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

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014**

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(A SAUDI JOINT STOCK COMPANY)
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KPMG Al Fozan & Al Sadhan



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

SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of The Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at 31 December 2014, and the related statement of income – insurance operations and accumulated surplus, statements of comprehensive income – insurance operations and shareholders, statement of changes in shareholders' equity and statements of cash flows for insurance operations and shareholders for the year then ended and notes 1 to 35 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 the International Financial Reporting Standards, the provisions of Article 123 of the Regulations for Companies and the Company's By-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

UNQUALIFIED OPINION:

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

- present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- comply with the requirements of the Regulation for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

EMPHASIS OF A MATTER:

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants.

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15 Rabi Thani 1436H
(4 February 2015)



THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

	Notes	<u>2014</u>	<u>2013</u>
		<u>SR '000</u>	
<u>ASSETS - INSURANCE OPERATIONS</u>			
Due from shareholders operations		46,139	489,625
Property and equipment, net	4	273,860	265,816
Investment property		9,861	9,861
Investment in an associate	5	9,558	5,377
Available for sale investments	6	2,869,000	1,968,124
Prepaid expenses and other assets	7	429,017	336,199
Deferred policy acquisition costs	8	173,633	163,680
Reinsurers' share of outstanding claims	8,9	1,200,247	1,699,886
Reinsurers' share of unearned premium	8	443,940	489,328
Receivables, net	10	1,529,113	1,510,498
Cash and cash equivalents	12	700,550	792,078
Total assets - Insurance operations		<u>7,684,918</u>	<u>7,730,472</u>
<u>ASSETS - SHAREHOLDERS</u>			
Investments in associates	5	79,843	64,048
Available for sale investments	6	2,047,555	1,866,910
Accrued investment income		5,607	5,146
Statutory deposit	11	100,000	100,000
Cash and cash equivalents	12	20,583	198,766
Total assets - Shareholders		<u>2,253,588</u>	<u>2,234,870</u>
TOTAL ASSETS		<u>9,938,506</u>	<u>9,965,342</u>

The accompanying notes 1 to 35 form an integral part of these financial statements.




THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION (Continued)
AS AT DECEMBER 31, 2014

	Notes	2014 SR'000	2013
<u>INSURANCE OPERATIONS</u>			
<u>LIABILITIES AND SURPLUS</u>			
Liabilities - Insurance operations:			
Surplus distribution payable		46,895	-
Claims payable, accrued expenses and other liabilities	14	1,296,263	1,288,843
Reserve for takaful activities		16,340	13,642
Reserve for discontinued operations	15	11,211	11,410
Gross outstanding claims and reserves	8,16	2,662,501	3,094,127
Unearned commission income	8	41,554	50,697
Gross unearned premiums	8	3,290,900	2,847,389
Reinsurers' balances payable		313,900	345,793
Total liabilities - Insurance operations		7,679,564	7,651,901
Surplus - Insurance operations:			
Fair value reserve for available for sale investments	6	5,354	78,571
Total liabilities and surplus - Insurance operations		7,684,918	7,730,472
<u>LIABILITIES AND EQUITY - SHAREHOLDERS</u>			
Shareholders' liabilities:			
Due to insurance operations		46,139	489,625
Accrued expenses and other liabilities		1,434	1,127
Dividends payable		5,014	5,151
Zakat	17	124,626	98,399
Total liabilities - Shareholders		177,213	594,302
Shareholders' equity:			
Share capital	18	1,000,000	1,000,000
Legal reserve	19	763,779	651,756
Fair value reserve for available for sale investments	6	163,874	288,183
Retained earnings / (Accumulated losses)		148,722	(299,371)
Total Shareholders' equity		2,076,375	1,640,568
Total Shareholders' liabilities and equity		2,253,588	2,234,870
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		9,938,506	9,965,342

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 SR'000	2013
REVENUES			
Gross premiums written		6,207,609	5,604,993
Less: Reinsurance ceded		(914,602)	(963,517)
Net premiums written	8	5,293,007	4,641,476
Changes in unearned premiums, net		(488,899)	86,873
Net premiums earned	8	4,804,108	4,728,349
Reinsurance commissions	8	107,171	127,640
Investment income, net	21	43,131	155,223
Other income, net		50,286	24,967
Total revenues		5,004,696	5,036,179
COSTS AND EXPENSES			
Gross claims paid		4,672,194	4,759,087
Less: Reinsurance share		(983,392)	(707,304)
Net claims paid	8	3,688,802	4,051,783
Changes in outstanding claims and reserves		68,013	831,009
Net claims incurred	8	3,756,815	4,882,792
Policy acquisition costs	8	381,813	405,129
Excess of loss expenses		24,773	64,821
Changes in reserves for takaful activities		2,696	(88)
Other underwriting expenses		85,257	72,861
Operating and selling expenses	22	227,483	228,835
Other general and administrative expenses	23	56,909	39,135
Total costs and expenses		4,535,746	5,693,485
Surplus / (deficit) from insurance operations		468,950	(657,306)
Shareholders' appropriation from (surplus) / deficit	1	(422,055)	657,306
Surplus from insurance operations after shareholders' appropriation		46,895	-
Accumulated surplus at the beginning of year	1	-	-
Distribution of surplus		(46,895)	-
ACCUMULATED SURPLUS AT THE END OF THE YEAR		-	-

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME – INSURANCE OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 SR'000	2013
Surplus from insurance operations after shareholders' appropriation		46,895	-
Other comprehensive income:			
Will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in fair value for available for sale investments	6 (i)	(73,217)	11,934
Total comprehensive (loss) / income for the year		(26,322)	11,934

The accompanying notes 1 to 35 form an integral part of these financial statements.





THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014	2013
		SR'000	
Appropriation of surplus/ (deficit) from insurance operations	1	422,055	(657,306)
Investment income, net	21	180,412	93,223
Other expenses, net		(201)	(141)
Income / (loss) from operations before zakat		602,266	(564,224)
Zakat	17	(42,150)	(26,711)
Net income / (loss) for the year		560,116	(590,935)
Other comprehensive income:			
Will be reclassified subsequently to profit or loss when specific conditions are met:			
Net change in fair value for available for sale investments	6 (ii)	(124,309)	89,765
Total comprehensive income / (loss) for the year		435,807	(501,170)
Earnings / (losses) per share:			
Basic and diluted earnings / (losses) per share (in SR)	24	5.60	(5.91)
Weighted average number of shares in issue throughout the year		100,000,000	100,000,000

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2014

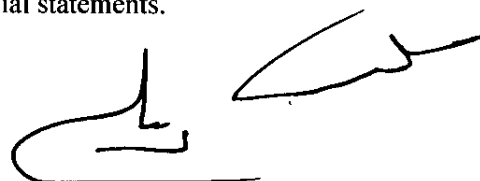
	Notes	Share capital	Legal reserve	Fair value reserve for available for sale investments SR '000	(Accumulated losses)/ Retained earnings	Total
Balance at January 1, 2013		750,000	651,756	198,418	542,764	2,142,938
Issuance of bonus shares Board of Directors' remuneration	13	250,000	-	-	(250,000)	-
Net loss for the year	26	-	-	-	(1,200)	(1,200)
Changes in fair value for available for sale investments		-	-	89,765	-	89,765
Total comprehensive income for the year		-	-	89,765	(590,935)	(501,170)
Balance at December 31, 2013		1,000,000	651,756	288,183	(299,371)	1,640,568
Balance at January 1, 2014		1,000,000	651,756	288,183	(299,371)	1,640,568
Net income for the year		-	-	-	560,116	560,116
Changes in fair value for available for sale investments	6	-	-	(124,309)	-	(124,309)
Total comprehensive income for the year		-	-	(124,309)	560,116	435,807
Transfer to the legal reserve	19	-	112,023	-	(112,023)	-
Balance at December 31, 2014		1,000,000	763,779	163,874	148,722	2,076,375

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	SR '000	
Operating activities:		
Surplus from insurance operations after shareholders' appropriation	46,895	-
Adjustments to reconcile surplus from insurance operations to net cash from operating activities:		
Shareholders' appropriation from surplus/ (deficit)	422,055	(657,306)
Depreciation	9,861	11,500
Reinsurers' share of unearned premiums	45,388	35,449
Unearned premium income	443,511	(122,322)
Gain on sale of property and equipment	(24,016)	-
Gain on sale of investments available for sale	(39,447)	(149,257)
Share of profit from investments in associates, net	(4,181)	(5,966)
Operating surplus / (deficit) before changes in operating assets and liabilities	900,066	(887,902)
Changes in operating assets and liabilities:		
Prepaid expenses and others assets	(113,789)	(51,665)
Deferred policy acquisition costs	(9,953)	15,813
Reinsurers' share of outstanding claims	499,639	(1,101,836)
Receivables, net	(18,615)	352,778
Reinsurers' balances payable	(10,922)	(35,798)
Unearned commission income	(9,143)	(18,054)
Gross outstanding claims and reserves	(431,626)	1,932,845
Reserve for discontinued operations	(199)	8
Reserve for takaful activities	2,698	(88)
Claims payable, accrued expenses and other liabilities	7,420	47,672
Due to shareholders	21,431	132,084
Net cash from operating activities	837,007	385,857
Investing activities:		
Proceeds from sale of investments	1,074,036	1,515,381
Purchase of investments	(2,008,682)	(1,522,669)
Purchase of property and equipment	(55,061)	(41,529)
Proceeds from sale of property and equipment	61,172	-
Dividends received from investments in associates	-	9,000
Net cash used in investing activities	(928,535)	(39,817)
Financing activities		
Surplus paid to policyholders	-	(27,201)
Net cash used in financing activities	-	(27,201)
Net change in cash and cash equivalents	(91,528)	318,839
Cash and cash equivalents, beginning of year	792,078	473,239
Cash and cash equivalents, end of year	700,550	792,078
Non-cash supplemental information:		
Changes in fair value for available for sale investments	(73,217)	11,934

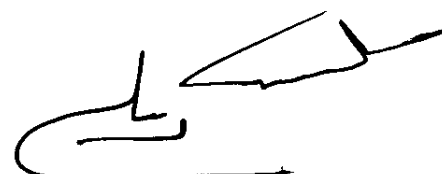
The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CASH FLOWS - SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014	2013
		<u>SR '000</u>	
Operating activities:			
Net income / (loss) for the year before zakat		602,266	(564,224)
Adjustments to reconcile net income / (loss) to net cash used in operating activities:			
Appropriation of surplus / (deficit) from insurance operations		(422,055)	657,306
Gain on sale of investments		(167,469)	(78,618)
Share of income from investments in associates, net		(19,523)	(14,605)
Operating loss before changes in operating assets and liabilities		(6,781)	(141)
Changes in operating assets and liabilities:			
Accrued investment income		(461)	4,390
Due from insurance operations		(21,431)	(132,084)
Accrued expenses and other liabilities		307	269
Zakat paid		(15,923)	(19,919)
Net cash used in operating activities		<u>(44,289)</u>	<u>(147,485)</u>
Investing activities:			
Statutory deposit		-	(25,000)
Proceeds from sale of/ and matured investments		531,123	691,321
Purchase of investments		(668,608)	(448,886)
Dividends received from investment in associates		3,728	7,452
Net cash (used in) / from investing activities		<u>(133,757)</u>	<u>224,887</u>
Financing activities:			
Dividends paid		(137)	(217)
Board of Directors' remuneration		-	(1,200)
Net cash used in financing activities		<u>(137)</u>	<u>(1,417)</u>
Net change in cash and cash equivalents		<u>(178,183)</u>	<u>75,985</u>
Cash and cash equivalents, beginning of year		198,766	122,781
Cash and cash equivalents, end of year		<u>20,583</u>	<u>198,766</u>
Non-cash supplemental information:			
Changes in fair value for available for sale investments		<u>(124,309)</u>	<u>89,765</u>

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

1. GENERAL

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

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

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

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

On March 20, 2004, the Board of Directors approved the disposition of the surplus from insurance operations in accordance with the implementing regulations issued by the SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operation in full.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance and Shareholders' operations and presents the financial statements accordingly. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is as determined by the management and Board of Directors.

b) Basis of measurement

These financial statements are prepared under the historical cost basis except for the measurement of fair value of available for sale investments.

c) Functional and presentation currency

These financial statements have been presented in Saudi Arabian Riyals, which is also the functional currency of the Company. All financial information presented in Saudi Arabian Riyal has been rounded to the nearest thousand, except where otherwise indicated.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

2. BASIS OF PREPARATION (Continued)

d) Fiscal year

The Company follows a fiscal year ending December 31.

e) Critical accounting judgments, estimates and assumptions

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

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

Following are the accounting judgments and estimates that are critical in preparation of these financial statements:

i) Estimation of the insurance contract reserves

- Incurred but not reported claims

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

Based on the actuary's assessment, the Company believes that reserves for medical business are very sensitive which could be subject to changes in assumptions used.

- Premium deficiency reserve

Estimation of the premium deficiency for medical business is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and premiums relationship which is expected to apply on month to month basis.

ii) Impairment of available-for-sale equity financial assets

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

2. BASIS OF PREPARATION (Continued)

e) Critical accounting judgments, estimates and assumptions (Continued)

iii) Impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2013, except for the new and amended standards and interpretation made in the following which are effective for annual periods beginning on or after 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Company, since none of the entities in the Company qualifies to be an investment entity under IFRS 10.

Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

The Company has not early adopted any other standard, interpretation or amendment that has been issued for early adoption but is not yet effective.

The significant accounting policies used in preparing these financial statements are set out below:

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Revenue Recognition

Recognition of premium and commission revenue

Premiums and commission are recorded in the statement of income – insurance operation over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred based on the following methods;

- Last three months from the period in respect of marine cargo;
- Pre-defined calculation for Engineering class of business for risks undertaken that extend beyond a single year. In accordance with this calculation, lower premiums are earned in the first year which gradually increases towards the end of the tenure of the policy; and
- Actual number of days for other lines of business.

Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premium is taken to the statement of income of insurance operations and accumulated surplus in the same order that revenue is recognised over the period of risk.

Investment income

Investment income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable.

Dividend income

Dividend income is recognized when the right to receive payment is established.

b) 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. Insurance contracts can also transfer financial risk.

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.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Claims

Gross claims consists of benefits and claims paid to policyholders and third parties, and related loss adjustments expenses, net of salvage and other recoveries and are charged to the statement of income – insurance operations and accumulated surplus as incurred changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income - insurance operations and accumulated surplus for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

d) Salvage and subrogation reimbursement

Some insurance contracts permit the Company to sell (usually damaged) assets acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of the asset.

Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the third party.

e) Reinsurance

In the ordinary course of business, the Company cedes insurance risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance is distributed between treaty, facultative, stop loss and excess of loss reinsurance contract. An asset or liability is recorded in the insurance operations' financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of insurance operations and accumulated surplus.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Reinsurance (continued)

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

f) Deferred policy acquisition costs

Commissions and other costs of acquiring insurance contracts that are primarily related to securing new contracts and renewing existing contracts are capitalized as an intangible asset and are subsequently amortized over the life of the contract on a basis consistent with the term of the related policy coverage.

All other acquisition costs are recognized as an expense when incurred. Amortization is recorded in the statement of income - insurance operations and accumulated surplus. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

g) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance 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 income - insurance operations and accumulated losses by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision) accordingly.

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.

h) Insurance contracts with discretionary participation feature (DPF)

Premiums that have participated in the earnings of a financial year (January-December) qualify discretionarily for surplus distribution. However, in the case of marine cargo, the earned portion is the premium written between October of the previous year up to September of the current year while the unearned portion is the premium written during the last three months of the current financial year. Some policies with certain conditions are excluded from the distribution including those policies with a loss ratio of equal to or greater than 60%.

Distribution of surplus is calculated based on the earned premium after paid and outstanding claims have been deducted from each policy held by an insured in as much as the said earned premium relates to the given financial year

Surplus is paid to both, direct clients through the Company's regional offices, or to indirect clients via brokers, agents, and banks. The regulations provide that the payment to the client, broker, agent, or bank of the share of the surplus is subject to the settlement of all due outstanding premiums, irrespective of the year to which such premium relates.

This provision stipulates the offset of any client's, broker, agent, or bank's share of surplus against such due outstanding premiums.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Receivables

Premiums and reinsurance balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the statement of income - insurance operations and accumulated losses. receivable are derecognised when the derecognition criteria for financial assets have been met.

Any difference between the provisions at the end of reporting period and settlements and provisions in the following year is included in the statement of income - insurance operations and accumulated surplus.

j) Investments

All investments, excluding those held at fair value through profit and loss (if any), are initially recognized at cost, being the fair value of the consideration given including transaction cost associated with the investment.

The Company classifies its principal investments as Available for Sale (AFS).

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified as held for trading or held to maturity. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction cost and subsequently measured at fair value. Cumulative changes in fair value of investments are shown as a separate component in the insurance operations' surplus or shareholders' equity. Realized gains or losses on sale of these investments are reported in the related statements of income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders. Dividends, commission income and foreign currency gain/loss on AFS investments are recognized at the related statements of income - insurance operations and accumulated surplus or statement of comprehensive income – shareholders, as part of the net investment income / loss.

Any permanent decline in value of investments is adjusted for and reported in the related statement of comprehensive income - insurance operations or statement of comprehensive income – shareholders, as impairment charges.

Fair values of investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Any changes in the fair values of derivatives that are held for trading purposes are taken directly to the statement of income - insurance operations or statement of comprehensive income - shareholders and are included in other assets, if positive, or in other liabilities, if negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and other pricing models, as appropriate.

l) Investments in associates

Associates represent companies where 20% to 50% of the outstanding shares are owned by the Company or the Company has significant influence but not control over the associate's operation. Investments in associates are accounted for using the equity method and are initially recognized at cost.

The Company's share of its associates' post acquisition profits or losses is recognized in the related statement of income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders, using the most recent available financial statements. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the Company's financial position date, adjustments are made for the effects of significant transactions or events, if any, that occurs between the date of the investee financial statements and the Company's financial position date.

m) De-recognition of financial instruments

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.

n) Offsetting

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

o) 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 are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets (including insurance receivables) may be impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amounts as follows:

- For assets carried at fair value, impairment is the significant or prolong decline in the fair value from the cost.
- For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective commission rate.

For presentation purposes, the resulting reserve is carried in the respective category within the statement of financial position and the related statement of income - insurance operations and accumulated surplus or statement of comprehensive income – shareholders are adjusted.

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

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

p) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and any impairment in value. Land is not depreciated. The cost of other assets is depreciated and amortized and amortised on the straight line method to allocate their cost to their residual values over their estimated useful lives as follows:

	<u>Years</u>
Buildings	33
Furniture and fixtures	10
Computer equipment	4
Vehicles	4

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Property and equipment (Continued)

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. The carrying values of these assets are reviewed for impairment when event or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the statement of income - insurance operations and accumulated surplus.

q) Investment property

Investment property represents a land that is held for capital appreciation purposes. Land is stated at cost less recognized impairment loss, if any.

r) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, land – are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

s) Employees' end-of-service benefits

Employees' end-of-service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labor Regulations on termination of their employment contracts. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Saudi Arabia. The Company also maintains an employees' savings plan that allows specific saving percentages from employees' salaries, with contributions by the Company.

t) Provisions

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Zakat

The Company is subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Zakat is accrued and charged to the statement of comprehensive income - shareholders.

v) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balances with banks including call and time deposits with less than three months maturity from the date of acquisition.

w) Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income - insurance operations and accumulated surplus or statement of comprehensive income - shareholders. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

x) Operating segments

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

- Medical - for health insurance
- Motor insurance
- Property & Casualty - for property and casualty, engineering, marine, aviation, energy and general accidents insurance.

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between business segments which will then be eliminated at the level of the financial statements of the Company.

THE COMPANY FOR COOPERATIVE INSURANCE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

4. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Furniture and fixtures	Computer equipment	Vehicles	Capital Work in progress	Total 2014	Total 2013
	SR'000							
Cost:								
January 1	90,192	67,151	63,737	77,600	581	89,723	388,984	347,845
Additions	-	868	7,881	19,598	-	26,714	55,061	92,414
Disposals / transfers	(37,156)	-	-	-	-	-	(37,156)	(51,275)
December 31	<u>53,036</u>	<u>68,019</u>	<u>71,618</u>	<u>97,198</u>	<u>581</u>	<u>116,437</u>	406,889	388,984
Accumulated Depreciation:								
January 1	-	3,095	54,542	65,116	415	-	123,168	112,058
Charge for the year	-	1,521	2,384	5,929	27	-	9,861	11,500
Disposals	-	-	-	-	-	-	-	(390)
December 31	<u>-</u>	<u>4,616</u>	<u>56,926</u>	<u>71,045</u>	<u>442</u>	<u>-</u>	133,029	123,168
Net book value								
December 31, 2014	<u>53,036</u>	<u>63,403</u>	<u>14,692</u>	<u>26,153</u>	<u>139</u>	<u>116,437</u>	<u>273,860</u>	-
December 31, 2013	<u>90,192</u>	<u>64,056</u>	<u>9,195</u>	<u>12,484</u>	<u>166</u>	<u>89,723</u>	-	265,816

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

5. INVESTMENTS IN ASSOCIATES

i) Insurance Operations:

	2014	2013
	SR'000	
Balance, January 1	5,377	105,487
Share of profit (note 21)	4,181	5,966
Dividends received	-	(9,000)
Unrealized gain on investments	-	5,082
Sale of associate	-	(102,158)
Balance, December 31	9,558	5,377

The Company's interest in its associate, which is unquoted is as follows; which is not adjusted for the percentage ownership:

Najm Insurance Services

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit/ (Loss)	% Interest Held
SR'000						
September 30, 2014*	Saudi Arabia	165,145	44,036	245,347	56,529	8%
September 30, 2013*	Saudi Arabia	103,814	40,486	103,508	19,774	8%

* Based on latest available management account

The Company has 8% interest in Najm Insurance Services. The Company has significant influence over the financial and operating policy decision by way of representation on its board of directors.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

5. INVESTMENTS IN ASSOCIATES (Continued)

ii) Shareholders:

	2014	2013
	SR'000	
Balance, January 1	64,048	53,790
Share of profit (note 21)	16,246	14,605
Dividends received	(3,728)	(7,452)
Unrealized gain on investments	3,277	3,105
Balance, December 31	79,843	64,048

The Company's interests in its associates, all of which are unquoted are as follows; which is not adjusted for the percentage ownership:

a) United Insurance Company

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
SR'000						
November 30, 2014 *	Bahrain	212,422	87,490	64,207	23,144	50%
November 30, 2013 *	Bahrain	178,578	75,395	56,924	19,199	50%

* Based on latest available management account

b) Waseel Application Services Provider

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
SR'000						
November 30, 2014 *	Saudi Arabia	40,481	5,254	24,954	11,300	45%
November 30, 2013 *	Saudi Arabia	28,585	3,943	25,289	12,161	45%

* Based on latest available management account

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

6. AVAILABLE FOR SALE INVESTMENTS

i) Insurance operations:

Available for sale investments of the insurance operations are comprised of the following:

	<u>2014</u>	<u>2013</u>
	<u>SR'000</u>	
Local / Regional Money Market and Fixed Income Investments	2,295,303	1,729,639
Local / Regional Equities and Equity Funds	476,761	148,421
Foreign Equities and Equity Funds	96,936	90,064
Total	<u>2,869,000</u>	<u>1,968,124</u>

Movements in available for sale investments are as follows:

	<u>Quoted securities</u>	<u>Unquoted securities</u>	<u>Total</u>
	<u>SR'000</u>		
As at January 1, 2013	1,702,569	-	1,702,569
Purchases	1,522,669	-	1,522,669
Disposals	(1,269,048)	-	(1,269,048)
Changes in fair value of investments	11,934	-	11,934
As at December 31, 2013	<u>1,968,124</u>	<u>-</u>	<u>1,968,124</u>
As of January 1, 2014	1,968,124	-	1,968,124
Purchases	2,008,682	-	2,008,682
Disposals	(1,034,589)	-	(1,034,589)
Changes in fair value of investments	(73,217)	-	(73,217)
As at December 31, 2014	<u>2,869,000</u>	<u>-</u>	<u>2,869,000</u>

The above available for sale investments include impaired investments of SR 48 million (2013: SR 54 million).

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

6. AVAILABLE FOR SALE INVESTMENTS (Continued)

ii) Shareholders:

Shareholders' available for sale investments are comprised of the following:

	2014	2013
	SR'000	
Local / Regional Money Market and Fixed Income Investments	1,142,237	853,503
Local / Regional Equities and Equity Funds	290,130	263,220
Foreign Money Market and Fixed Income Investments	311,823	296,321
Foreign Equities and Equity Funds	303,365	453,866
Total	<u>2,047,555</u>	<u>1,866,910</u>

Movements in available for sale investments are as follows:

	Quoted securities	Unquoted securities	Total
	SR'000		
As at January 1, 2013	1,737,010	207,057	1,944,067
Purchases	435,649	13,237	448,886
Disposals	(534,552)	(81,256)	(615,808)
Changes in fair value of investments	78,382	11,383	89,765
As at December 31, 2013	<u>1,716,489</u>	<u>150,421</u>	<u>1,866,910</u>
As at January 1, 2014	1,716,489	150,421	1,866,910
Purchases / transfers	665,017	14,850	679,867
Disposals	(344,196)	(30,717)	(374,913)
Changes in fair value of investments	(124,309)	-	(124,309)
As at December 31, 2014	<u>1,913,001</u>	<u>134,554</u>	<u>2,047,555</u>

The above available for sale investments include impaired investments of SR 80 million (2013: SR 213 million).

THE COMPANY FOR COOPERATIVE INSURANCE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

7. PREPAID EXPENSES AND OTHER ASSETS

Insurance operations	2014	2013
	SR'000	
Prepaid expenses	53,911	50,139
Other assets	375,106	286,060
Total	429,017	336,199

8. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS

a) Deferred policy acquisition costs

	2014	2013
	SR'000	
Balance, January 1	163,680	179,493
Paid during the year	391,766	389,316
Amortized during the year	(381,813)	(405,129)
Balance, December 31	173,633	163,680

b) Unearned commission income

	2014	2013
	SR'000	
Balance, January 1	50,697	68,751
Commission received during the year	98,028	109,586
Commission earned during the year	(107,171)	(127,640)
Balance, December 31	41,554	50,697

c) Unearned premiums

	2014			2013		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	SR'000			SR'000		
Balance, January 1	2,847,389	(489,328)	2,358,061	2,969,711	(524,777)	2,444,934
Premiums written during the year	6,207,609	(914,602)	5,293,007	5,604,993	(963,517)	4,641,476
Premiums earned during the year	5,764,097	(959,989)	4,804,108	5,727,315	(998,966)	4,728,349
Balance, December 31	3,290,900	(443,940)	2,846,960	2,847,389	(489,328)	2,358,061

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8. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS (Continued)

d) Outstanding claims and reserves

	2014			2013		
	Gross	Due from reinsurers	Net	Gross	Due from reinsurers	Net
	SR'000			SR'000		
Outstanding claims	2,118,797	(1,699,886)	418,911	982,033	(598,050)	383,983
Salvage and subrogation	(77,995)	-	(77,995)	(164,857)	-	(164,857)
Incurred but not reported	779,359	-	779,359	344,106	-	344,106
Premium deficiency reserve	273,966	-	273,966	-	-	-
Balance, January 1	3,094,127	(1,699,886)	1,394,241	1,161,282	(598,050)	563,232
Claims paid	(4,672,194)	983,392	(3,688,802)	(4,759,087)	707,304	(4,051,783)
Claims incurred	4,240,568	(483,753)	3,756,815	6,691,932	(1,809,140)	4,882,792
Balance, December 31	2,662,501	(1,200,247)	1,462,254	3,094,127	(1,699,886)	1,394,241
Outstanding claims	1,642,524	(1,200,247)	442,277	2,118,797	(1,699,886)	418,911
Salvage and subrogation	(65,781)	-	(65,781)	(77,995)	-	(77,995)
Incurred but not reported	1,043,468	-	1,043,468	779,359	-	779,359
Premium deficiency reserve	42,290	-	42,290	273,966	-	273,966
Total	2,662,501	(1,200,247)	1,462,254	3,094,127	(1,699,886)	1,394,241

At December 31, 2014, the Company has maintained a provision in respect of premium deficiency for medical business of SR 42 million (2013: SR 274 million). The Company created this provision as it believes that the unearned premiums for medical business will not be sufficient to provide for the expected losses and expenses attributable to the unexpired periods of the policies in force at the balance sheet date. Given the improvement in loss ratio during 2014 the premium deficiency reserve was reduced.

9. REINSURERS' SHARE OF OUTSTANDING CLAIMS, NET

Reinsurers' share of outstanding claims is comprised of net amounts due from the following:

	2014	2013
	SR'000	
Reinsurers' share of insurance liabilities	1,201,397	1,701,036
Impairment provision	(1,150)	(1,150)
	1,200,247	1,699,886

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the date of the statement of financial position. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (Note 10).

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10. RECEIVABLES, NET

Receivables of insurance operations are comprised of net amounts due from the following:

	2014	2013
	SR'000	
Policyholders	1,167,451	1,130,339
Agents	186,166	198,855
Related party (Note 25)	106,603	13,542
	<u>1,460,220</u>	<u>1,342,736</u>
Reinsurers' balance receivable	158,459	250,816
Administrative service plan	12,817	23,007
	<u>1,631,496</u>	<u>1,616,559</u>
Provision for doubtful debts	<u>(102,383)</u>	<u>(106,061)</u>
Total	<u>1,529,113</u>	<u>1,510,498</u>

Movement in the allowance for impairment of receivables was as follows:

	2014	2013
	SR'000	
Balance, January 1	106,061	103,227
Charge / (reversal) for the year (note 22)	<u>(3,678)</u>	<u>2,834</u>
Balance, December 31	<u>102,383</u>	<u>106,061</u>

As at December 31 the ageing of unimpaired receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				Past due and impaired
			Less than 30 days	30 - 60 days	60 - 90 days	Above 90 days	
SR'000							
2014	1,631,496	1,035,945	162,146	98,000	15,258	150,102	170,045
2013	1,616,599	837,432	206,594	109,551	35,898	41,805	385,279

Receivables comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia as well as insurance companies and reinsurance companies mainly in Europe. Receivables include an amount of SR 82 million (2013: SR 113.6 million) due in foreign currencies, mainly in US dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period.

With the exception of balances amounting to SR 137 million (2013: SR 296 million) due from companies wholly or significantly owned by the Government and one major reinsurer of SR 87 million (2013: SR 12.2 million), no individual or company balances constitute more than 6% (2013: 10%) of the receivables as at December 31, 2014. In addition, the five largest non-Government customers account for 25% (2013: 22%) of outstanding accounts receivable as at December 31, 2014.

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11. STATUTORY DEPOSIT

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

12. CASH AND CASH EQUIVALENTS

i) Insurance operations:

	2014	2013
	<u>SR'000</u>	
Cash in hand and at banks	467,868	387,078
Call and time deposits	232,682	405,000
	<u>700,550</u>	<u>792,078</u>

ii) Shareholders:

	2014	2013
	<u>SR'000</u>	
Cash in hand and at banks	5,015	20,766
Call and time deposits	15,568	178,000
	<u>20,583</u>	<u>198,766</u>

Call and time deposits are maintained with financial institutions. The deposits for insurance operations are maturing on February 22, 2015. These earn commission at an average rate of 1% per annum as at 31 December 2014 (1.7% per annum - 2013).

13. INSURANCE OPERATIONS' SURPLUS AND DIVIDENDS DECLARED

Insurance Operations' surplus

The insurance operations' invests its surplus funds as disclosed in Notes 5 and 6. All of these investments are classified as available for sale and measured at market value except for investments in associates. Changes in the fair value of these investments at December 31, 2014 are not considered as part of the net surplus available for distribution to policyholders. At the time such investments are sold or gains and losses are realized, they will be included in the statement of income - insurance operations and accumulated surplus.

Shareholders – bonus / dividends

Net income from shareholders' activities is distributed in accordance with the Articles of Association and resolutions of the General Assembly.

The Company's Board of directors in their meeting on 14 Rabi Thani 1436H (corresponding to 4 February 2015) has proposed to the General Assembly, dividends of SR 1.45 for each outstanding share amounting to 145 million (2013: Nil).

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14. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

Insurance Operations	2014	2013
	SR'000	
Payables to policyholders	717,216	801,310
Payable - department of zakat & income tax	304,667	204,123
Marketing representative commissions	73,111	81,156
Employee end of service benefits	66,938	73,288
Accrued expenses	82,953	70,895
Savings plan	9,651	12,032
Provision for leave encashment	12,743	11,038
Other liabilities	28,984	35,001
	<u>1,296,263</u>	<u>1,288,843</u>

15. RESERVE FOR DISCONTINUED OPERATIONS

The reserve for discontinued operations is comprised of the following in relation to one of the Company's divisions which was discontinued during 1998:

	2014	2013
	SR'000	
Outstanding claims	3,203	3,013
Reserve for losses	8,008	8,397
Total	<u>11,211</u>	<u>11,410</u>

The reserve for losses represents an estimate by management of the net losses which will arise from the run off of this business. The movement in the reserve for losses is set out below:

	2014	2013
	SR'000	
Balance, January 1	8,397	4,799
Net claims incurred during the year	(173)	3,277
(Recovery) / addition from reserve for losses	(216)	321
Balance, December 31	<u>8,008</u>	<u>8,397</u>

The results of the discontinued operations are as follows:

	2014	2013
	SR'000	
Revenue	-	-
Cost and expenses	-	-
Net claims incurred	(216)	321
Total costs and expenses	(216)	321
(Recovery)/ addition from discontinued operations	<u>(216)</u>	<u>321</u>

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16. CLAIMS DEVELOPMENT TABLE

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

Claims triangulation analysis is by accident years spanning a number of financial years.

<u>2014</u>	<u>2009 & Earlier</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
<u>Accident year</u>	<u>SR '000</u>						
Estimate of ultimate claims cost:							
At the end of							
accident year	13,650,239	2,369,636	2,521,919	2,971,986	4,917,107	3,669,909	
One year later	13,607,097	2,527,355	2,914,308	3,978,907	5,596,818		
Two years later	13,670,257	2,488,796	2,896,367	4,016,792			
Three years later	13,342,964	2,481,495	2,910,080				
Four years later	13,340,028	2,492,869					
Five years later	13,123,357						
Current estimate of cumulative claims	13,123,357	2,492,869	2,910,080	4,016,792	5,596,818	3,669,909	31,809,825
Cumulative payments to date	(12,943,218)	(2,457,226)	(2,843,578)	(3,930,954)	(5,013,419)	(2,978,906)	(30,167,301)
Liability recognized in statement of financial position	180,139	35,643	66,502	85,838	583,399	691,003	1,642,524
Salvage and Subrogation							(65,781)
Incurred but not reported claims							1,043,468
Premium Deficiency reserve							42,290
Outstanding claims and reserves							<u>2,662,501</u>

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16. CLAIMS DEVELOPMENT TABLE (Continued)

2013							
Accident year	2008 & Earlier	2009	2010	2011	2012	2013	Total
SR '000							
Estimate of ultimate claims cost:							
At the end of							
accident year	11,699,996	1,899,676	2,369,636	2,521,919	2,971,986	4,917,107	
One year later	11,750,563	2,072,169	2,527,355	2,914,308	3,978,907		
Two years later	11,534,928	2,047,818	2,488,796	2,896,367			
Three years later	11,622,439	2,096,026	2,481,495				
Four years later	11,246,938	2,041,067					
Five years later	11,298,961						
Current estimate of cumulative claims	11,298,961	2,041,067	2,481,495	2,896,367	3,978,907	4,917,107	27,613,904
Cumulative payments to date	(11,024,458)	(1,882,346)	(2,443,551)	(2,757,809)	(3,869,202)	(3,517,741)	(25,495,107)
Liability recognized in the statement of financial position	274,503	158,721	37,944	138,558	109,705	1,399,366	2,118,797
Salvage and Subrogation							(77,995)
Incurred but not reported claims							779,359
Premium Deficiency reserve							273,966
Outstanding claims and reserves							<u>3,094,127</u>

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17. ZAKAT

The current year's provision is based on the following:

	<u>2014</u>	<u>2013</u>
	<u>SR'000</u>	
Share capital	1,000,000	1,000,000
Reserves, opening provisions and other adjustments	820,524	1,362,671
Book value of long term assets	(737,498)	(743,261)
Zakatable income for the year	1,083,026	1,619,410
Zakat base	602,974	(550,954)
	1,686,000	1,068,456

As the zakat base for the year is higher than the zakatable income, the zakat for the year is calculated at 2.5% on the zakat base for the year.

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income.

The movement in the zakat provision for the year was as follows:

	<u>2014</u>	<u>2013</u>
	<u>SR'000</u>	
Balance, January 1	98,399	91,607
Provided during the year	42,150	26,711
Payments during the year	(15,923)	(19,919)
Balance, December 31	124,626	98,399

Status of Assessment

The Company has filed Zakat returns with the Department of Zakat and Income tax (DZIT) for the years from 2005 to 2013 but the final assessments have not been raised yet.

Status of Appeal

The Company has filed an appeal against the assessment of DZIT for the year 2005-2006 which is still pending.

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18. SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SR 1 billion at December 31, 2014 (2013: SR 1 billion) consisting of 100 million shares of SR 10 each.

	2014		
	Authorized and issued		Paid up
	No. of Shares	SR'000	
Held by the public	53,370,407	533,704	533,704
Public Pension Agency	23,790,148	237,901	237,901
General Organization for Social Insurance	22,839,445	228,395	228,395
	100,000,000	1,000,000	1,000,000

	2013		
	Authorized and issued		Paid up
	No. of Shares	SR'000	
Held by the public	53,370,407	533,704	533,704
Public Pension Agency	23,790,148	237,901	237,901
General Organization for Social Insurance	22,839,445	228,395	228,395
	100,000,000	1,000,000	1,000,000

19. LEGAL RESERVE

In accordance with the Company's Articles of Association and in compliance with Article 70 (2g) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of its net income each year to the legal reserve until it has built up a reserve equal to the capital. The legal reserve is not available for distribution to shareholders until liquidation of the Company.

20. GROSS PREMIUMS AND HOLD-HARMLESS AGREEMENTS

The Company receives premiums from certain clients whereby almost all of the risk is ceded to reinsurers by the clients' brokers. The Company maintains hold-harmless agreements with these clients, whereby the Company is released from any responsibilities, liabilities or obligations that could result from these risks. In addition, these agreements hold the Company harmless against reinsurer insolvency (except certain clients) and errors and omissions for the brokers' share of the cover. The amounts ceded under these agreements for the year ended December 31, 2014 totaled SR 253 million (2013: SR 243 million).

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21. INVESTMENT INCOME, NET

Insurance Operations	2014	2013
	SR'000	
Available for sale:		
- Dividend income	3,707	7,144
- Commission income	16,777	18,930
- Realized gain on sale (Note 31)	18,963	53,335
- Investment fees	(497)	(736)
Profit on sale of associate (Note 5(i))	-	70,584
Share of profit from investments in associates (Note 5(i))	4,181	5,966
Investment income, net	43,131	155,223
Shareholders		
Available for sale:		
- Dividend income	5,037	5,784
- Commission income	15,110	26,674
- Foreign currency exchange	5,056	5,695
- Realized gain on sale (Note 31)	142,282	44,810
- Investment fees	(3,319)	(4,345)
Share of profit from investments in associates (Note 5(ii))	16,246	14,605
Investment income, net	180,412	93,223

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22. OPERATING AND SELLING EXPENSES

	<u>2014</u>	<u>2013</u>
	<u>SR'000</u>	
Salaries and benefits	186,519	176,720
Rent	11,524	7,152
Insurance, utilities and maintenance	6,430	6,548
Advertising	6,753	11,341
Training and education	1,937	2,590
Depreciation	4,146	3,883
Communications	1,216	3,731
Office supplies and printing	1,008	1,407
(Reversal) / charge of provision for doubtful receivables (note 10)	(3,678)	2,834
Others	11,628	12,629
	<u>227,483</u>	<u>228,835</u>

23. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2014</u>	<u>2013</u>
	<u>SR'000</u>	
Rent	16,587	2,205
Insurance, utilities and maintenance	9,097	6,449
Professional fees	6,186	4,310
Communications	5,586	4,774
Depreciation	5,325	7,617
Office supplies and printing	3,165	3,174
Training and education	2,290	2,050
Others	8,673	8,556
	<u>56,909</u>	<u>39,135</u>

24. EARNINGS / (LOSSES) PER SHARE

Earnings / (losses) per share has been calculated by dividing the net income / (loss) for the years ended December 31, 2014 and 2013 by 100 million shares.

25. REINSURANCE ASSETS

The reinsurers' share of insurance liabilities includes reinsurers' share of unearned premium and outstanding claims amounting to SR 1,644 million (2013: SR 2,189 million). The Company's accounting policies does not allow recognition of reinsurance gains on purchase of retroactive reinsurance contracts and require the recognition of the gain on a systematic and rational basis consistent with the development of the underlying reinsured liabilities. At year end, no amount has been recognized in respect of stop loss recovery (2013: SR 272 million) in the reinsurance balance. There are no assets arising from life reinsurance contracts held by the Company, as there has been no single event that has led to losses that qualify for reimbursement under the reinsurance covers. Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in other receivables.

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26. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of the major related party transactions during the year and the related balances at December 31:

	Amount of transactions for the year ended SR'000		Balance receivable / (payable) as at SR'000	
	2014	2013	2014	2013
<u>Major shareholders</u>				
Amount of claims to hospitals	16,147	64,340	(2,877)	-
Medical insurance premiums	144,636	33,864	105,626	1,376
Rent expenses	5,314	3,828	-	-
Stationery	-	1,024	-	-
<u>Associates</u>				
Insurance premiums	6,092	88,648	977	90
Rent expenses	-	10,582	-	12,076
Najm Fees	21,958	-	(4,778)	-

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

Remuneration and compensation of BOD Members and Top Executives

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and five top executives for the year ended December 31, 2014 and 2013:

	BOD members (Executives)	BOD members (Non-Executive) (SR'000)	Top Executives including the CEO and COO
2014			
Salaries and compensation	-	-	3,995
Allowances	-	1,565	1,495
Motivational plans	-	-	657
Total	-	1,565	6,147
2013			
Salaries and compensation	-	-	5,850
Allowances	60	540	1,623
Annual remuneration	200	1,000	1,791
Total	260	1,540	9,264

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27. 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. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables and accrued expenses.

The fair values of financial assets and liabilities are not materially different from their carrying values at the financial position date.

The fair value of derivatives held by the Company as of December 31, 2014 and 2013 are immaterial to the Company's financial statements.

Determination of fair value and fair value hierarchy

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

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

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27. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

The table below presents the financial instruments at their fair values as at December 31, 2014 and 2013 and based on the fair value hierarchy:

	(SR'000)			
	Level 1	Level 2	Level 3	Total
2014				
Available for sale financial assets				
- Policyholders	1,747,130	-	1,121,870	2,869,000
- Shareholders	1,638,000	-	409,555	2,047,555
Total	3,385,130	-	1,531,425	4,916,555
2013				
Available for sale financial assets				
- Policyholders	1,602,500	-	365,624	1,968,124
- Shareholders	1,621,489	-	245,421	1,866,910
Total	3,223,989	-	611,045	3,835,034

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

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

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy

	(SR'000)					
	Balance			Total gain or loss		Balance
December 31, 2014	January 1	Purchases	Sales	in profit or loss	in other comprehensive income	December 31
Insurance operations	365,624	1,366,710	(612,120)	14,902	(13,246)	1,121,870
Shareholders	245,421	366,200	(208,717)	11,860	(5,209)	409,555
Total	611,045	1,732,910	(820,837)	26,762	(18,455)	1,531,425
December 31, 2013						
Insurance operations	340,625	200,000	(175,001)	-	-	365,624
Shareholders	282,055	33,237	(81,256)	6,334	5,051	245,421
Total	622,680	233,237	(256,257)	6,334	5,051	611,045

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28. OPERATING SEGMENTS

Consistent with the Company's internal reporting process; operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker. Operating segments do not include shareholders' operations of the Company.

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

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

Operating Segments	For the year ended December 31, 2014			
	Medical	Motor	Property & casualty	Total
	SR' 000			
Gross premiums written				
- Compulsory	3,522,741	-	-	-
- Non - Compulsory	632,330	-	-	-
Total Gross premiums written	4,155,071	1,043,193	1,009,345	6,207,609
Net premiums written	4,112,144	1,043,160	137,703	5,293,007
Net premiums earned	3,640,605	1,021,512	141,991	4,804,108
Reinsurance commissions	1,638	2,361	103,172	107,171
Net claims incurred	(2,981,953)	(702,497)	(72,365)	(3,756,815)
Policy acquisition costs	(199,022)	(141,259)	(41,532)	(381,813)
Excess of loss expenses	(2,293)	(13,283)	(9,197)	(24,773)
Changes in reserve for Takaful activities	(2,696)	-	-	(2,696)
Other underwriting expenses	(67,941)	(6,750)	(10,566)	(85,257)
General, administrative, operating and selling expenses	(128,532)	(82,063)	(73,797)	(284,392)
Profit from Insurance Operations	259,806	78,021	37,706	375,533
Investment income, net				43,131
Other income				50,286
Surplus from Insurance Operations				468,950

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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28. OPERATING SEGMENTS (Continued)

Operating Segments	For the year ended December 31, 2013			
	Medical	Motor	Property & casualty	Total
	SR' 000			
Gross premiums written				
- Compulsory	2,981,844	-	-	-
- Non - Compulsory	628,554	-	-	-
Total Gross premiums written	3,610,398	1,065,738	928,857	5,604,993
Net premiums written	3,464,160	1,022,321	154,995	4,641,476
Net premiums earned	3,490,975	1,096,533	140,841	4,728,349
Reinsurance commissions	5,937	18,787	102,916	127,640
Net claims incurred	(3,766,279)	(1,033,694)	(82,819)	(4,882,792)
Policy acquisition costs	(194,393)	(165,063)	(45,673)	(405,129)
Excess of loss expenses	(32,246)	(24,079)	(8,496)	(64,821)
Changes in reserve for Takaful activities	88	-	-	88
Other underwriting expenses	(58,720)	(7,597)	(6,544)	(72,861)
General, administrative, operating and selling expenses	(128,391)	(75,047)	(64,532)	(267,970)
(Loss) / Profit from Insurance Operations	(683,029)	(190,160)	35,693	(837,496)
Investment income, net				155,223
Other income				24,967
Deficit from Insurance Operations				(657,306)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2014

28. OPERATING SEGMENTS (Continued)

	As at December 31, 2014			
	Medical	Motor	Property & casualty	Total
	SR '000			
Assets - Insurance operations				
Reinsurers' share of unearned premium	8,066	3,854	432,020	443,940
Reinsurers' share of outstanding claims, net	246	27,201	1,172,800	1,200,247
Deferred policy acquisition costs	107,231	47,880	18,522	173,633
Investments				2,888,419
Receivables, net				1,529,113
Unallocated assets				1,449,566
Total assets				7,684,918
Liabilities and surplus - Insurance operations				
Unearned premium income	2,267,928	474,058	548,914	3,290,900
Gross outstanding claims and reserves	1,077,703	236,956	1,347,842	2,662,501
Unearned commission income	4,412	64	37,078	41,554
Reserve for Takaful activities	16,340	-	-	16,340
Unallocated liabilities and surplus				1,673,623
Total liabilities and surplus				7,684,918

	As at December 31, 2013			
	Medical	Motor	Property & casualty	Total
	SR '000			
Assets - Insurance operations				
Reinsurers' share of unearned premium	34,749	12,754	441,825	489,328
Reinsurers' share of outstanding claims, net	3,061	30,449	1,666,376	1,699,886
Deferred policy acquisition cost	69,777	74,019	19,884	163,680
Investments				1,983,362
Receivables, net				1,510,498
Unallocated assets				1,883,718
Total assets				7,730,472
Liabilities and surplus - Insurance operations				
Unearned premium income	1,823,072	461,310	563,007	2,847,389
Gross outstanding claims and reserves	1,062,244	223,232	1,808,651	3,094,127
Unearned commission income	7,000	2,993	40,704	50,697
Reserve for Takaful activities	13,642	-	-	13,642
Unallocated liabilities and surplus				1,724,617
Total liabilities and surplus				7,730,472

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29. RISK MANAGEMENT

(a) Insurance risk

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

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

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

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

The insurance claim liabilities are sensitive to the various assumptions mentioned in Note 2. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

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

(b) Reinsurance risk

Similar to other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.

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

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

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DECEMBER 31, 2014

29. RISK MANAGEMENT (Continued)

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

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

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

Except as described in Note 20, reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. As shown in Note 9, the Company has reduced its claims payable by the expected recoveries from reinsurers as at December 31, 2014 to SR 1.2 billion (2013: SR 1.7 billion). No single reinsurer accounts for more than 21% of these expected recoveries at December 31, 2014 (2013: 27.45%).

Frequency and severity of claims

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

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in medical.

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

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

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29. RISK MANAGEMENT (Continued)

Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of claim related reserves are given under Notes 2(e) and 3(c).

Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of balance sheet date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable. The details of estimation of premium deficiency reserve are given under Notes 2(e) and 3(g).

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the yearend are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. However, the sensitivity to changes in claim reserves net of reinsurance by 10% percent is analysed separately for each class of business while keeping all other assumptions constant. This sensitivity owes to the change in the independent variables attached to the determination of claims reserves.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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29. RISK MANAGEMENT (Continued)

	Surplus from operations before zakat		Shareholders' equity	
	2014	2013	2014	2013
Impact of change in claim reserves by +/- 10%				
Medical	107,746	105,918	105,052	103,271
Motor	20,976	19,278	20,451	18,796
Property and casualty	17,504	14,228	17,067	13,872
	146,226	139,424	142,570	135,939

(c) Market Risk and Asset Liability Management

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

The Board of directors of the Company ensure that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of Investment Committee team. The team prepares forecast showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through the proper selection of securities. Company maintains diversified portfolio and perform regular monitoring of developments in related markets. In addition, the key factors that affect stock and bond market movements are monitored, including analysis of the operational and financial performance of investees.

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

Currency Risk

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

Almost all instruments under bonds portfolio are denominated in currencies pegged to the US Dollar leaving minimal exposure to currency risk.

The geographical concentration of the Company's investments is set out below:

<u>Insurance Operations</u>	2014	2013
	SR'000	
Local / Regional	2,772,061	1,878,060
United States of America	58,163	58,118
Europe	19,388	22,219
Far East	14,454	6,755
Rest of the world	4,934	2,972
	2,869,000	1,968,124

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29. RISK MANAGEMENT (Continued)

<u>Shareholders Operations</u>	2014	2013
	SR'000	
Local / Regional	1,248,109	1,111,577
United States of America	480,634	283,718
Europe	134,554	357,279
Far East	-	78,563
Rest of the world	184,258	35,773
	<u>2,047,555</u>	<u>1,866,910</u>

Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations.

Commission Rate Risk

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

An increase or decrease of 100 basis points in interest yields would result in a change in the loss or gain for the year of SR 14.89 million (2013: SR 12.71 million).

The commission and non-commission bearing investments of the Company and their maturities as at December 31 are as follows:

	Less than 1	1 to 5	Over 5	Non- commission	Total
	year	years	years	bearing	
Insurance Operations	SR'000				
2014	471,709	313,505	85,000	1,998,786	2,869,000
2013	132,937	215,624	50,000	1,569,563	1,968,124
Shareholders					
2014	215,822	174,330	228,098	1,429,305	2,047,555
2013	82,562	210,918	578,709	994,721	1,866,910

THE COMPANY FOR COOPERATIVE INSURANCE
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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29. RISK MANAGEMENT (Continued)

Other Price Risk

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

The Company's investments amounting to SR 3.4 billion (2013: SR 2.6 billion) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

The impact of hypothetical change of a 10% increase and 10% decrease in the market prices of investments on Company's profit and equity would be as follows:

	Fair value	Price change	Effect on income from operations before zakat	Effect on shareholders' equity
31 December 2014	+ / - 10%	342,809	-	334,239
31 December 2013	+ / - 10%	256,428	-	250,018

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2014. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

(d) Credit Risk

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

Approximately 99% (2013: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia.

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

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

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DECEMBER 31, 2014

29. RISK MANAGEMENT (Continued)

The table below shows the maximum exposure to credit risk for the components of the financial position:

	<u>2014</u>	<u>2013</u>
	<u>SR'000</u>	
<u>ASSETS - INSURANCE OPERATIONS</u>		
Bank / call and time deposits	699,814	791,490
Receivables, net	1,529,113	1,510,498
Investments available for sale	870,214	398,561
Reinsurers' share of outstanding claims, net	1,200,247	1,699,886
Other assets	375,106	265,089
Assets exposed to credit risk	<u>4,674,494</u>	<u>4,665,524</u>
Assets not exposed to credit risk	<u>3,010,424</u>	<u>3,064,948</u>
Total assets	<u>7,684,918</u>	<u>7,730,472</u>
	<u>2014</u>	<u>2013</u>
	<u>SR'000</u>	
<u>ASSETS - SHAREHOLDERS</u>		
Bank / call and time deposits	20,583	198,766
Investments available for sale	618,250	601,884
Accrued investment income	5,607	5,146
Statutory deposit	100,000	100,000
Assets exposed to credit risk	<u>744,440</u>	<u>905,796</u>
Assets not exposed to credit risk	<u>1,509,148</u>	<u>1,329,074</u>
Total assets	<u>2,253,588</u>	<u>2,234,870</u>

Concentration of credit risk

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

(e) Liquidity Risk

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

The table below summarizes the maturities of the Company's undiscounted contractual obligations.

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29. RISK MANAGEMENT (Continued)

Maturity Profile	2014			2013		
	SR '000			SR '000		
LIABILITIES	Less than	No	Total	Less than	No	Total
INSURANCE OPERATIONS	one year	term		one year	term	
Reinsurers' balances payable	313,900	-	313,900	345,793	-	345,793
Outstanding claims	2,662,501	-	2,662,501	3,094,127	-	3,094,127
Reserve for discontinued operations	11,211	-	11,211	11,410	-	11,410
Reserve for Takaful activities	16,340	-	16,340	13,642	-	13,642
Claims payable, accrued expenses and other liabilities	924,658	66,938	991,596	1,011,432	73,288	1,084,720
Surplus distribution payable	46,895	-	46,895	-	-	-
Financial liabilities – Insurance operations	3,975,505	66,938	4,042,443	4,476,404	73,288	4,549,692
Non-financial liabilities – Insurance operations	3,637,121	-	3,637,121	3,102,209	-	3,102,209
Total liabilities – Insurance operations	7,612,626	66,938	7,679,564	7,578,613	73,288	7,651,901
	2014			2013		
	SR '000			SR '000		
LIABILITIES	Less than	No	Total	Less than	No	Total
SHAREHOLDERS	one year	term		one year	term	
Dividends payable	5,014	-	5,014	5,151	-	5,151
Accrued expenses and other liabilities	1,434	-	1,434	1,127	-	1,127
Financial liabilities – Shareholders	6,448	-	6,448	6,278	-	6,278
Non-financial liabilities – Shareholders	170,765	-	170,765	588,024	-	588,024
Total liabilities – Shareholders	177,213	-	177,213	594,302	-	594,302

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

(f) Operational Risk

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

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors. The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

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29. RISK MANAGEMENT (Continued)

(f) Operational Risk (Continued)

- Requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Ethical and business standards;
- Risk mitigation, including insurance where it is effective.

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

30. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital, reserves and retained earnings.

As per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SR 200 million
- Premium Solvency Margin
- Claims Solvency Margin

31. REALIZED GAINS ON FINANCIAL ASSETS, NET

	2014	2013
	SR'000	
<u>INSURANCE OPERATIONS</u>		
Realized gains on financial assets - available for sale		
- Equity securities	18,963	53,326
- Debt Securities	-	9
Realized gain on financial assets, net	18,963	53,335
<u>SHAREHOLDERS</u>		
Realized gains on financial assets - available for sale		
- Equity securities	140,831	31,630
- Debt securities	1,451	20,920
Realized losses on financial assets - available for sale equity securities	-	(7,740)
Realized gain on financial assets, net	142,282	44,810

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32. CREDIT QUALITY OF INVESTMENTS

INSURANCE OPERATIONS

Investments	2014		2013	
	SR'000	Rating	SR'000	Rating
Local / Regional Money Market Investments	1,886,173	NA	1,520,531	NA
Local / Regional Fixed Income Investments	409,127	A	209,108	A
Local / Regional Equity Investments	476,761	NA	148,421	NA
International / Global Equity Investments	96,939	NA	90,064	NA
Total	<u>2,869,000</u>		<u>1,968,124</u>	

SHAREHOLDERS

Investments	2014		2013	
	SR'000	Rating	SR'000	Rating
Local / Regional Money Market Investments	313,312	NA	547,940	NA
Local / Regional Fixed Income Investments	633,110	A	305,563	A
Local / Regional Equity Investments	290,130	NA	263,220	NA
International / Global Fixed Income Investments	485,867	AA	296,321	AA
International / Global Equity Investments	325,136	NA	453,866	NA
Total	<u>2,047,555</u>		<u>1,866,910</u>	

33. CONTINGENT LIABILITIES

- a) As at December 31, 2014, the Company was contingently liable for letters of credit and guarantees issued on its behalf by the banks, amounting to SR 160 million (December 31, 2013 - SR 141 million) occurring in the normal course of business.
- b) The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

34. RECLASSIFICATION

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

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 15th Rabi Thani, 1436H corresponding to February 4, 2015.