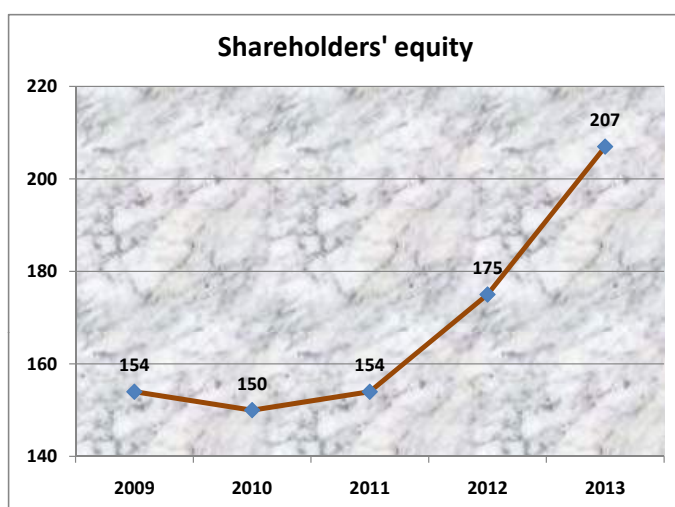
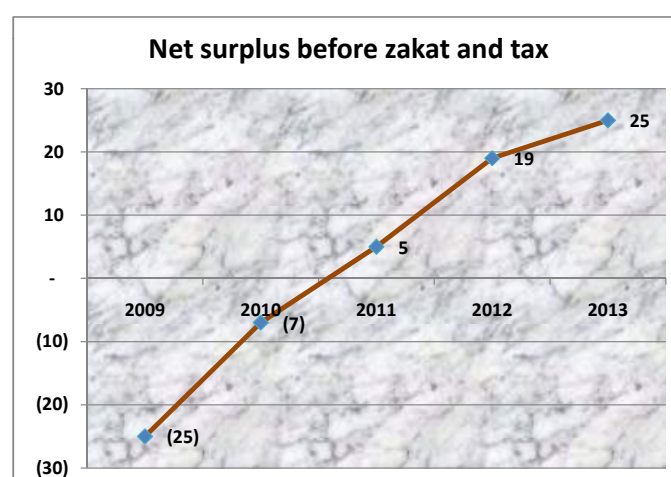
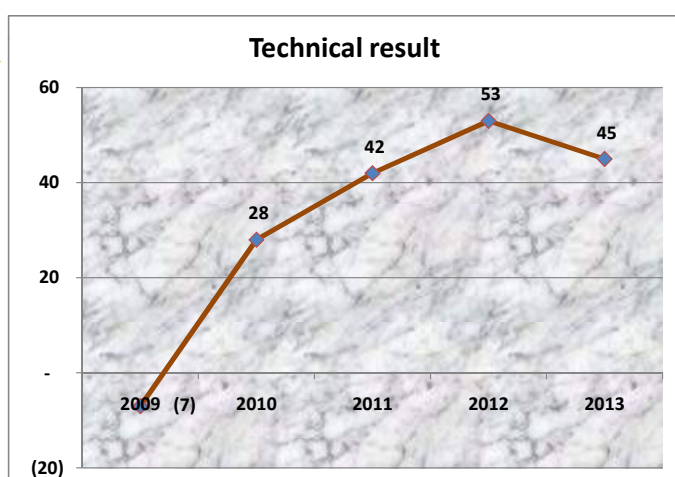
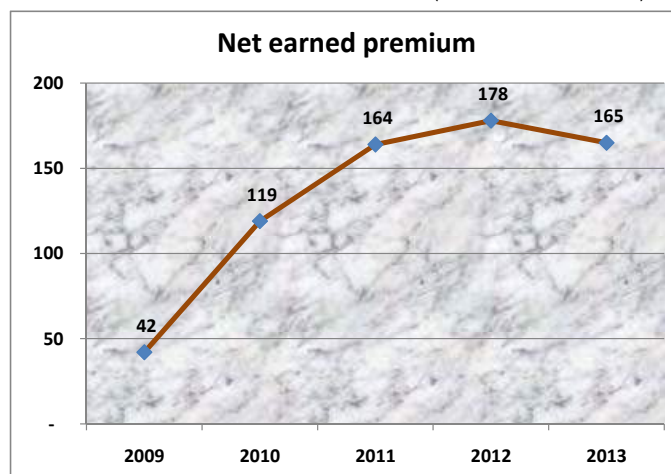
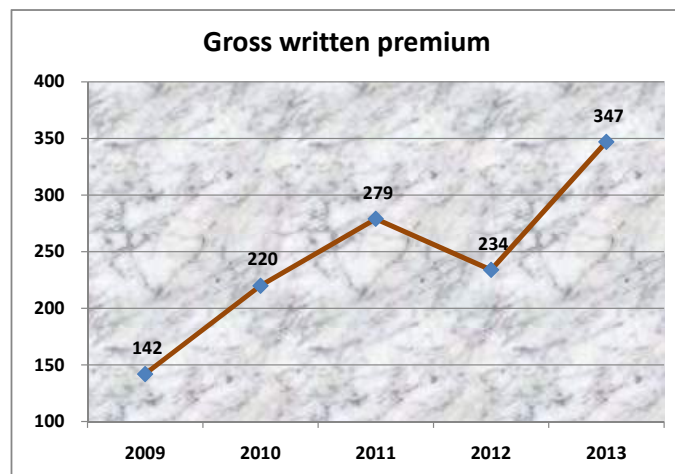
As always, I am grateful to the stakeholders and business partners for their continuing support and contribution which is a key factor for our success and sustained growth. I also like to congratulate the staff members for their dedication, hard work and sincere efforts in helping Wala'a grow into a strong, rewarding and responsible wholesome business unit. I take this opportunity to thank the Chairman and the members of the Board of Directors for their continued support and guidance. We also sincerely acknowledge and appreciate the support from regulatory and governmental entities in achieving a holistic growth in the years to come.



Thank you,
Johnson Varughese

2009 - 2013 : Growth at a glance

(all amounts in SAR millions)



Gross Premium Composition - 2013

Notes to the Report of the Board of Directors

1. Principal activities

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

The composition of activities between the general and health lines of business is as follows:

(SAR m)

	2013			2012		
	General	Medical	Total	General	Medical	Total
Gross written premium	302.68	44.51	347.19	169.39	64.71	234.09
Earned premium	122.68	42.63	165.31	99.35	78.51	177.86
Net underwriting surplus	20.57	24.39	44.96	15.14	38.09	53.23
Less: Operating expenses (unallocated)			(44.70)			(38.03)
Surplus from underwriting operations			0.26			15.20

2. Financial performance

(SAR m)

	2013	2012	2011	2010	2009	2007-08*
Insurance operations:						
Gross premiums written	347.19	234.09	278.56	220.00	142.92	-
Net earned premium	165.31	177.86	164.43	118.61	41.64	-
Reinsurance commission	21.22	10.45	15.20	14.50	5.43	-
Other underwriting income	0.10	0.16	0.31	0.08	0.08	-
Total underwriting revenues	186.63	188.48	179.94	133.19	47.15	-
Net incurred claims including reserves	(110.40)	(101.35)	(101.28)	(76.40)	(40.21)	-
Policy acquisition costs	(20.59)	(23.16)	(27.04)	(20.58)	(6.01)	-
Excess of Loss protection cost	(6.72)	(5.64)	(5.99)	(4.60)	(5.98)	-
Other underwriting expenses	(3.95)	(5.10)	(3.77)	(3.10)	(2.01)	-
Total underwriting expenses	(141.67)	(135.25)	(138.08)	(104.68)	(54.21)	-
Net underwriting surplus / (deficit)	44.96	53.23	41.86	28.51	(7.06)	-
Employee cost and operating expenses	(44.70)	(38.03)	(35.85)	(34.79)	(18.69)	-
Surplus / (deficit) from insurance operations	0.26	15.20	6.01	(6.28)	(25.75)	-
Shareholders' appropriation of surplus	(0.02)	(1.52)	(0.60)	-	-	-
Net result for the period	0.24	13.68	5.41	(6.28)	(25.75)	-
Net Surplus from insurance operations transferred to shareholders	0.24	13.68	5.41	(6.28)	(25.75)	-
Commission income from bank deposits	0.79	0.87	0.79	0.93	2.78	12.54
Realized gains on available for sale investments	25.66	7.21	-	-	-	-
General and administrative expenses	(2.04)	(3.00)	(1.62)	(1.63)	(2.12)	(27.33)
Net surplus / (deficit) for the period	24.65	18.76	4.58	(6.98)	(25.09)	(14.79)
Unrealized gain / (loss) from investment in shares	9.99	4.64	1.65	4.84	0.13	-
Zakat and income tax	(3.00)	(2.75)	(1.88)	(1.93)	(1.87)	(4.18)
Comprehensive surplus / (deficit) for the period	31.64	20.65	4.35	(4.07)	(26.83)	(18.97)

* 4.Jul.2007 to 31.Dec.2008

Statement of Financial Position						
As at 31 December						
	2013	2012	2011	2010	2009	2008
Assets						
Insurance operations:						
Property and equipment	4.53	3.21	2.32	2.54	2.40	
Insurance receivable	79.11	62.07	57.26	55.50	46.49	
Reinsurer's share of unearned premium	57.44	44.28	74.89	30.92	30.41	
Reinsurer's share of outstanding claims	105.12	46.15	45.36	18.39	25.12	
Deferred policy acquisition costs	12.05	9.72	13.76	13.55	6.21	
Due from affiliate	-				0.86	
Due from shareholders				2.59	29.65	
Prepaid expenses and other assets	14.29	6.45	4.88	2.90	2.38	
Accrued interest income	0.03	0.08	0.11	0.02		
Short-term deposits						
Cash and cash equivalents	119.38	81.79	137.72	86.24	26.39	
<i>sub-total</i>	<i>391.96</i>	<i>253.75</i>	<i>336.30</i>	<i>212.65</i>	<i>169.91</i>	<i>-</i>
Shareholders' operations:						
Property and equipment						1.43
Statutory deposit	20.00	20.00	20.00	20.00	20.00	20.00
Other financial assets	60.94	64.80	51.40	49.69	34.35	0.80
Short term deposits	26.98	26.48	40.00	40.00	65.00	158.60
Prepaid expenses and other assets						0.32
Accrued interest income	0.94	1.17	0.76	0.67	0.84	2.81
Due from insurance operations	19.82	10.42	20.81			
Cash and cash equivalents	86.37	60.00	26.27	46.09	70.44	2.91
<i>subtotal</i>	<i>215.05</i>	<i>182.87</i>	<i>159.24</i>	<i>156.45</i>	<i>190.63</i>	<i>186.87</i>
Total Assets	607.01	436.61	495.54	369.10	360.54	186.87
Liabilities and shareholders' equity						
Insurance operations:						
Technical reserves	319.29	203.59	237.75	169.24	125.91	
Reinsurance payables	18.37	26.76	67.47	34.72	40.29	
End of service benefits	3.06	2.18	1.49	1.27	0.72	
Accrued expenses and other liabilities	29.28	8.68	8.18	7.42	2.99	
Due to shareholders	19.82	10.42	20.81			
Share of surplus	2.15	2.12	0.60			
<i>subtotal</i>	<i>391.97</i>	<i>253.75</i>	<i>336.30</i>	<i>212.65</i>	<i>169.91</i>	<i>-</i>
Shareholders' operations:						
Due to an affiliate					29.65	
Due to insurance operations				2.59		
Accrued expenses and other liabilities	8.27	7.73	4.75	3.73	6.78	5.84
Shareholders' equity	206.78	175.14	154.49	150.13	154.20	181.03
<i>subtotal</i>	<i>215.05</i>	<i>182.87</i>	<i>159.24</i>	<i>156.45</i>	<i>190.63</i>	<i>186.87</i>
Total Liabilities and shareholders' equity	607.01	436.61	495.54	369.10	360.54	186.87

3. Significant Plans, decisions and future prospects

During the year under review, the Company entered into an agency arrangement with Tamkeen Al-Raedah Co., in line with the overall strategy pursued by the Company to enhance the retail business segment. At the same time, the management seeks to gradually and increasingly rely on its own internal sales teams to strengthen the customer base, as well as to provide more personalized service to clients. New branches at Jubail, Al-Hassa, Qaseem and Jeddah were opened during 2013. A number of sales representatives with local knowledge of the market were added to the team during the year, and the Company expects to build-up on this trend to improvise the working relationship with our customers.

Retail business remains under high focus and management is very keen to ensure that this segment is conducted in full compliance with regulatory documentation requirements. Regional sales teams are being strengthened to secure a higher share of corporate and SME sector of the market. The Company's IT and communication system is continuously being upgraded to stay in tune with business growth, and to ensure prompt service to clients' requirements.

4. Risks faced by the Company

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

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

- a) **Financial risk:** The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, cash and cash equivalents and advances for investments. The Company does not enter into derivative transactions.
 - 1) *Credit risk:* The Company seeks to limit credit risk with respect to agents and brokers by setting credit period for individual agents and brokers and monitoring outstanding receivables. The Company only enters into insurance and reinsurance contracts with recognized and credit worthy parties.
 - 2) *Liquidity risk:* Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.
 - 3) *Market price risk:* The Company limits market risk by maintaining a diversified portfolio and by monitoring developments in equity markets. The Company does not have any significant market risk.
 - 4) *Commission rate risk:* The Company limits commission rate risk by monitoring changes in commission rates in which its cash and investments are denominated.
 - 5) *Foreign currency risk:* The Company does not have any significant foreign currency risk.
 - 6) *Insurance risk:* The Company only underwrites insurance business of a short tail nature such as motor, medical, property and others which includes engineering, casualty cover, fire, accident, marine cargo risks. The Company's insurance business is managed and priced at head office level. The Company undertakes a quarterly review of their insurance risks of all line of business. The Executive Team monitors and develops the management of insurance risk in the insurance business, and assesses the aggregate risk exposure. In order to minimize financial exposure arising from large claims, the company, in the normal course of business, enters into contracts with other parties for reinsurance purposes.
 - 7) *Reinsurance risk:* Reinsurance risk represents the inability of the company to obtain adequate reinsurance; commensurate with the risk preference of the company, at the right time, with appropriate scope of coverage, at an acceptable cost and from a reinsurance company of an adequate credit quality. This also covers recoverability of amounts from reinsurers in case of claims. The company enters into reinsurance contracts only with rated companies to address this risk. The company as a policy does not enter into any direct insurance contract without

having in place a reinsurance arrangement that is in line with the reinsurance strategy approved by the board of directors.

- 8) **Capital management:** Shareholders' equity comprises share capital and accumulated losses. The company has not made any change in its capital structure during the year.
- b) **Strategic risk:** Strategic risk is explicitly considered throughout strategic review and planning process. The company closely monitors regulatory, legal and fiscal developments as well as actively engaging with external bodies to share the benefit of expertise in supporting responses to emerging risks to challenge developments that could be damaging to business and the industry as a whole.
- c) **Operational risk:** Significant resources are devoted to maintaining efficient and effective operations within company's framework of corporate responsibility, policies and business ethics code. The Company Executive Team oversees aggregate operational risk exposure and reports to the Board. The Company has a full-time in-house internal audit and risk management team that oversees various controls, ensures adherence to policies and procedures.
- d) **Regulatory risk:** The company management and compliance officer ensure compliance with all regulatory requirements and initiate timely update for regulatory changes and enable the Company to remain compliant with regulatory changes.

5. Geographical operations

Company does not have any overseas subsidiaries and operates within the Kingdom of Saudi Arabia. Geographical details of gross written premium are given below:

(SAR m)

Regionwise distribution of Gross written premium	Eastern	Central	Western	Total
Year 2013	234.19	63.00	50.00	347.19
Year 2012	147.09	40.00	47.00	234.09
Year 2011	164.00	54.23	60.33	278.56
Year 2010	173.62	18.88	27.50	220.00
Year 2009	107.63	11.49	23.80	142.92

6. Material variations from previous year

The reported operational profit for the year 2013 as compared to previous year has decreased due to decrease in earned premiums, increase in net incurred claims, increase in administration expenses. The shareholders' net income has increased due to increase in realized fair value changes on available for sale investments recognized in the year under review.

7. Accounting Standards

The company adheres to International Financial Reporting Standards (IFRS) and the relevant International Accounting Standards (IAS) in the preparation of its financial statements, as required by the Saudi Arabian Monetary Agency (SAMA). It does not follow the accounting standards generally followed in the Kingdom of Saudi Arabia. The external auditors have modified their audit report to include an emphasis of matter paragraph addressing this issue.

8. Dividend Policy

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

- (1) Zakat & Income Tax amounts shall be set aside.

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

(The company did not declare any dividend for 2013 due to the accumulated deficit)

9. Interest, Options and Subscription rights

During the year 2013, details of interests, options and subscription rights of the issuer's directors, senior executives and their spouses and minor children in the Shares of the company or Debt Instruments are as follows:

	Board member	At beginning of the year		Change in holding		At end of the year 2013	
		No. of shares held	Pct. Of shares held	Number	% of change	No. of shares held	Pct. Of shares held
1	Sulaiman A. Al-Kadi	1,000	0.005%			1,000	0.005%
2	Abdullah M. Al-Othman	1,000	0.005%			1,000	0.005%
3	Wasef S.A Al-Jebsheh	2,100,000	10.500%			2,100,000	10.500%
4	Walid S. Al-Shoaibi	50,000	0.250%			50,000	0.250%
5	Khalid A.S Al-Rajhi	332,786	1.664%	(331,786)	-99.70%	1,000	0.005%
6	Abdulaziz S. Al-Rebdi	1,000	0.005%			1,000	0.005%
7	Sulaiman A. Al-Twajiri	1,000	0.005%			1,000	0.005%
8	Walid M. Al-Jaafary	240,000	1.200%			240,000	1.200%
9	Hassan E. Al-Kabbani	1,000	0.005%			1,000	0.005%
10	Jameel A. Al-Mulhem			1,000	100.00%	1,000	0.005%

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

10. Significant Interest in a Class of Voting Shares

The following table provides information about significant interest in a class of voting shares held by persons (other than the Issuer's Directors, senior executives and their spouses and minor children)

No.	Name	Shares beginning of the year 2013	% at beg. of the year	Change	% change	Shares end of the year 2013	% end of the year
01	Youssef Saleh Abdul-Aziz Al-Rajhi	1,035,000	5.175%	(1,000)	0	1,034,000	5.170%

11. Borrowings, Issue / Redemption of Securities

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

12. Related Party Transactions

Details of related party transactions are furnished below:

(SAR m)

Director		Insurance contracts	Terms / duration
	Direct placements:		
Sulaiman Al-Kadi	private motor car insurance	0.057	12-months
Abdullah M. Al-Othman	Al-Othman Group	0.270	12-months
Waleed Al-Shoaibi	Al-Shoaibi Group	0.101	12-months
Waleed Al-Jaafary	Al-Dawaa Medical Services	1.201	various
Khalid Al-Rajhi	Procure / Al-Riaya Hospital	0.076	various
	Key management personnel	0.011	12-months

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

Hassan Al-Kabbani	Essam Al-Kabbani Group	4.460	various
Dr. Sulaiman Al-Towaijri	Amiantit Group	0.261	various
Waleed Al-Shoaibi	Al-Shoaibi Group	0.424	various
Abullah M. Al-Othman	Al-Othman Group	0.058	various

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

13. Statutory dues and payments

The company does not have any outstanding statutory dues as on 31 December 2013, except for the following:

(SAR m)

	2013	2012	2011	2010	2009
GOSI for December paid in January the following year	0.166	- *	0.128	0.126	0.070
Zakat and tax: Provision for year, due for payment upon filing	3.000	2.750	1.875	1.925	1.874
Council of Cooperative Health Insurance (CCHI) fee	0.445	0.647	0.985	0.365	0.280
SAMA Supervision fee (provision for last quarter, paid in January)	0.350	0.175	0.746	0.251	-

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

During the year 2013, the Company has made following payments to various statutory agencies:

(SAR m)

	2013	2012	2011	2010	2009
Zakat, Income tax and withholding tax	2.450	1.506	1.575	0.846	1.057
Saudi Arabian Monetary Agency (SAMA) Supervision	1.534	1.719	0.861	0.751	0.698
GOSI (Social insurance)	1.790	1.884	1.001	0.808	0.423
Council of Cooperative Health Insurance (CCHI)	0.647	0.985	0.365	0.280	-
Ministry of Interior, Labour office, Chamber of Commerce & Sagia	0.290	0.290	0.379	0.260	0.170

14. Employees benefits

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

15. Statements of affirmation

During the year,

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

16. Appointing External Auditors

The Board of Directors recommended the appointment of PriceWaterHouse and Deloitte & Touche as external auditors based on Audit Committee's recommendation to review and audit the company's accounts for 2013, after completion of terms by the previous external auditors at the end of 2012. The General Assembly approved this appointment during its last meeting held on 5 May 2013.

17. Corporate Governance

All applicable provisions of the CMA Corporate Governance Regulations were implemented during the year except the following:

1. *Rights of shareholders in the article of association [Article#3 & 4 (a)]:*
The article of association of the company does not include (a) the shareholders' right to a share of the company's assets upon liquidation. (b) The right to supervise the Board of Directors activities, and file responsibility claims against Board members. (c) The right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules. However, it may be noted that the article of association of the insurance companies was prepared and enforced by SAMA. Moreover, above mentioned rights are granted to the shareholders according to ministry of commerce and CMA regulations. The shareholders approve the Board of Director report and discharge the directors from any liabilities in the annual general assembly. The appointment / ratification of appointment of the board lies with the shareholders.
2. *Accumulative voting method for nomination of board members [Article#6(b)]:*
The method of voting for nomination of the board members is not specified in the article of association formulated by SAMA. Therefore, the board of directors applied the ordinary voting method since they have not adopted the accumulative voting method until now.

3. *The company's social contributions in the stakeholders' relationship policy [Article#10 (e/5)]:*
The nature of cooperative insurance business itself is considered as social contribution since it provides protection to individuals and society's wealth from possible risks. Moreover, the company contributes to the society through applying the Saudization plan as per regulatory requirements, including employment opportunities for female staff. The company has in place a very pro-active staff training policy that encourages Saudi staff to pursue IFCE examinations, English language related courses and other academic programs. Wala'a coordinates with leading universities of the Kingdom in the 'Co-Op Training Program' offering credit hours to the graduate students to obtain their qualifying degrees. The company also has a policy to provide suitable employment opportunities to physically-challenged or those with special needs.

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

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

	Name of Board Member	Name of Companies
1	Sulaiman A. Al-Kadi	<ul style="list-style-type: none"> Saudi Electricity Co. (SEC) Basic Chemical Industries Co. (BCI) Chemical Development Co. – Closed company Saudi Hollandi Bank
2	Abdullah M. Al-Othman	<ul style="list-style-type: none"> Takween Advanced Industries Al Othman Holding Co. – Closed company Roots Group Arabia- Closed company GIB Capital LLC - Closed company
3	Wasef S. A. Al-Jabsheh	<ul style="list-style-type: none"> International General Insurance Co. Ltd. and associates
4	Walid S. Al-Shoaibi	<ul style="list-style-type: none"> Chemical Development Co. – Closed company
5	Khalid A. S. Al-Rajhi	<ul style="list-style-type: none"> Al-Bilad Bank Saudi Cement Co. Takween Advanced Industries Abdul-Rahman Saleh Al-Rajhi & Partners Co.- Closed Procure & Fakhri Hospitals- Closed company
6	Abdulaziz S. Al-Rebdi	<ul style="list-style-type: none"> Al-Othaim Markets Company Takween Advanced Industries Obeikan Glass Co. – Closed company Abdulaziz M. Al-Namlah Holding Group Co.- Closed Company
7	Sulaiman A. Al-Twaijri	<ul style="list-style-type: none"> Saudi Arabian Amiantit Co. Takween Advanced Industries Chemical Development Co. – Closed company
8	Waleed M. Al-Jaafary	<ul style="list-style-type: none"> Advanced Petrochemical Co. Golf Real Estate Co. – Closed company Siyaha International Company – Closed company Al-Dawaa Medical Services Company – Closed company
9	Hassan E. Kabbani	<ul style="list-style-type: none"> Bank BEMO S.a.l.- Beirut Isam K.Kabbani for Insurance and Reinsurance Brokerage Co. - limited liability Isam Kabbani & Partners for Construction & Maintenance Co. Ltd.- Closed Company Isam Mohammad Khayri Kabbani & Partners Holding Co –Joint Stock
10	Jameel A. Al-Molhem	<ul style="list-style-type: none"> Al-Hassan Ghazin Ibrahim Shakir Co.

19. Board of Directors and composition

	Member	Functional duty	Classification
01	Sulaiman A. Al-Kadi	Chairman	Independent
02	Abdullah M. Al-Othman	Vice Chairman	Independent
03	Wasef S. A. Al-Jabsheh	Member	Non-executive
04	Walid S. Al-Shoaibi	Member	Independent
05	Khalid A. S. Al-Rajhi	Member	Independent
06	Waleed M. Al-Jaafary	Member	Independent
07	Abdulaziz S. Al-Rebdi	Member	Independent
08	Sulaiman A. Al-Twaijri	Member	Independent
09	Hassan E. Kabbani	Member	Independent
10	Jameel A. Al-Molhem * (appointed w.e.f 14.May.2013)	Member	Independent

20. Board and Committees

The Board of Directors is entrusted with effective management and control of the company. It gives strategic direction to achieve the company objectives and monitors the performance through regular meetings held throughout the year.

During the period of this report the Board held four meetings from 01.01.2013 to 31.12.2013 of which details including attendance are given below:

Member	First Meeting 02.03.2013	Second Meeting 02.05.2013	Third Meeting 22.07.2013	Fourth Meeting 26.11.2013	Total
Sulaiman A. Al-Kadi	✓	✓	✓	✓	4
Wasef S. A. Al-Jabsheh	X	✓	X	X	1
Abdullah M. Al-Othman	X	✓	✓	✓	3
Walid S. Al-Shoaibi	✓	X	✓	✓	3
Khalid A. S. Al-Rajhi	✓	✓	✓	X	3
Abdulaziz S. Al-Rebdi	✓	✓	X	✓	3
Sulaiman A. Al-Twaijri	✓	✓	✓	X	3
Waleed M. Al-Jaafary	✓	✓	✓	X	3
Hassan E. Kabbani	X	✓	✓	X	2
Jamil A. Al Molhem	n.a	n.a	✓	✓	2

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

(i) *Executive Committee*

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

The Executive Committee make recommendations to the Board of Directors in regards to the topics raised by the executive management of the company, and determines which of those shall be referred to the Board. Moreover, the committee shall review the performance of the executive management and ensure that it is in line with the overall strategy of the Board. The Executive Committee also reviews the annual budget of the company prior to presentation to the board with their recommendation. Furthermore, the Executive Committee discusses the related technical, marketing, and administrative matters and raises its decisions and recommendations to the Board of Directors.

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

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

Member	Role	No. of meetings Attended
Abdullah M. Al Othman	Chairman of the Committee	3
Walid S. Al Shoaibi	Member	3
Khalid A. S. Al-Rajhi	Member	4
Wasef S. A. Al-Jabsheh	Member	2

(ii) *Audit Committee*

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

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

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

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

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

The Audit Committee supervises the company's internal audit department and compliance department to ensure their effectiveness in executing the activities and duties specified by the Board of Directors. The Audit Committee also reviews the internal audit procedures periodically. The Audit Committee reviews the internal audit and compliance reports and pursues the implementation of the corrective measures in respect of the comments included in them.

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

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

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

Member	Role	No. of meetings attended
Dr. Sulaiman A. Al Twaijri	Chairman of the Committee	5
Dr. Raed Abdulla Al-Hogail	Independent member	5
Waleed Al-Othaymeen	Independent member	5

(iii) Investment Committee

The Board, based on the recommendation of the Nomination Committee, appoints the investment committee from amongst its members. The committee should have at least 3 members, and The CEO and the CFO shall be ex-officio members of the Committee.

The Investment committee is responsible for the formulation of the investment policy. The committee should meet minimum two times a year. Term of office shall extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee.

The Committee met twice during the period of this report. The details of the Investment Committee are given below:

Member	Role	No. of meetings attended
Khalid A. S. Al Rajhi	Chairman of the Committee	2
Abdulaziz S. Al-Rebdi	Member	2
Waleed M. Al-Jaafary	Member	2
Hassan E. Kabbani	Member	1

(iv) Nomination & Remuneration Committee

The Board of Directors appoints a Nomination & Remuneration Committee from amongst its members. The CEO shall be an ex-officio member of the Nomination & Remuneration Committee. The Committee shall consist of independent members and should have at least three members. The N&R Committee shall make recommendations to the Board of persons to serve as directors from among the proposals received from the shareholders. They shall also recommend names to fill the vacancies occurring on the Board.

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

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

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

The N&R Committee is reviewing annually the requirement of suitable skills for membership of the Board of Directors and preparing a description of the required capabilities and qualifications for such membership, and defining the time that a board member should reserve for the activities of the Board. Moreover, The N&R Committee is reviewing annually the structure of the Board of Directors and recommending changes. Also, they determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.

The Committee is ensuring on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.

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

The Committee met twice during the period. The details of the Nomination and Remuneration committee are given below:

Member	Role	No. of meetings attended
Sualiman A. Al Kadi	Chairman of the Committee	2
Abdulaziz S. Al-Rebdi	Member	2
Waleed M. Al-Jaafary	Member	2
Jameel A. Al-Molhem (appointed 14.May.2013)	Member	1

(v) Shariyah Board

Saudi United Cooperative Insurance Company (Wala'a) has appointed Shariyah Review Bureau Co. as a shariyah review committee. Their main role is to study and revise the company's financial and investments activities, and review the principles of insurance mechanism, insurance programs and products to confirm their compliance with the shariyah principles. Part of the committee duties is to review annually the company's products and services from an Islamic point of view then report the review processes results periodically - after the company's execute required amendments if exist- to the board of the Shariyah Review Bureau for certification, taking into consideration any modification may be required by the shariyah board in order to approve the company and its products. The Shariyah Board consists of eminent scholars as nominated by them from time-to-time.

21. Compensation paid to Directors and senior executives

Board member	(SAR m)	
	Paid / provided for 2013	
	Board meetings	Committee meetings
Sulaiman A. Al-Kadi	0.012	0.053
Abdullah M. Al-Othman	0.009	0.042
Wasef S.A Al-Jebsheh	0.003	0.028
Walid S. Al-Shoaibi	0.006	0.042
Khalid A.S Al-Rajhi	0.009	0.059
Abdulaziz S. Al-Rebdi	0.009	0.056
Sulaiman A. Al-Twaijri	0.009	0.057
Walid M. Al-Jaafary	0.009	0.056
Hassan E. Al-Kabbani	0.006	0.027
Jameel A. Al-Molhem	0.006	0.027
Total	0.078	0.446

Compensation paid to top five executives including CEO and VPs	3.328
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There have been no arrangements or agreements under which any director or senior executive of the company has waived any emolument or compensation.

22. Penalty / Preventive restriction

There were no penalties paid during the year and no restrictions were imposed on company's operations.

23. Internal Control

The board of directors have formed an audit committee, the prime responsibility of which includes discharging the board's responsibilities in respect of supervision of the company's financial reporting and evaluating the adequacy and effectiveness of the company's audit (both internal and external) and risk management processes. The Committee comprises of three members, two of whom are independent. The chairman is an independent non-executive director of the company. The audit committee held five meetings in the year 2013. The purposes of these meetings included, among others:

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

The satisfactory annual audit of the financial statements provides insights into the effectiveness of the Company's internal control environment and procedures and its risk management practices. In addition to that, the internal audit function of the company assists the audit committee and consequently the board of directors in providing assurance that the Company's internal control system is adequate and effective in mitigating various risks faced by the company and hence ensuring that the objectives of the Company will be met. The internal audit department maintains its organization independence by functionally reporting to the audit committee as required by both the regulations and the best practices. As instructed by the audit committee and the requirement of policies and procedures of the company as well as best practices, the procedure followed by the internal audit department in discharging its responsibilities is as follows:

- a. All significant business processes are risk assessed periodically and classified as high, medium and low risk business processes.
- b. An audit plan is then prepared and submitted to the Audit committee for approval on an annual basis. The audit plan is risk focused i.e. the high risk business processes are subject to more frequent audits and more rigorous internal audit procedures.
- c. As a result of evolving circumstances, the audit plan may require revisions. Any revisions to the audit plan are also approved by the Audit Committee.
- d. The audits are conducted in accordance with the approved audit plan and its results are submitted in the form of a report to the Audit Committee.

The internal audit department has conducted a number of audits in accordance with the approved internal audit plan and reported the findings to the Audit Committee as a result of these audits, together with management's response. In addition, the progress towards the resolution of the audit findings is also reported periodically. The department also presents separately the most significant findings, if any, as either part of the scheduled or specially arranged meetings. Based on the risk assessments, audit plan and the internal audit review reports submitted by the internal audit department and the results of the quarterly reviews and the annual audits performed by the external auditors the Audit Committee was able to conclude that internal control system in the company is effective.

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

- a. Developing, implementing, documenting and updating as needed compliance monitoring and risk management strategies, systems, procedures, processes and controls to meet SAMA's regulatory requirements, directives and anti-money laundering regulations

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

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013**





INDEPENDENT AUDITORS' REPORT

To the Shareholders
Saudi United Cooperative Insurance Company (WALA'A)
Al-Khobar, Saudi Arabia

Scope of audit:

We have audited the accompanying statement of financial position of Saudi United Cooperative Insurance Company (Wala'a) (a Saudi joint stock company) (the "Company") as at December 31, 2013 and the related statements of insurance operations, shareholders' income, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the notes 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 Article 123 of the Regulations for Companies and presented to us together with all 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 basis for our opinion.

Unqualified opinion:

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


- Present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and
- Comply in all material respects with the requirements of the Regulations for Companies and the Company's by-laws so far as they affect the preparation and presentation of the financial statements.

Emphasis of matter:

We draw attention to Note 2 to the accompanying financial statements. These financial statements have been prepared in accordance with IFRS and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.


PricewaterhouseCoopers

Omar M. Al Sagga
License Number 369



Deloitte & Touche Bakr Abulkhair & Co.

Waleed Moh'd Sobahi
License Number 378



February 16, 2014



STATEMENT OF FINANCIAL POSITION

(All amounts in Saudi Riyals unless otherwise stated)

		As at December 31,	
	Note	2013	2012
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	119,381,611	81,786,405
Premiums and insurance balances receivable	5	79,108,899	62,065,879
Reinsurers' share of unearned premiums	11	57,439,907	44,284,121
Reinsurers' share of outstanding claims	12	105,122,990	46,153,014
Deferred policy acquisition costs		12,050,405	9,720,768
Prepaid expenses and other assets	6	14,288,196	6,450,438
Accrued commission income		34,675	77,903
Property and equipment	7	4,532,680	3,207,792
TOTAL INSURANCE OPERATIONS' ASSETS		391,959,363	253,746,320
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	86,366,117	60,000,000
Short-term deposits	8	26,983,859	26,475,994
Other financial assets	9	60,941,698	64,800,506
Due from insurance operations		19,815,072	10,420,017
Accrued commission income		939,190	1,167,878
Statutory deposit	10	20,000,000	20,000,000
TOTAL SHAREHOLDERS' ASSETS		215,045,936	182,864,395
TOTAL ASSETS		607,005,299	436,610,715

(Continued)

The accompanying notes from 1 to 27 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (continued)
(All amounts in Saudi Riyals unless otherwise stated)

		As at December 31,	
	Note	2013	2012
INSURANCE OPERATIONS' LIABILITIES			
Liabilities arising from insurance contracts:			
Unearned premiums	11	132,352,853	91,115,733
Outstanding claims	12	181,437,542	107,273,881
Total liabilities arising from insurance contracts		313,790,395	198,389,614
Accrued and other liabilities	13	29,283,978	27,238,932
Reinsurance balances payable		18,361,378	8,197,770
Unearned reinsurance commission	14	5,501,830	5,198,133
Due to shareholders' operations		19,815,072	10,420,017
End-of-service indemnities	15	3,059,264	2,180,634
TOTAL INSURANCE OPERATIONS' LIABILITIES		389,811,917	251,625,100
Insurance operations' surplus		2,147,446	2,121,220
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		391,959,363	253,746,320
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued and other liabilities	13	8,269,395	7,727,200
SHAREHOLDERS' EQUITY			
Share capital	16	200,000,000	200,000,000
Accumulated losses		(14,481,813)	(36,128,195)
Fair value reserve		21,258,354	11,265,390
Total shareholders' equity		206,776,541	175,137,195
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		215,045,936	182,864,395
TOTAL LIABILITIES, INSURANCE OPERATION SURPLUS AND SHAREHOLDERS' EQUITY		607,005,299	436,610,715

The accompanying notes from 1 to 27 form an integral part of these financial statements.

STATEMENT OF INSURANCE OPERATIONS

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31,	
		2013	2012
REVENUES			
Gross premiums written	19	347,190,906	234,092,747
Reinsurance premiums ceded	19	(153,798,417)	(75,468,993)
Net premiums written		193,392,489	158,623,754
Changes in unearned premiums	11	(28,081,334)	19,237,866
Net premiums earned	11	165,311,155	177,861,620
Reinsurance commission	14	21,223,135	10,452,804
Other underwriting income		96,153	164,353
Total revenues		186,630,443	188,478,777
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	12	117,449,436	121,739,998
Reinsurers' share of claims paid	12	(22,239,744)	(31,784,985)
Net claims paid		95,209,692	89,955,013
Changes in outstanding claims	12	15,193,685	11,391,196
Net incurred claims	12	110,403,377	101,346,209
Policy acquisition costs		20,593,378	23,155,762
Excess of loss expenses		6,724,498	5,642,298
Other underwriting expenses		3,947,330	5,103,054
Total underwriting costs and expenses		141,668,583	135,247,323
Net underwriting income		44,961,860	53,231,454
OTHER OPERATING EXPENSES, NET			
Operating and administrative salaries	20	(30,834,065)	(25,109,963)
General and administrative expenses		(14,266,654)	(13,761,496)
Commission income on bank deposits		401,117	838,900
Total other operating expenses, net		(44,699,602)	(38,032,559)
Net surplus from insurance operations		262,258	15,198,895
Shareholders' appropriation of surplus		(236,032)	(13,679,006)
Net result from insurance operations after appropriation of surplus		26,226	1,519,889

The accompanying notes from 1 to 27 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' INCOME

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31,	
		2013	2012
Net surplus transferred from insurance operations		236,032	13,679,006
Commission income on bank deposits		605,027	678,404
Commission income on held-to-maturity investments		188,500	188,500
Realized gain on sale of available-for-sale investments		25,655,323	7,212,038
General and administrative expenses	20	(2,038,500)	(2,998,088)
Net income for the year		24,646,382	18,759,860
Basic and diluted earnings per share	24	1.23	0.94
Weighted average number of outstanding shares		20,000,000	20,000,000

The accompanying notes from 1 to 27 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31,	
		2013	2012
Shareholders' net income for the year		24,646,382	18,759,860
Unrealized fair value changes on available-for-sale investments		9,992,964	4,641,746
Provision for zakat and income tax	21	(3,000,000)	(2,750,000)
Total comprehensive income for the year		31,639,346	20,651,606
Basic and diluted earnings per share	24	1.58	1.03
Weighted average number of outstanding shares		20,000,000	20,000,000

The accompanying notes from 1 to 27 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts in Saudi Riyals unless otherwise stated)

	Share capital	Accumulated losses	Fair value reserve	Total
Balance at January 1, 2012	200,000,000	(52,138,055)	6,623,644	154,485,589
Net income for the year	-	18,759,860	-	18,759,860
Unrealized fair value changes on available-for-sale investments, net	-	-	4,641,746	4,641,746
Provision for zakat and income tax	-	(2,750,000)	-	(2,750,000)
Balance at December 31, 2012	200,000,000	(36,128,195)	11,265,390	175,137,195
Balance at January 1, 2013	200,000,000	(36,128,195)	11,265,390	175,137,195
Net income for the year	-	24,646,382	-	24,646,382
Unrealized fair value changes on available-for-sale investments, net	-	-	9,992,964	9,992,964
Provision for zakat and income tax	-	(3,000,000)	-	(3,000,000)
Balance at December 31, 2013	200,000,000	(14,481,813)	21,258,354	206,776,541

The accompanying notes from 1 to 27 form an integral part of these financial statements.

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended December 31,	
		2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus from insurance operations		262,258	15,198,895
Adjustments for:			
Depreciation	7	1,396,066	1,244,224
Gain on disposal of property and equipment		-	(4,388)
End-of-service indemnities, net		878,630	689,751
		2,536,954	17,128,482
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable		(17,043,020)	(4,805,968)
Reinsurers' share of unearned premiums		(13,155,786)	30,608,981
Reinsurers' share of outstanding claims		(58,969,976)	(792,452)
Deferred policy acquisition costs		(2,329,637)	4,038,427
Prepaid expenses and other assets		(7,837,758)	(1,569,834)
Accrued commission income		43,228	34,061
Unearned premiums		41,237,120	(46,687,302)
Outstanding claims		74,163,661	12,183,648
Unearned reinsurance commission		303,697	337,398
Reinsurance balances payable		10,163,608	(44,252,735)
Accrued and other liabilities		2,045,046	4,048,866
Net cash generated from (used in) operating activities		31,157,137	(29,728,428)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	7	(2,720,954)	(2,144,199)
Proceeds from disposal of property and equipment		-	11,300
Net cash utilized in investing activities		(2,720,954)	(2,132,899)
CASH FLOWS FROM FINANCING ACTIVITY			
Due to shareholders' operations		9,159,023	(24,067,910)
Net cash generated from (utilized in) financing activities		9,159,023	(24,067,910)
Net change in cash and cash equivalents		37,595,206	(55,929,237)
Cash and cash equivalents at the beginning of the year		81,786,405	137,715,642
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	119,381,611	81,786,405

The accompanying notes from 1 to 27 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' OPERATIONS' CASH FLOWS

(All amounts in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		24,646,382	18,759,860
Adjustments for:			
Commission income		(605,027)	(678,404)
Realized fair value changes on available-for-sale investments		(25,655,323)	(7,212,038)
		(1,613,968)	10,869,418
Changes in operating assets and liabilities:			
Due from insurance operations		(9,395,055)	10,388,904
Accrued and other liabilities		(265,523)	1,672,809
Cash (used in) generated from operating activities		(11,274,546)	22,931,131
Zakat paid	21	(2,192,282)	(1,446,178)
Net cash (used in) generated from operating activities		(13,466,828)	21,484,953
CASH FLOWS FROM INVESTING ACTIVITIES			
Short-term deposits		(507,865)	13,524,006
Movement in other financial assets, net		39,507,095	(1,550,000)
Commission income received		833,715	268,466
Net cash generated from investing activities		39,832,945	12,242,472
Net change in cash and cash equivalents		26,366,117	33,727,425
Cash and cash equivalents at the beginning of the year		60,000,000	26,272,575
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	86,366,117	60,000,000
<u>Non-cash transaction:</u>			
Unrealized gain on available-for-sale investments	9	9,992,964	4,641,746

The accompanying notes from 1 to 27 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

1. General information

The Saudi United Cooperative Insurance Company ("the Company") is a Saudi Joint Stock Company established in Al Khobar, Kingdom of Saudi Arabia and incorporated on 19 Jumada II 1428H corresponding to July 4, 2007 under Commercial Registration No. 2051034982.

The principal activities of the Company are to transact cooperative insurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies (the "Law") and its implementing regulations in the Kingdom of Saudi Arabia. The Company was granted the license (number TMN/16/2008) to practice general and medical insurance and re-insurance business from the Saudi Arabian Monetary Agency (SAMA) on 28 Jumada II 1429 H corresponding to July 2, 2008.

2. Summary of significant accounting policies

Significant accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of preparation

The Company has prepared the accompanying financial statements under the historical cost convention on the accrual basis of accounting, except for available-for-sale investments, which have been measured at fair value in the statement of financial position of insurance operations and shareholders' comprehensive operations, and in conformity with the International Financial Reporting Standards (IFRS). Accordingly, these financial statements are not intended to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, i.e. in accordance with the standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations and presents the financial statements accordingly. The physical custody and title 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 expenses from joint operations is determined by the management and board of directors of the Company.

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

Transfer to shareholders' operations	90%
Transfer to insurance operations' accumulated surplus	10%
	<u>100%</u>

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

The accounting policies used in the preparation of these financial statements are consistently applied for all years presented, except for the adoption of certain amendments and revisions to existing standards as mentioned below, which are effective for periods beginning on or after January 1, 2013 but had no significant financial impact on the financial statements of the Company:

- Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income, effective July 1, 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- Amendment to IAS 19, 'Employee benefits', effective January 1, 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting, effective January 1, 2013.

- Amendment to IFRS 1, 'First time adoption', on government loans, effective January 1, 2013. This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.
- Amendment to IFRSs 10, 11 and 12 on transition guidance, effective January 1, 2013. These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.
- IFRIC 20, 'Stripping costs in the production phase of a surface mine', effective January 1, 2013. This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.
- IFRS 10 'Consolidated financial statements', effective January 1, 2013. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.
- IFRS 11, 'Joint arrangements', effective January 1, 2013. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.
- IFRS 12, 'Disclosures of interests in other entities', effective January 1, 2013. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 13, 'Fair value measurement', effective January 1, 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.
- IAS 27 (revised 2011), 'Separate financial statements', effective January 1, 2013. IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (revised 2011), 'Associates and joint ventures', effective January 1, 2013. IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
- Annual improvements 2011, effective January 1, 2013. These annual improvements, address six issues in the 2009- 2011 reporting cycle. It includes changes to:
 - IFRS 1, 'First time adoption'
 - IAS 1, 'Financial statement presentation'
 - IAS 16, 'Property plant and equipment'
 - IAS 32, 'Financial instruments; Presentation'
 - IAS 34, 'Interim financial reporting'

2.2.1 Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

The Company's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the period commencing on or after January 1, 2014:

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting, effective January 1, 2014. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities, effective January 1, 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures, effective January 1, 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Amendment to IAS 39 'Novation of derivatives', effective January 1, 2014. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.
- IFRS 9, 'Financial instruments', effective January 1, 2014. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
- IFRIC 21, 'Levies', effective January 1, 2014. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

2.3 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.4 Product classification

2.4.1 Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

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, unless all rights and obligations are extinguished or expired.

2.4.2 Investment contracts

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

2.5 Segment reporting

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

- Medical insurance provides coverage for health insurance.
- Motor insurance provides coverage for vehicles' insurance.
- Property insurance provides coverage for property insurance.
- Other insurance provides coverage for engineering, fire, marine and other general insurance.

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

No inter-segment transactions occurred during the period. If any transaction was to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

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

2.6 Functional and presentation currency

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi riyals at rates prevailing on the reporting date. All differences are taken to the statements of insurance operations or to the statement of shareholders' operations as appropriate.

2.7 Property and equipment

Property and equipment are initially recorded at cost and are subsequently stated at cost less accumulated depreciation and any impairment in value, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of insurance operations during the financial period in which they are incurred. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis based on the following estimated useful lives:

	Years
Computer equipment & software	4
Furniture, fixture and office equipment	5
Vehicles	4

The assets' useful lives are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of insurance operations and accumulated surplus under other income.

2.8 Financial Assets

2.8.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, available-for-sale investments and held-to-maturity investments. The classification is determined by management at initial recognition and depends on the purpose for which the financial asset were acquired or originated.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

b) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices and are designated as such at inception.

c) Held-to-maturity investments

Investments which have fixed or determined payments and the Company has the positive intention and ability to hold to maturity are classified under this category.

2.8.2 Recognition and measurement

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value.

Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive operations and financial position for insurance operations.

Loans and receivable and Investments, held-to-maturity are carried at amortized costs less provision for impairment in value

Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of shareholders' income when the investment is derecognized or impaired.

Financial assets are derecognised when the rights to receive cash flows from the available-for-sale investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statements of the insurance operations or shareholders' comprehensive operations as 'gains and losses from available-for-sale investments'. Commission on available-for-sale investments calculated using the effective interest method is recognised in the income statement as part of other income.

2.8.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of insurance operations and accumulated surplus and statement of shareholders income. Dividends on available-for-sale equity instruments are recognized in statement of insurance operations and accumulated surplus and statement of shareholders' income when the Company's right to receive payments is established. Both are included in the commission income line.

2.8.4 Impairment of assets

(a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of insurance operations and accumulated surplus.

(b) Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from shareholders' equity and recognised in the statement of insurance / shareholders' operations. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of insurance / shareholders' operations.

2.9 Derecognition of financial assets

The de-recognition 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.

2.10 Premiums earned and commission income

Premiums are taken into income over the terms of the respective policies on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

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

- Premium written in last three months of the financial year for marine cargo business; and
- Actual number of days for other lines of business

2.11 Premiums receivable

Premiums receivable are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of insurance operations and accumulated surplus. Premiums receivable are derecognized when the de-recognition criteria for financial assets have been met.

2.12 Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables, if any, that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

At each reporting date, the Company assesses whether there is any indication that any reinsurance assets may be impaired. Where an indicator of impairment exists, the Company makes an estimate of the recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount.

2.13 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts is recognized as "Deferred policy acquisition costs". The deferred policy acquisition costs are subsequently amortised over the period of the insurance contracts.

2.14 Claims

Claims, comprising amounts payable to policyholders and third parties and related loss adjustment expenses, are charged to the statement of insurance operations and accumulated surplus as incurred. Claims comprise the estimated amounts payable in respect of claims reported to the Company and those not reported at the reporting date.

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 at the reporting date. Any difference between the provisions at the reporting date and settlements for the following period is included in the statement of insurance operations for that period.

2.15 Liability adequacy test

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

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

2.16 Time deposits

These comprise of deposits with banks with maturity periods of less than one year and more than three months from the date of acquisition.

2.17 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, cash at banks and short term deposits with an original maturity of less than three months at the date of acquisition. It also includes short term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of change in value.

2.18 Unearned reinsurance commission

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

2.19 Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

2.20 Accrued and other liabilities

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

2.21 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method. Liabilities are recognized for amounts to be paid and services rendered, whether or not billed to the Company.

2.22 End-of-service indemnities

End-of-service indemnities required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of insurance operations and accumulated surplus. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the reporting date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.23 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of shareholders' comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

2.24 Derecognition of Financial liabilities

Financial liabilities, insurance, reinsurance payable and other payables are derecognised when the obligation under the liability is discharged, cancelled or expired. When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of insurance operations.

2.25 Offsetting

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

2.26 Revenue Recognition

(a) *Recognition of premium and commission revenue*

Gross premiums and commissions are recognized with the commencement of the insurance risks. The portions of premiums and commission that will be earned in the future are reported as unearned premiums and commissions, respectively, and are deferred on a basis consistent with the term of the related policy coverage.

Premiums earned on reinsurance assumed, if any, are recognised as revenue in the same manner as if the reinsurance premiums were considered to be gross premiums.

(b) Commission income

Commission income from time deposits is recognized on a time proportion basis using the effective interest rate method.

(c) Dividend income

Dividend income is recognized when the right to receive a dividend is established.

2.27 Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

2.28 Trade date accounting

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

3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

The ultimate liability arising from claims made under insurance contracts

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

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

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

Impairment of premiums and insurance balances receivable

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's past experience.

Impairment of available-for-sale investments

The Company treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the Company evaluates other factors, including normal volatility in share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

4. Cash and cash equivalents

Insurance operations

Cash in hand
Cash at banks
Time deposits

2013	2012
67,000	72,000
33,419,629	41,650,405
85,894,982	40,064,000
119,381,611	81,786,405

Shareholders' operations

Cash at banks

2013	2012
86,366,117	60,000,000
86,366,117	60,000,000

Time deposits are placed with local and foreign banks with an original maturity of less than three months from the date of acquisition and earn financial income at an average rate of 0.8% to 1.1%(2012: 0.8% to 1.1%) per annum.

5. Premiums and insurance balances receivable

Premiums receivable
Insurance and reinsurance receivables
Allowance for doubtful debts

2013	2012
91,589,538	73,594,210
1,563,971	1,206,173
(14,044,610)	(12,734,504)
79,108,899	62,065,879

Movement in the allowance for doubtful debts is as follows:

January 1,
Provided during the year (Note 20)
December 31,

2013	2012
12,734,504	10,118,140
1,310,106	2,616,364
14,044,610	12,734,504

The aging of receivables arising from premium insurance receivable and reinsurance receivables is as follows:

Insurance premium receivables

Past due but not impaired

	Total	Neither impaired nor past due	91-180 days	181-360 days	More than 360 days
2013	78,717,906	47,283,406	15,198,000	13,602,000	2,634,500
2012	61,954,360	33,789,473	15,946,634	10,435,883	1,782,370

Insurance and reinsurance receivables

Past due but not impaired

	Total	Neither impaired nor past due	91-180 days	181-360 days	More than 360 days
2013	390,993	-	-	-	390,993
2012	111,519	-	-	-	111,519

Premiums insurance and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia and reinsurance companies both in Kingdom of Saudi Arabia and Europe, respectively. Insurance premiums and reinsurance balances receivable include Saudi Riyals 1,239,945 (December 31, 2012: Saudi Riyals 2,188,872) due in foreign currencies, mainly US dollars. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company accounts for more than 16.5% of the premiums receivable as at December 31, 2013 (2012: 14.4%). In addition, the five largest customers account for 43% of the premiums receivable as at December 31, 2013 (2012: 46%).

Unimpaired receivables are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

6. Prepaid expenses and other assets

Prepaid rent
Prepaid fees
Advances
Deposits
Other assets

2013	2012
384,543	949,295
979,052	750,035
5,517,581	2,709,517
4,645,690	145,690
2,761,330	1,895,901
14,288,196	6,450,438

7. Property and equipment

2013

Cost

January 1, 2013

Additions

At December 31, 2013

Accumulated depreciation

January 1, 2013

Charge for the year

At December 31, 2013

Net book value

December 31, 2013

	Computer equipment and software	Furniture fixture and office equipment	Vehicles	Total
January 1, 2013	3,068,499	3,994,451	375,170	7,438,120
Additions	631,416	2,089,538	-	2,720,954
At December 31, 2013	3,699,915	6,083,989	375,170	10,159,074
January 1, 2013	2,095,960	1,964,937	169,431	4,230,328
Charge for the year	533,672	785,439	76,955	1,396,066
At December 31, 2013	2,629,632	2,750,376	246,386	5,626,394
Net book value December 31, 2013	1,070,283	3,333,613	128,784	4,532,680

2012

Cost

January 1, 2012

Additions

Disposals

At December 31, 2012

Accumulated depreciation

January 1, 2012

Charge for the year

Disposals

At December 31, 2012

Net book value

December 31, 2012

	Computer equipment and software	Furniture, fixture and office equipment	Vehicles	Total
January 1, 2012	2,554,062	2,629,509	175,350	5,358,921
Additions	514,437	1,429,942	199,820	2,144,199
Disposals	-	(65,000)	-	(65,000)
At December 31, 2012	3,068,499	3,994,451	375,170	7,438,120
January 1, 2012	1,559,927	1,382,633	101,632	3,044,192
Charge for the year	536,033	640,392	67,799	1,244,224
Disposals	-	(58,088)	-	(58,088)
At December 31, 2012	2,095,960	1,964,937	169,431	4,230,328
Net book value December 31, 2012	972,539	2,029,514	205,739	3,207,792

8. Short-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of less than one year and more than three months from the date of acquisition

9. Other financial assets

Held-to-maturity
Available-for-sale
Loans and receivable

2013	2012
6,500,000	6,500,000
53,941,698	57,800,506
500,000	500,000
60,941,698	64,800,506

Held-to-maturity investments represent fixed rate bonds that are traded in an interbank market within Saudi Arabia and values are determined according to such market. These fixed rate bonds are carrying a profit margin of 2.9% (2012: 2.9%), with a maturity period of 10 years (callable after 5 years- December 2014). Management believes that fair value of these investments approximates their carrying value as at December 31, 2013 and 2012.

Available-for-sale investments include the following:

Quoted securities
Unquoted securities

2013	2012
51,218,620	55,077,428
2,723,078	2,723,078
53,941,698	57,800,506

Movement in available-for-sale investments is as follows:

January 1,
Purchases
Disposals
Unrealized gains
December 31,

2013	2012
57,800,506	44,346,722
18,713,313	13,812,038
(32,565,085)	(5,000,000)
9,992,964	4,641,746
53,941,698	57,800,506

Gains realised on sale of available-for-sale investments during the year ended December 31, 2013 amounted to Saudi Riyals 25,655,323.

10. Statutory deposit

In accordance with the Implementing Regulations for Insurance Companies, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA.

11. Unearned premiums

At January 1,

Unearned premium

Reinsurers' share of unearned premiums

Net written premiums during the year

Net earned premiums during the year

Changes in unearned premium

At December 31,

Unearned premium

Reinsurers' share of unearned premiums

Year ended December 31,

2013

2012

91,115,733

137,803,035

(44,284,121)

(74,893,102)

46,831,612

62,909,933

193,392,489

158,623,754

(165,311,155)

(177,861,620)

28,081,334

(19,237,866)

132,352,853

91,115,733

(57,439,907)

(44,284,121)

74,912,946

46,831,612

12. Outstanding claims

Claims

Balance, beginning of the year

Claims paid during the year

Balance, end of the year

Claims incurred during the year

Analysis of outstanding claims

At December 31,

Balance, beginning of the year

Reported claims

Claims incurred but not reported

Changes in outstanding claims

Gross

2013

Reinsurers' share

Net

(107,273,881)

46,153,014

(61,120,867)

117,449,436

(22,239,744)

95,209,692

181,437,542

(105,122,990)

76,314,552

191,613,097

(81,209,720)

110,403,377

(107,273,881)

46,153,014

(61,120,867)

116,693,556

(74,467,322)

42,226,234

64,743,986

(30,655,668)

34,088,318

74,163,661

(58,969,976)

15,193,685

12 Outstanding claims (Continued)

Claims

Balance, beginning of the year
Claims paid during the year
Balance, end of the year
Claims incurred during the year

	2012	
Gross	Reinsurers' share	Net
(95,090,233)	45,360,562	(49,729,671)
121,739,998	(31,784,985)	89,955,013
107,273,881	(46,153,014)	61,120,867
133,923,646	(32,577,437)	101,346,209
(95,090,233)	45,360,562	(49,729,671)
51,943,616	(22,521,067)	29,422,549
55,330,265	(23,631,947)	31,698,318
12,183,648	(792,452)	11,391,196

Analysis of outstanding claims

At December 31,

Balance, beginning of the year
Reported claims
Claims incurred but not reported
Changes in outstanding claims

13. Accrued and other liabilities

a) Insurance operations

Accrued expenses

2013	2012
29,283,978	27,238,932
1,326,764	1,747,500
6,023,206	5,215,488
919,425	764,212
8,269,395	7,727,200

b) Shareholders' operations

Accrued expenses
Zakat and income tax (note 21)
Other payables

14. Unearned reinsurance commission

At January 1,
Commission received during the year
Commission earned during the year
At December 31,

2013	2012
5,198,133	4,860,735
21,526,832	10,790,202
(21,223,135)	(10,452,804)
5,501,830	5,198,133

15. End-of-service indemnities

January 1,
Charged during the year
Paid during the year
December 31,

2013	2012
2,180,634	1,490,883
1,277,378	933,155
(398,748)	(243,404)
3,059,264	2,180,634

16. Share capital

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

17. Statutory reserve

In accordance with the Law, the Company is required to transfer not less than 20% of its annual net income, after adjusting accumulated losses, to a legal reserve until such reserve amounts to 100% of the paid-up share capital of the Company. No such transfer has been made during the year due to accumulated losses as at December 31, 2013 and 2012.

18. Related party transactions and balances

Related parties represent, major shareholders, directors and entities controlled, jointly or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's Board of Directors.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year.

		Sales of insurance contracts	Amounts owed by related parties
Directors and related parties	2013	1,648,337	125,767
	2012	1,810,711	561,589
Key management personnel	2013	11,298	-
	2012	9,449	-

Outstanding balances at year end, with relate parties, are unsecured and settlement occurs as per payment terms. There have been no guarantees provided or received for any related party receivables.

For the years ended December 31, 2013 and 2012, the Company has not recorded any allowance for doubtful debts relating to amount owed by related parties as management is confident regarding recoverability of relevant balances.

Compensation of key management personnel of the Company:

	2013	2012
Short-term benefits	3,328,433	2,552,077
Employees' end of service indemnity	623,544	456,597
	3,951,977	3,008,674

19. Segmental reporting

For management purposes, the Company is organized into business segments classified as: Medical, Motor, property and others. Others include engineering, fire, marine and other general insurance. These segments are the basis on which the Company reports its primary segment information.

Consistent with the Company's internal reporting process, business segment has been approved by management in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include operating and administrative salaries and general and administrative expenses and have been presented under unallocated expenses.

**For the year ended
December 31, 2013**

	Medical SR	Motor SR	Property SR	Others SR	Total SR
Gross premiums written	44,508,962	106,830,833	122,196,882	73,654,229	347,190,906
Net premiums written	44,508,962	105,820,676	4,399,074	38,663,777	193,392,489
Net premiums earned	42,630,979	82,668,925	3,828,399	36,182,852	165,311,155
Reinsurance commission	7,585,093	202,028	8,621,795	4,814,219	21,223,135
Other underwriting income	-	42,889	9,730	43,534	96,153
Total revenues	50,216,072	82,913,842	12,459,924	41,040,605	186,630,443
Gross claims paid	(28,314,533)	(59,975,050)	(7,306,613)	(21,853,240)	(117,449,436)
Reinsurer's share of claims paid	6,357,404	1,452,476	2,580,598	11,849,266	22,239,744
Changes in outstanding claims	3,397,042	(17,052,039)	(2,621,454)	1,082,766	(15,193,685)
Net incurred claims	(18,560,087)	(75,574,613)	(7,347,469)	(8,921,208)	(110,403,377)
Other underwriting expenses	(7,263,265)	(11,583,605)	(3,924,981)	(8,493,355)	(31,265,206)
General and administrative expenses (unallocated)					(45,100,719)
Deficit from insurance operations					(138,859)
Commission income on bank deposits					401,117
Net surplus from insurance operations					262,258

19 Segmental reporting (Continued)

As at December, 31 2013

	Medical	Motor	Property	Others	Total
Insurance operations' assets					
Reinsurers' share of unearned premiums	-	-	37,607,395	19,832,512	57,439,907
Reinsurers' share of outstanding claims	1,254,506	775,866	60,642,848	42,449,770	105,122,990
Deferred policy acquisition costs	4,940,066	3,394,692	1,308,141	2,407,506	12,050,405
Unallocated assets					217,346,061
Total assets	6,194,572	4,170,558	99,558,384	64,689,788	391,959,363
Insurance operations' liabilities					
Unearned premiums	24,320,257	41,462,694	38,712,029	27,857,873	132,352,853
Outstanding claims	11,714,321	48,611,139	65,870,243	55,241,839	181,437,542
Unearned reinsurance commission	219,998	-	3,145,644	2,136,188	5,501,830
Unallocated liabilities					72,667,138
Total liabilities	36,254,576	90,073,833	107,727,916	85,235,900	391,959,363

Operating segments

For the year ended
December 31, 2012

	Medical	Motor	Property	Others	Total
Gross premiums written	64,705,279	59,574,320	54,485,071	55,328,077	234,092,747
Net premiums written	64,238,833	58,634,095	2,793,131	32,957,695	158,623,754
Net premiums earned	78,513,050	60,827,717	2,575,769	35,945,084	177,861,620
Reinsurance commission	-	188,045	6,312,219	3,952,540	10,452,804
Other underwriting income	1,250	112,920	8,980	41,203	164,353
Total revenues	78,514,300	61,128,682	8,896,968	39,938,827	188,478,777
Gross claims paid	(34,386,071)	(58,087,547)	(7,789,792)	(21,476,588)	(121,739,998)
Reinsurers' share of claims paid	14,995,122	2,153,556	6,335,616	8,300,691	31,784,985
Changes in outstanding claims	(7,326,448)	(2,550,229)	(39,522)	(1,474,997)	(11,391,196)
Net claims incurred	(26,717,397)	(58,484,220)	(1,493,698)	(14,650,894)	(101,346,209)
Other underwriting expenses	(11,760,416)	(8,002,057)	(3,894,002)	(10,244,639)	(33,901,114)
General and administrative expenses (unallocated)					(38,871,459)
Surplus from insurance operations	40,036,487	(5,357,595)	3,509,268	15,043,295	14,359,995
Commission income on bank deposits					838,900
Net surplus from insurance operations					15,198,895

19. Segmental reporting (Continued)

As at December 31, 2012

	Medical	Motor	Property	Others	Total
Insurance operations' assets					
Reinsurers' share of unearned premiums	(523,008)	-	21,477,960	23,329,169	44,284,121
Reinsurers' share of outstanding claims	5,728,240	1,673,687	9,584,618	29,166,469	46,153,014
Deferred policy acquisition costs	4,766,098	1,531,124	956,425	2,467,121	9,720,768
Unallocated assets	-	-	-	-	153,588,417
Total assets	9,971,330	3,204,811	32,019,003	54,962,759	253,746,320
Insurance operations' liabilities					
Unearned premiums	21,918,838	18,310,943	22,011,958	28,873,994	91,115,733
Outstanding claims	19,605,388	32,456,920	12,190,559	43,021,014	107,273,881
Unearned reinsurance commission	219,998	-	2,389,327	2,588,808	5,198,133
Unallocated liabilities	-	-	-	-	50,158,573
Total liabilities	41,744,224	50,767,863	36,591,844	74,483,816	253,746,320

Geographical segments

All of the significant assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for some of the reinsurance assets/ liabilities which are held outside the Kingdom of Saudi Arabia.

20. General and administrative expenses

a) Insurance operations

	Year ended December 31,	
	2013	2012
Provision for doubtful debts	1,310,106	2,616,364
Legal and professional fees	3,442,874	3,972,360
Rent	3,144,537	1,979,161
Depreciation	1,396,066	1,244,224
Office supplies	615,900	484,028
Utilities	1,058,279	847,168
Marketing, advertising and promotion	811,909	214,269
Withholding tax	314,382	314,187
Training and education	598,847	542,836
Information technology	166,030	323,198
Other expenses	1,407,724	1,223,701
	14,266,654	13,761,496

b) Shareholders' operations

	Year ended December 31,	
	2013	2012
Employee costs	1,200,000	1,200,000
Board members fee	800,000	1,700,000
Other expenses	38,500	98,088
	2,038,500	2,998,088

21. Zakat and income tax matters

(i) Provision for zakat and income tax

Provision for zakat has been made at 2.5% of approximate zakat base attributable to the Saudi shareholders of the Company. Income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

The principal elements of approximate zakat base are as follows:

	2013	2012
Shareholders' equity, beginning of the year	175,137,195	154,485,589
Non-current liabilities	3,059,264	2,180,634
Non-current assets	(80,941,698)	(85,585,220)
Approximate zakat base	97,254,761	71,081,003

Movements in provision for zakat and income tax as at December 31, 2013 and 2012 are as follows:

2013

January 1, 2013
Payments
Provision for the year
December 31, 2013

Zakat	Income tax	Total
5,019,636	195,852	5,215,488
(1,802,032)	(390,250)	(2,192,282)
2,575,000	425,000	3,000,000
5,792,604	230,602	6,023,206

2012

January 1, 2012
Payments
Provision for the year
December 31, 2012

Zakat	Income tax	Total
3,708,494	203,172	3,911,666
(1,235,686)	(210,492)	(1,446,178)
2,546,828	203,172	2,750,000
5,019,636	195,852	5,215,488

(ii) Status of zakat and income tax certificate

The Company has submitted its zakat and income tax returns up to the year ended December 31, 2012 and obtained the required certificate from the DZIT.

22. Risk management

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

Risk management structure

Board of Directors

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

Audit Committee and Internal Audit Department

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

Risk Management Committee

The Audit Committee of the Company has constituted a risk management committee which oversees the risk management function of the Company and report to Audit Committee on periodic basis. This Committee operates under framework established by the Board of Directors.

Senior management

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

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

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

Insurance risk management

The principal risk the Company faces under insurance contracts is that the actual claim payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

Medical

Medical insurance is designed to compensate contract holders for expenses incurred in the treatment of a disease, illness or injury.

For medical insurance, the main risks are illness and related healthcare costs. Medical insurance is generally offered to corporate customers with large population to be covered under the policy.

Motor

Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. Substantially all of the motor contracts relate to corporate customers. The Company has reinsurance cover to limit losses for any individual claim up to Saudi Riyal 0.5 million.

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to, motor vehicles are the key factors that influence the level of claims.

Property

Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

For property insurance contracts, the main risks are fire and business interruption. The Company has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such exposure to limit losses for any individual claim up to Saudi Riyal 2 million.

Casualty

Casualty insurance primarily consists of risks taken for money, fidelity, workmen compensation, general public liability, engineering, etc. and is designed to compensate contract holders for damage suffered to them or others, arising through accidents, thefts, etc. Substantially all of the casualty contracts relate to corporate customers.

The Company has reinsurance cover to limit losses for any individual claim up to Saudi Riyal 1 million.

Marine cargo

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

For marine cargo insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim up to Saudi Riyal 1 million.

Insurance claims reserving

Actuarial claims reserving is conducted by in house actuary in the various lines of insurance business according to the Insurance Reserving policy. The Executive Team monitors and maintains the Insurance Reserving policy, and conducts quarterly reviews of the Company's insurance claims provisions, and their adequacy. The reviews

include peer reviews of own conclusions as well as independent analysis to confirm the reasonableness of the in house actuarial reviews. The Company also has periodic external reviews by local consultant actuaries.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor, medical and others which include marine, engineering, fire, casualty risks. These are regarded as short-term insurance contracts as claims are normally reported and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Reinsurance strategy

In order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business risks allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts.

Significant reinsurance purchases are reviewed annually by Executive Team to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. Reinsurance purchases must be in line with the strategy set out in our Company's Reinsurance policy manual approved by the Board of directors.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The reinsurance is placed with providers who meet the Company's counterparty security requirements and deals with reinsurers approved by the board of directors.

The largest five reinsurers account for 93% of the maximum credit exposure at December 31, 2013 (2012: 70%).

Concentration of insurance risk

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

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

	2013				2012			
	Gross outstanding claims	Net outstanding claims	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims	Gross unearned premiums	Net unearned premiums
Medical	6%	14%	18%	32%	18%	23%	24%	48%
Motor	27%	63%	31%	55%	30%	50%	20%	39%
Property	36%	7%	29%	1%	11%	4%	24%	1%
Other	31%	16%	22%	12%	41%	23%	32%	12%
	100%	100%	100%	100%	100%	100%	100%	100%

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.

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The impact on the shareholders' income before zakat and income tax and shareholders' equity of the changes in the claim liabilities net of reinsurance is analysed below. The sensitivity to changes in claim liabilities net of reinsurance is determined separately for each class of business while keeping all other assumptions constant.

	Shareholders' net income		Shareholders' equity	
	2013	2012	2013	2012
Impact of change in claim liabilities by +10				
Medical	(1,045,982)	(1,387,715)	(1,000,612)	(1,327,523)
Motor	(4,783,526)	(3,078,323)	(4,576,042)	(2,944,801)
Property	(522,740)	(260,594)	(500,066)	(249,291)
Other	(1,279,207)	(1,385,455)	(1,223,721)	(1,325,360)
	(7,631,455)	(6,112,087)	(7,300,441)	(5,846,975)

	Shareholders' net income		Shareholders' equity	
	2013	2012	2013	2012
Impact of change in claim liabilities by -10				
Medical	1,045,982	1,387,715	1,000,612	1,327,523
Motor	4,783,527	3,078,323	4,576,042	2,944,801
Property	522,740	260,594	500,066	249,291
Other	1,279,207	1,385,455	1,223,721	1,325,360
	7,631,455	6,112,087	7,300,441	5,846,975

Claims development

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

The Company maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Accident year	2010	2011	2012	2013	Total
Estimate of ultimate claims cost:					
At the end of accident year	108,885,585	113,443,470	108,166,145	170,254,549	
One year later	94,749,388	111,925,190	96,341,665	-	
Two year later	96,676,287	109,197,961	-	-	
Three year later	135,735,452	-	-	-	
Current estimate of cumulative claims	135,735,452	109,197,961	96,341,665	170,254,549	511,529,627
Cumulative payments to date	(84,874,909)	(97,421,435)	(79,400,056)	(68,395,685)	(330,092,085)
Liability recognized in statement of financial position	50,860,543	11,776,526	16,941,609	101,858,864	181,437,542

Regulatory framework risk

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

Financial risk

The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, cash and cash equivalents and advances for investments. The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, market price risk, commission rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

Credit risk

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

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables. Premiums receivable comprise a large number of brokers/customers mainly within Saudi Arabia of which the five largest brokers/customers account for 43% of the receivables as at December 31, 2013 (2012: 46%).

The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. Receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts

The Company's bank balances are maintained with a range of international and local banks in accordance with limits set by the board of directors.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired.

Insurance operations assets as at December 31, 2013

	Investment grade	Non-investment grade Satisfactory	Past due but not impaired	Total
Cash and cash equivalents	119,314,611	67,000	-	119,381,611
Receivables arising from insurance contracts	-	47,283,406	31,434,500	78,717,906
Receivables arising from re-insurance contracts	-	-	390,993	390,993
Reinsurers' share of outstanding claims	-	105,122,990	-	105,122,990
Accrued commission income	-	34,675	-	34,675
Other assets	-	7,407,020	-	7,407,020
	119,314,611	159,915,091	31,825,493	311,055,195

Insurance operations assets as at December 31, 2012

	Investment grade	Non-investment grade Satisfactory	Past due but not impaired	Total
Cash and cash equivalents	81,714,405	72,000	-	81,786,405
Receivables arising from insurance contracts	-	33,789,473	28,164,887	61,954,360
Receivables arising from re-insurance contracts	-	111,519	-	111,519
Reinsurers' share of outstanding claims	-	46,153,014	-	46,153,014
Accrued commission income	-	77,903	-	77,903
Other assets	-	2,041,591	-	2,041,591
	81,714,405	82,245,500	28,164,887	192,124,792

Shareholders' assets as at December 31, 2013

	Investment grade	Non-investment grade Satisfactory	Past due but not impaired	Total
Cash and cash equivalents	86,366,117	-	-	86,366,117
Short-term deposits	26,983,859	-	-	26,983,859
Other financial assets	60,941,698	-	-	60,941,698
Accrued commission income	939,190	-	-	939,190
Statutory deposit	20,000,000	-	-	20,000,000
	195,230,864	-	-	195,230,864

Shareholders' assets as at December 31, 2012

	Investment grade	Non-investment grade Satisfactory	Past due but not impaired	Total
Cash and cash equivalents	60,000,000	-	-	60,000,000
Short-term deposits	26,475,994	-	-	26,475,994
Other financial assets	64,800,506	-	-	64,800,506
Accrued commission income	1,167,878	-	-	1,167,878
Statutory deposit	20,000,000	-	-	20,000,000
	172,444,378	-	-	172,444,378

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The deposits held by the Company at the reporting date had original maturity periods not exceeding six months; furthermore, the commitments (in the ordinary course of the business) at the period end are not material.

All financial liabilities are contractually payable within a year's time and are not commission bearing.

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

As at December 31, 2013

Insurance operations financial assets

	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	119,381,611	-	119,381,611
Insurance premium receivable	79,108,899	-	79,108,899
Reinsurers' share of outstanding claims	105,122,990	-	105,122,990
Accrued commission income	34,675	-	34,675
Other assets	7,407,020	-	7,407,020
Total insurance operations financial assets	311,055,195	-	311,055,195

Insurance operations financial liabilities

Outstanding claims	181,437,542	-	181,437,542
Accrued expenses and other liabilities	29,283,978	-	29,283,978
Reinsurance balances payables	18,361,378	-	18,361,378
Total insurance operations financial liabilities	229,082,898	-	229,082,898

As at December 31, 2012

Insurance operations financial assets

	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	81,786,405	-	81,786,405
Insurance premium receivable	62,065,879	-	62,065,879
Reinsurers' share of outstanding claims	46,153,014	-	46,153,014
Accrued commission income	77,903	-	77,903
Other assets	2,041,591	-	2,041,591
Total insurance operations financial assets	192,124,792	-	192,124,792

Insurance operations financial liabilities

	Less than 12 months	More than 12 months	Total
Outstanding claims	107,273,881	-	107,273,881
Accrued expenses and other liabilities	27,238,932	-	27,238,932
Reinsurance balances payable	8,197,770	-	8,197,770
Total insurance operations financial liabilities	142,710,583	-	142,710,583

As at December 31, 2013

Shareholders' financial assets

	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	86,366,117	-	86,366,117
Short term deposits	26,983,859	-	26,983,859
Other financial assets	54,441,698	6,500,000	60,941,698
Accrued commission income	939,190	-	939,190
Statutory deposit	-	20,000,000	20,000,000
Total shareholders' financial assets	168,730,864	26,500,000	195,230,864

Shareholders' financial liabilities

Accrued expenses and other liabilities	2,246,191	-	2,246,191
Total shareholders' financial liabilities	2,246,191	-	2,246,191

As at December 31, 2012

Shareholders' financial assets

	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	60,000,000	-	60,000,000
Short term deposits	26,475,994	-	26,475,994
Other financial assets	58,300,506	6,500,000	64,800,506
Accrued commission income	1,167,878	-	1,167,878
Statutory deposit	-	20,000,000	20,000,000
Total shareholders' financial assets	145,944,378	26,500,000	172,444,378

Shareholders' financial liabilities

	Less than 12 months	More than 12 months	Total
Accrued expenses and other liabilities	2,511,712	-	2,511,712
Total shareholders' financial liabilities	2,511,712	-	2,511,712

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Company has an unquoted equity investment carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired and then the income statement will be impacted.

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on certain of its cash and balances with banks. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its cash and investments are denominated. The effective commission rate at the year end was 1.1% (2012: 1.1%).

All commission bearing financial instruments as at the year end have a maturity of less than 1 year except for bond investment held to maturity. The sensitivity of the statement of the shareholders' operations is the approximate effect of the assumed changes in commission rates on the Company's loss for the year, based on the floating rate financial assets held a December 31, 2013.

The sensitivity of the statement of shareholders' operations to a decrease in commission rate of 10 basis points (reasonably possible changes), with all other variables held constant, will have an effect of decrease in profits by Saudi Riyal 0.19 million (2012: Saudi Riyal 0.17 million).

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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

23 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

Categories of financial instruments

a) Insurance operations

Financial assets

Cash and cash equivalents	119,381,611
Premiums and insurance balances receivable	79,108,899
Reinsurers' share of outstanding claims	105,122,990
Accrued commission income	34,675
Other assets	7,407,020
Total insurance operations financial assets	311,055,195

Financial liabilities

Outstanding claims	181,437,542
Accrued expenses and other liabilities	29,283,978
Reinsurance balances payable	18,361,378
	229,082,898

b) Shareholders' operations

Financial assets

Cash and cash equivalents	86,366,117
Short term deposits	26,983,859
Other financial assets	60,941,698
Accrued income	939,190
	175,230,864

Financial liabilities

Accrued expenses and other liabilities	2,246,191
	2,246,191

2013	2012
119,381,611	81,786,405
79,108,899	62,065,879
105,122,990	46,153,014
34,675	77,903
7,407,020	2,041,591
311,055,195	192,124,792
181,437,542	107,273,881
29,283,978	27,238,932
18,361,378	8,197,770
229,082,898	142,710,583

2013	2012
86,366,117	60,000,000
26,983,859	26,475,994
60,941,698	64,800,506
939,190	1,167,878
175,230,864	152,444,378
2,246,191	2,511,712
2,246,191	2,511,712

Financial instruments comprise of financial assets and financial liabilities as have been defined above.

The fair values of financial instruments are carried at cost, are not materially different from their carrying values. The Company uses the following hierarchy for determining and disclosing the fair values of available for sale investments as well as advances by a valuation technique

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

23. Fair values of financial instruments (Continued)

As at December 31, 2013

	Level 1	Level 2	Level 3	Total fair value
Financial instruments				
Held to maturity				
Debt securities	-	6,500,000	-	6,500,000
Investments available for sale				
Equity securities	51,218,620	-	2,723,078	53,941,698
Advances				
Loan	-	-	500,000	500,000
Total	51,218,620	6,500,000	3,223,078	60,941,698

As at December 31, 2012

	Level 1	Level 2	Level 3	Total fair value
Financial instruments				
Held to maturity				
Debt securities	-	6,500,000	-	6,500,000
Investments available for sale				
Equity securities	55,077,428	-	2,723,078	57,800,506
Advances				
Loan	-	-	500,000	500,000
Total	55,077,428	6,500,000	3,223,078	64,800,506

During the year, there were no transfers into or out of level 3.

24. Earnings per share

Basic and diluted earnings per share from shareholders' operations is calculated by dividing net income for the year by weighted average number of ordinary shares outstanding during the year.

Basic and diluted earnings per share from shareholders' comprehensive operations is calculated by dividing total comprehensive income for the year by weighted average number of ordinary shares outstanding during the year.

25. Contingencies

During 2011, one of the Company's agents filed a law suit of Saudi Riyal 74.7 million against the Company towards unsubstantiated amounts and damages as a result of alleged breach of agreement. Management believes that the outcome of this case in plaintiff's favour is remote as there is no valid base for this case; accordingly no provision has been made.

26. Comparative figures

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

27. Approval of the financial statements

The financial statements have been approved by the Board of Directors on February 16, 2014.