

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

**Financial Statements  
For the year ended 31 December 2014  
together with the Independent auditors' report**



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

**SCOPE OF AUDIT:**

We have audited the accompanying statement of financial position of Sanad Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2014 and the related statements of comprehensive income for insurance and shareholders' operations, statement of changes in shareholders' equity, and statement of cash flows for insurance and shareholders' operations for the year then ended and the notes 1 to 22 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, 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:

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

**EMPHASIS OF MATTERS:**

Without qualifying our opinion, we draw attention to the following matters:

- i) As at 31 December 2014, Company has accumulated losses amounting to SR 168.2 million reaching to 84.1% of its capital. Moreover, the Company does not maintain the minimum regulatory solvency requirement. On the other hand, the Company is being banned from issuing new insurance policies since 12 Dhul Qadah 1435 (corresponding to 7 September 2014). The continuation of the Company is mainly dependent on its shareholders' financing support and related financial restructuring to meet the requirements set forth by the insurance industry regulator in order to obtain the regulatory release with regard to the ban for issuing new insurance policies and accordingly on acquiring profitable business. In the above connection, there is doubt about the Company's ability to continue as a going concern, yet the intention of Company's Board of Directors is to continue its operations and accordingly these financial statements are prepared on going concern basis as described in note 2.2. As at 9 Dhul Qadah 1435 (corresponding to 4 September 2014), the Company's Board has recommended a capital increase and the calling for an Extraordinary General Assembly is pending subject to meeting certain regulatory requirements and securing certain regulatory approvals before calling for the same as per the requirement of Article 148 of the Regulations for Companies.






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


**EMPHASIS OF MATTERS:**

- ii) As per Article 68 of the Regulation for Companies, a director must own not less than ten thousand shares of the Company's stock. As stated in note 2.2 the Capital Market Authority (CMA) Board has issued its decision on 12 Dhul Qadah 1435 (corresponding to 7 September 2014) to suspend trading the shares of the Company in the Saudi Stock Exchange (Tadawul). Accordingly, the newly appointed Board of Directors' are unable to purchase the minimum shares.
- iii) These financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants.

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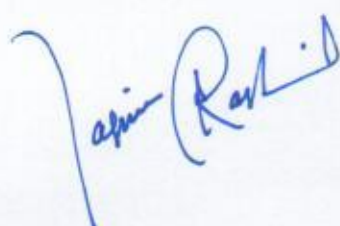
30 Rabi Al Thani 1436H  
(19 February 2015)



# SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY

## (A Saudi Joint Stock Company) STATEMENT OF FINANCIAL POSITION (Amount in Saudi Riyals)

	Notes	31 December 2014	31 December 2013
<b>ASSETS</b>			
<b>ASSETS – INSURANCE OPERATIONS</b>			
Cash and cash equivalents	4	75,336,852	78,582,401
Premiums receivable, net	11	25,006,155	65,008,738
Reinsurers' balance receivable, net		3,247,153	1,295,054
Reinsurers' share of outstanding claims and other technical reserves	9(ii)	20,929,971	23,618,391
Reinsurers' share of unearned premium	10	6,938,696	14,779,480
Deferred policy acquisition cost	12	4,368,623	9,620,528
Due from shareholders' operations		25,580,447	18,791,296
Prepayments and other assets		7,697,221	13,940,215
Property and equipment, net	7	3,607,825	4,462,452
<b>TOTAL ASSETS – INSURANCE OPERATIONS</b>		<b>172,712,943</b>	<b>230,098,555</b>
<b>ASSETS – SHAREHOLDERS' OPERATIONS</b>			
Cash and cash equivalents	4	13,127,451	31,568,966
Statutory deposit	14	21,242,822	21,077,351
Investments - available for sale	6	38,165,215	44,060,370
Loan receivable		--	500,000
Prepayments and other assets		14,812	1,448,663
<b>TOTAL ASSETS – SHAREHOLDERS' OPERATIONS</b>		<b>72,550,300</b>	<b>98,655,350</b>
<b>TOTAL ASSETS</b>		<b>245,263,243</b>	<b>328,753,905</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES – INSURANCE OPERATIONS</b>			
Unearned premium reserve	10	23,117,961	98,754,524
Reinsurers' balances payable		6,291,258	3,065,270
Accrued expenses and other liabilities		42,256,826	31,814,206
Outstanding claims and other technical reserves	9	94,380,200	88,763,481
Unearned commission income		2,787,227	4,130,018
End-of-service indemnities		3,879,471	3,571,056
<b>TOTAL LIABILITIES – INSURANCE OPERATIONS</b>		<b>172,712,943</b>	<b>230,098,555</b>
<b>LIABILITIES – SHAREHOLDERS' OPERATIONS</b>			
Accrued expenses and other liabilities		292,525	364,525
Provision for zakat	8	11,061,489	10,271,155
Due to insurance operations		25,580,447	18,791,296
<b>TOTAL LIABILITIES – SHAREHOLDERS' OPERATIONS</b>		<b>36,934,461</b>	<b>29,426,976</b>
<b>TOTAL LIABILITIES</b>		<b>209,647,404</b>	<b>259,525,531</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	200,000,000	200,000,000
Accumulated deficit		(168,233,675)	(135,950,411)
Investment revaluation reserve	6	3,849,514	5,178,785
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>35,615,839</b>	<b>69,228,374</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>245,263,243</b>	<b>328,753,905</b>





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



**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
*(Amount in Saudi Riyals)*

	Notes	2014	2013
<b>INCOME</b>			
Gross insurance premiums written	10	123,699,931	227,799,584
Gross inward reinsurance premiums written		38,817	166,767
<b>TOTAL GROSS WRITTEN PREMIUMS</b>		<b>123,738,748</b>	<b>227,966,351</b>
Reinsurance premiums ceded	10	(50,857,268)	(48,714,121)
<b>NET WRITTEN PREMIUMS</b>		<b>72,881,480</b>	<b>179,252,230</b>
Changes in unearned premiums	10	75,636,563	(31,058,658)
Changes in reinsurance unearned premiums	10	(7,840,784)	1,217,140
<b>NET EARNED PREMIUMS</b>		<b>140,677,259</b>	<b>149,410,712</b>
Reinsurance commission		14,868,413	11,216,860
Policy fee, net		122,475	444,134
<b>UNDERWRITING REVENUE</b>		<b>155,668,147</b>	<b>161,071,706</b>
<b>EXPENSES</b>			
Gross claims paid	9	(116,378,149)	(132,800,533)
Reinsurance share of claims paid	9	24,513,316	21,582,971
<b>NET CLAIMS PAID</b>		<b>(91,864,833)</b>	<b>(111,217,562)</b>
Net changes in outstanding claim reserve	9	(11,493,640)	1,173,821
Net changes in other technical reserve	9	3,188,501	(13,220,699)
<b>NET CLAIMS INCURRED</b>		<b>(100,169,972)</b>	<b>(123,264,440)</b>
Policy acquisition costs	12	(20,565,781)	(20,548,389)
Other underwriting expenses, net		(4,668,559)	(6,663,609)
Impairment against doubtful premium receivables		(4,693,318)	(4,537,280)
Impairment against doubtful salvage receivables		(10,711,287)	--
Impairment against doubtful other receivables		(3,150,000)	--
<b>UNDERWRITING EXPENSES</b>		<b>(143,958,917)</b>	<b>(155,013,718)</b>
<b>UNDERWRITING SURPLUS</b>		<b>11,709,230</b>	<b>6,057,988</b>
General and administration expenses	13	(37,852,207)	(46,494,118)
<b>LOSS FROM INSURANCE OPERATIONS</b>		<b>(26,142,977)</b>	<b>(40,436,130)</b>
Gain on sale of property and equipment		123	13,000
Other income		221,500	304,083
<b>COMPREHENSIVE LOSS FROM INSURANCE OPERATIONS</b>		<b>(25,921,354)</b>	<b>(40,119,047)</b>
Transfer of comprehensive loss to shareholders operations		25,921,354	40,119,047
<b>NET RESULTS FOR THE YEAR</b>		<b>--</b>	<b>--</b>

*Yahim Rashed*



*[Signature]*

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



**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
*(Amount in Saudi Riyals)*

	<i>Notes</i>	<u>2014</u>	<u>2013</u>
<b>INCOME</b>			
Commission income		314,941	529,241
Dividend income from investments		1,288,391	1,552,849
Gain on sale of investments		--	10,070,314
		<u>1,603,332</u>	<u>12,152,404</u>
<b>EXPENSES</b>			
Transfer of loss from insurance operations		(25,921,354)	(40,119,047)
Impairment on available for sale investments	6	(4,565,884)	--
General and administration expenses	13	(649,150)	(1,447,065)
		<u>(29,533,056)</u>	<u>(29,413,708)</u>
<b>NET LOSS FOR THE YEAR BEFORE ZAKAT</b>		<b>(29,533,056)</b>	<b>(29,413,708)</b>
Zakat		(2,750,208)	(1,229,766)
<b>NET LOSS FOR THE YEAR</b>		<b>(32,283,264)</b>	<b>(30,643,474)</b>
<b>OTHER COMPREHENSIVE (LOSS) / INCOME:</b>			
Net changes in fair value of available for sale investments		(1,329,271)	3,839,509
<b>TRANSFERRED TO STATEMENT OF INCOME</b>			
Loss on sale of available for sale investments		--	(10,070,314)
		<u>(1,329,271)</u>	<u>(6,230,805)</u>
<b>OTHER COMPREHENSIVE LOSS</b>		<b>(1,329,271)</b>	<b>(6,230,805)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(33,612,535)</b>	<b>(36,874,279)</b>
<b>BASIC AND DILUTED LOSS PER SHARE FOR THE YEAR</b>			
		<u>(1.61)</u>	<u>(1.53)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE</b>		<u>20,000,000</u>	<u>20,000,000</u>

*Yasir Rami*



*[Signature]*

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**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
*(Amount in Saudi Riyals)*

	<u>Share Capital</u>	<u>Accumulated deficit</u>	<u>Investment revaluation reserve</u>	<u>Total</u>
Balance at 1 January 2013	200,000,000	(105,306,937)	11,409,590	106,102,653
Net loss for the year	--	(30,643,474)	--	(30,643,474)
Other comprehensive loss for the year	--	--	(6,230,805)	(6,230,805)
Balance at 31 December 2013	<u>200,000,000</u>	<u>(135,950,411)</u>	<u>5,178,785</u>	<u>69,228,374</u>
Net loss for the year	--	(32,283,264)	--	(32,283,264)
Other comprehensive loss for the year	--	--	(1,329,271)	(1,329,271)
Balance at 31 December 2014	<u>200,000,000</u>	<u>(168,233,675)</u>	<u>3,849,514</u>	<u>35,615,839</u>

*Yasir Rami*



*[Signature]*

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



**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
*(Amount in Saudi Riyals)*

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net results for the year	--	--
<i>Adjustments for non-cash items:</i>		
Transfer of loss to shareholders' operations	(25,921,354)	(40,119,047)
Impairment allowance against salvage recoveries	10,711,287	--
Provision against doubtful other receivables	3,150,000	--
Depreciation	1,985,263	2,097,770
Provision for end-of-service indemnities	1,502,068	1,563,787
Impairment allowance against doubtful receivables, net	4,682,926	4,537,280
Gain on sale of property and equipment	(123)	(13,000)
	<u>(3,889,933)</u>	<u>(31,933,210)</u>
<b>Changes in operating assets and liabilities:</b>		
Premiums receivable	35,700,828	(1,063,672)
Deferred policy acquisition costs	5,251,905	(2,593,244)
Prepayments and other assets	(7,618,293)	(4,271,114)
Unearned premium reserves, net	(67,795,779)	29,841,518
Unearned commission income	(1,342,791)	847,630
Reinsurers' balances payable	3,225,988	(338,798)
Accrued expenses and other liabilities	10,442,620	(9,405,991)
Outstanding claims and other technical reserves, net	8,305,139	12,046,878
Reinsurance balance receivable	(2,333,270)	7,089,838
<b>Cash (used in)/ from operating activities</b>	<u>(20,053,586)</u>	<u>219,835</u>
End-of-service indemnities paid	<u>(1,193,653)</u>	<u>(483,698)</u>
<b>Net cash used in operating activities</b>	<u>(21,247,239)</u>	<u>(263,863)</u>
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(1,133,415)	(3,073,441)
Proceeds from sale of property and equipment	2,902	13,000
<b>Net cash used in investing activities</b>	<u>(1,130,513)</u>	<u>(3,060,441)</u>
<b>FINANCING ACTIVITIES</b>		
Due to shareholders' operations	19,132,203	16,426,729
<b>Net cash from financing activities</b>	<u>19,132,203</u>	<u>16,426,729</u>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(3,245,549)</u>	<u>13,102,425</u>
Cash and cash equivalents at the beginning of the year	78,582,401	65,479,976
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>75,336,852</u>	<u>78,582,401</u>

*Yasir Rasheed*



*[Signature]*

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



**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
(A Saudi Joint Stock Company)  
**STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
(Amount in Saudi Riyals)

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net loss for the year before zakat	(29,533,056)	(29,413,708)
<i>Adjustments for non-cash items:</i>		
Transfer of loss from insurance operations	25,921,354	40,119,047
Gain on sale of investments	--	(10,070,314)
Impairment on investments - available for sale	4,565,884	--
<b>Changes in operating assets and liabilities:</b>		
Accrued expenses and other liabilities	(72,000)	(22,500)
Prepayments and other assets	1,433,851	(1,429,552)
Cash from / (used in) operations	2,316,033	(817,027)
Zakat paid	(1,959,874)	(893,752)
<b>Net cash from / (used in) operating activities</b>	<b>356,159</b>	<b>(1,710,779)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments – available for sale	--	(19,575,283)
Disposal of investments – available for sale	--	19,500,400
Statutory deposit	(165,471)	(158,932)
<b>Net cash used in investing activities</b>	<b>(165,471)</b>	<b>(233,815)</b>
<b>FINANCING ACTIVITIES</b>		
Due from insurance operations	(19,132,203)	(16,426,729)
Collection of loan receivable	500,000	--
<b>Net cash used in financing activities</b>	<b>(18,632,203)</b>	<b>(16,426,729)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(18,441,515)</b>	<b>(18,371,323)</b>
Cash and cash equivalents at the beginning of the year	31,568,966	49,940,289
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>13,127,451</b>	<b>31,568,966</b>
<b>Non - cash supplemental information:</b>		
Change in fair value of investments - available for sale	(1,329,271)	(6,230,805)

*Yasir Rashid*



*[Signature]*

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

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

### **1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

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

### **2. BASIS OF PREPARATION**

#### **2.1 *Basis of measurement***

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

#### **2.2 *Going concern***

As at 31 December 2014, the Company’s solvency margin is below the limit prescribed by Saudi Arabian Monetary Agency (SAMA).

The Company has incurred a net loss of SR 32.2 million during the year. As a result, the accumulated losses amounted to SR 168.2 million that represents approximately 84.1% of the Share Capital. The Saudi Arabian Regulations for Companies Article 148 require that in situations where the losses exceed 75% of the share capital, the Company’s Board of Directors must call for an extraordinary general meeting to consider this situation. As of the date of the approval of these financial statements, the extraordinary general meeting has not been called and the Board is in the process of calling the extraordinary general assembly.

The Board of Directors has announced a restructuring plan to the shareholders which has been approved by the Board on 9 Dhul Qadah 1435 (corresponding to 4 September 2014). The restructuring plan would include the following:

- a) Increasing the capital
- b) Cancellation of the reinsurance license
- c) Administrative restructuring including the appointment of Chief Executive Officer and all the vacant leadership positions in the Company.
- d) Financial restructuring including the establishment of collection Department to collect the company’s debts and reduce the accumulated losses of the Company.

Due to the restructuring plan, the Board is expecting that there will be improvements in the net results of the Company and it will be able to continue its operations for the foreseeable future.

SAMA has restrained the Company from accepting new subscribers to any of its insurance activities, thus, banning it from issuing or renewing any insurance policy whatsoever as of 12 Dhul Qadah 1435 (corresponding to 7 September 2014) until a decision is issued by SAMA that the Company has rectified its status. SAMA has also directed the Company to settle and pay out all due claims and compensations arising from insurance policies issued before 12 Dhul Qadah 1435 (corresponding to 7 September 2014).



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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

**2.2 *Going concern (continued)***

Furthermore, the Capital Market Authority's (CMA) Board has issued its decision on 12 Dhul Qadah 1435 corresponding to (7 September 2014) to suspend trading the shares of the Company in the Saudi Stock Exchange (Tadawul) starting from 12 Dhul Qadah 1435 (corresponding to 7 September 2014) until the company discloses the financial impact of prohibiting it from issuing or renewing any kind of insurance policies. Also the Company has to correct its position in regard to the decision received from SAMA as required by the related rules and regulations. Based on that the CMA will look into whether to continue or discontinue suspending the trading of the shares.

Based on Company's restructuring plan, future business prospects and the various discussions and negotiations with SAMA, the management believes that the going concern assumption is valid and has therefore prepared the financial statements on a going concern basis.

**2.3 *Statement of compliance***

The financial statements of the Company for the year ended 31 December 2014 have been prepared by the management in accordance with International Financial Reporting Standards (IFRS). Accordingly these financial statements are not intended to be a presentation in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

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

**2.4 *Functional and presentation currency***

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

**2.5 *Use of estimates and judgements***

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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

**2.5 *Use of estimates and judgements (continued)***

Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

- Impairment and uncollectibility of financial assets (note 3.10)
- Outstanding claims and other technical reserves (note 3.3)
- Fair value of investments (note 3.11)
- Unearned premium reserve (note 3.1)
- End of service indemnities (note 3.18)
- Useful life of property and equipment (note 3.14)
- Deferred policy acquisition costs (note 3.4)
- Going concern (note 2.2 and 19)

**2.6 *New standards, amendments to standards and interpretations***

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations. In the current year, the Company has applied number of amendments to IFRS and new interpretations issued by International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2014. These does not have any material impact on the Company.

*IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*

These amendments clarify the meaning of “currently has a legal enforceable right to set off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have not impact on the company.

*IAS 36 Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36*

These amendments remove the unintended consequences of IFRS 13 Fair Value measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts of the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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

**2.6 *New standards, amendments to standards and interpretations (continued)***

*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.

*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**

In addition to the above mentioned standards, the following 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. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect from future dates.

**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 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

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

**2.6 *New standards, amendments to standards and interpretations (continued)***

*Annual improvements 2010-2012 Cycle*

The below 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 judgments 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.

**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*

The below 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.



**NOTES TO THE FINANCIAL STATEMENTS  
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**2. BASIS OF PREPARATION (Continued)**

**2.6 *New standards, amendments to standards and interpretations (continued)***

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.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**3.1 *Revenue Recognition***

*Recognition of premium and commission revenue*

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

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

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

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

*Investment income*

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.2 *Insurance contract***

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

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

**3.3 *Claims***

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

***Outstanding claims and other technical reserves***

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

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

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

**3.4 *Deferred policy acquisition costs***

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

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

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



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.5 *Reinsurance***

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

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

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

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

**3.6 *Liability adequacy test***

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

**3.7 *Investments***

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

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

*Available for sale*

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.8 *Receivables***

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

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

**3.9 *Provisions***

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

**3.10 *Impairment and uncollectibility of financial assets***

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

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

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.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.10 *Impairment and uncollectibility of financial assets (continued)***

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

**3.11 *Fair values***

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.11 *Fair values (continued)***

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

**3.12 *Offsetting***

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

**3.13 *Derecognition of financial instruments***

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

**3.14 *Property and equipment***

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

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

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

**3.15 *Leases***

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



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***3.16 Foreign currency transactions***

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. All foreign exchange differences are taken to the statement of comprehensive income.

***3.17 Zakat and income tax***

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

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

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

***3.18 End-of-service indemnities***

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

***3.19 Statutory reserve***

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

***3.20 Segment reporting***

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

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

**NOTES TO THE FINANCIAL STATEMENTS  
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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**3.21 *Earning per share***

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

**3.22 *Cash and cash equivalents***

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

**4. CASH AND CASH EQUIVALENTS**

	<b>2014</b>	
	<b>Insurance Operations</b>	<b>Shareholders' Operations</b>
Cash in hand	<b>12,608</b>	<b>--</b>
Bank balances	<b>75,324,244</b>	<b>13,127,451</b>
	<b>75,336,852</b>	<b>13,127,451</b>
	<b>2013</b>	
	<b>Insurance Operations</b>	<b>Shareholders' Operations</b>
Cash in hand	<b>45,015</b>	<b>--</b>
Bank balances	<b>48,537,386</b>	<b>1,568,966</b>
Murabaha deposits	<b>30,000,000</b>	<b>30,000,000</b>
	<b>78,582,401</b>	<b>31,568,966</b>



**NOTES TO THE FINANCIAL STATEMENTS  
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**5. RELATED PARTY TRANSACTIONS**

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

<b>Nature of relationship</b>	<b>Name of related party</b>
<i>10% founding shareholder and common directorship</i>	- Saudi Continental Insurance Company
<i>90% shareholder in Saudi Continental Insurance Company and have a common directorship</i>	- Aggad Investment Company
<i>Common directorship and control</i>	- Arabian Tiles Company - Medical Supplies and Services Company Limited (MEDISERV) - National Advanced Systems Company Limited (NASCO) - United Motors Company

**a) *Transactions with related parties:***

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

	<b>2014</b>		<b>2013</b>	
	<b>Gross written premium</b>	<b>Gross claims paid</b>	<b>Gross written premium</b>	<b>Gross claims paid</b>
Aggad Investment Company	<b>594,275</b>	<b>211,871</b>	162,271	328,139
Arabian Tiles Company	<b>166,939</b>	<b>735,736</b>	1,442,948	767,810
Medical Supplies and Services Company Limited (MEDISERV)	<b>908,929</b>	<b>1,326,276</b>	3,109,600	2,292,068
National Advanced Systems Company Limited (NASCO)	<b>1,072,964</b>	<b>11,649,710</b>	6,236,014	4,539,319
United Motors Company	<b>1,078,984</b>	<b>9,022,202</b>	13,427,958	13,945,303

**b) *Balances with related parties:***

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

	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Premiums receivable</b>	<b>Outstanding claims</b>	<b>Premiums receivable</b>	<b>Outstanding claims</b>
Aggad Investment Company	--	<b>84,537</b>	64	190,121
Arabian Tiles Company	<b>384,451</b>	<b>390,816</b>	1,105,342	230,971
Medical Supplies and Services Company Limited (MEDISERV)	<b>268,195</b>	<b>766,998</b>	1,081,202	815,285
National Advanced Systems Company Limited (NASCO)	--	<b>7,680,632</b>	3,893,057	5,755,929
United Motors Company	--	<b>4,121,617</b>	1,021,857	6,537,380

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**5. RELATED PARTY TRANSACTIONS (Continued)**

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

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

	<u>2014</u>	<u>2013</u>
Salaries and other short term benefits	<b>2,600,000</b>	4,263,493
End of service benefits	<b>141,506</b>	198,769
	<u><b>2,741,506</b></u>	<u>4,462,262</u>

**6. INVESTMENTS**

**a) *Investments - available for sale***

Investment in available for sale securities comprise of the following:

<b>31 December 2014</b>				
	<i>Cost</i>	<i>Unrealised gain</i>	<i>Impairment</i>	<i>Market value</i>
<b><i>Quoted/Published prices</i></b>				
Mutual Funds	<b>6,625,998</b>	<b>416,315</b>	--	<b>7,042,313</b>
Global Sukuk Fund deposits	<b>9,450,000</b>	<b>2,087,644</b>	--	<b>11,537,644</b>
Equities	<b>20,882,509</b>	<b>1,345,555</b>	<b>(4,565,884)</b>	<b>17,662,180</b>
	<b>36,958,507</b>	<b>3,849,514</b>	<b>(4,565,884)</b>	<b>36,242,137</b>
<b><i>Unquoted</i></b>				
Equities (note c)	<b>1,923,078</b>	--	--	<b>1,923,078</b>
<b>Total investments in available for sale</b>	<b><u>38,881,585</u></b>	<b><u>3,849,514</u></b>	<b><u>(4,565,884)</u></b>	<b><u>38,165,215</u></b>
<b>31 December 2013</b>				
	<i>Cost</i>	<i>Unrealised gain</i>	<i>Impairment</i>	<i>Market value</i>
<b><i>Quoted/Published prices</i></b>				
Mutual Funds	6,625,998	373,293	--	6,999,291
Global Sukuk Fund deposits	9,450,000	1,648,930	--	11,098,930
Equities	20,882,509	3,156,562	--	24,039,071
	36,958,507	5,178,785	--	42,137,292
<b><i>Unquoted</i></b>				
Equities (note c)	1,923,078	--	--	1,923,078
<b>Total investments in available for sale</b>	<b><u>38,881,585</u></b>	<b><u>5,178,785</u></b>	<b><u>--</u></b>	<b><u>44,060,370</u></b>

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**6. INVESTMENTS (Continued)**

**b) Movements in available for sale investments are as follows:**

	<b>31 December 2014</b>	31 December 2013
At beginning of the year	<b>44,060,370</b>	40,145,978
Addition during the year	--	19,575,283
Disposals during the year	--	(19,500,400)
Impairment	<b>(4,565,884)</b>	--
Change in fair value	<b>(1,329,271)</b>	3,839,509
At end of the year	<b>38,165,215</b>	44,060,370

**c) Investment in Najm Insurance Services Company**

This investment represents a equity holding in the unquoted share capital of “Najm Insurance Services Company” As the fair value is not readily available, this investment has been carried at cost and reviewed by management for impairment.

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

	<b>2014</b>	2013
Financial institutions	<b>18,579,956</b>	18,098,221
Telecommunication	<b>5,862,431</b>	11,420,321
Cement	<b>11,799,750</b>	12,618,750
Services	<b>1,923,078</b>	1,923,078
	<b>38,165,215</b>	44,060,370

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**7. PROPERTY AND EQUIPMENT, NET**

	<b>2014</b>					
	<b><u>Software</u></b>	<b><u>Computers</u></b>	<b><u>Furniture</u></b>	<b><u>Leasehold improvements</u></b>	<b><u>Motor vehicles</u></b>	<b><u>Total</u></b>
<b>Cost:</b>						
Balance at beginning of the year	2,557,664	3,404,648	2,426,631	5,063,196	557,800	14,009,939
Additions during the year	285,000	26,100	169,077	653,238	--	1,133,415
Disposals during the year	--	(2,428)	(1,350)	(2,200)	--	(5,978)
<b>Balance at end of the year</b>	<b>2,842,664</b>	<b>3,428,320</b>	<b>2,594,358</b>	<b>5,714,234</b>	<b>557,800</b>	<b>15,137,376</b>
<b>Accumulated depreciation:</b>						
Balance at beginning of the year	1,958,489	2,643,234	1,013,859	3,612,729	319,179	9,547,490
Charge during the year	295,729	341,319	248,297	1,001,341	98,577	1,985,263
Elimination on disposal	--	(2,428)	(101)	(673)	--	(3,202)
<b>Balance at end of the year</b>	<b>2,254,218</b>	<b>2,982,125</b>	<b>1,262,055</b>	<b>4,613,397</b>	<b>417,756</b>	<b>11,529,551</b>
<b>Net book value at 31 December 2014</b>	<b>588,446</b>	<b>446,195</b>	<b>1,332,303</b>	<b>1,100,837</b>	<b>140,044</b>	<b>3,607,825</b>

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



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**8. ZAKAT AND INCOME TAX**

**(a) Zakat**

The provision for zakat of SR 2,750,208 (31 December 2013: SR 1,229,766) has been made for the year ended 31 December 2014.

**(b) Movements in zakat provision**

	<u>2014</u>	<u>2013</u>
Balance at beginning of the year	<b>10,271,155</b>	9,935,141
Zakat charge for the year	<b>2,750,208</b>	1,229,766
Payments made during the year	<b>(1,959,874)</b>	(893,752)
Balance at end of the year	<b><u>11,061,489</u></b>	<u>10,271,155</u>

**(c) Income Tax**

No income tax has been provided due to negative tax base. For the year ended 31 December 2014, the Company has incurred adjusted tax losses which may be carried forward to future years without limitation of time.

**(d) Status of assessments**

The Company has filed tax and zakat declaration for the years ended up to 31 December 2013. The Company has filed an appeal against Department of Zakat and Income Tax's (DZIT) assessment of additional zakat, arising from disallowance of certain investments from zakat base.

**9. CLAIMS AND TECHNICAL RESERVES**

**9. (i) Incurred claims**

	<u>2014</u>		
	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
Claims paid during the year	<b>(116,378,149)</b>	<b>24,513,316</b>	<b>(91,864,833)</b>
Changes in outstanding claims reserves	<b>(6,138,437)</b>	<b>(5,355,203)</b>	<b>(11,493,640)</b>
Changes in other technical reserves	<b>1,735,317</b>	<b>1,453,184</b>	<b>3,188,501</b>
	<b><u>(120,781,269)</u></b>	<b><u>20,611,297</u></b>	<b><u>(100,169,972)</u></b>
	<u>2013</u>		
	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
Claims paid during the year	(132,800,533)	21,582,971	(111,217,562)
Changes in outstanding claims reserves	9,849,409	(8,675,588)	1,173,821
Changes in other technical reserves	(7,903,488)	(5,317,211)	(13,220,699)
	<b><u>(130,854,612)</u></b>	<b><u>7,590,172</u></b>	<b><u>(123,264,440)</u></b>

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**9. (ii) Outstanding claims and other technical reserves**

<i>31 December 2014</i>			
	<i>Gross</i>	<i>Reinsurers' Share</i>	<i>Net</i>
Outstanding claim reserves	<b>60,574,253</b>	<b>(14,169,326)</b>	<b>46,404,927</b>
Incurred but not reported reserve ("IBNR")	<b>24,923,436</b>	<b>(6,760,645)</b>	<b>18,162,791</b>
Premium deficiency reserve	<b>8,882,511</b>	<b>--</b>	<b>8,882,511</b>
Outstanding claims and other technical reserves	<b>94,380,200</b>	<b>(20,929,971)</b>	<b>73,450,229</b>

<i>31 December 2013</i>			
	<i>Gross</i>	<i>Reinsurers' Share</i>	<i>Net</i>
Outstanding claim reserves	54,435,816	(19,524,529)	34,911,287
Incurred but not reported reserve ("IBNR")	23,880,657	(4,093,862)	19,786,795
Premium deficiency reserve	10,447,008	--	10,447,008
Outstanding claims and other technical reserves	<b>88,763,481</b>	<b>(23,618,391)</b>	<b>65,145,090</b>

**10. PREMIUMS**

**10.(i) Earned premium**

<b>2014</b>			
	<b><u>Gross</u></b>	<b><u>Reinsurers' Share</u></b>	<b><u>Net</u></b>
Total gross written premium	<b>123,738,748</b>	<b>(50,857,268)</b>	<b>72,881,480</b>
Changes in unearned premium	<b>75,636,563</b>	<b>(7,840,784)</b>	<b>67,795,779</b>
	<b>199,375,311</b>	<b>(58,698,052)</b>	<b>140,677,259</b>

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

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**10. PREMIUMS (cont.)**

**10. (ii) Unearned premium reserves (UEP)**

	<b>2014</b>		
	<b><u>Gross</u></b>	<b><u>Reinsurers' Share</u></b>	<b><u>Net</u></b>
Balance as at beginning of the year	98,754,524	(14,779,480)	83,975,044
Total gross written premium	123,738,748	(50,857,268)	72,881,480
Earned premiums	(199,375,311)	58,698,052	(140,677,259)
<b>Balance as at end of the year</b>	<b>23,117,961</b>	<b>(6,938,696)</b>	<b>16,179,265</b>

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

**11. PREMIUM RECEIVABLES, NET**

	<b>2014</b>	<b>2013</b>
Premiums receivable	57,421,270	93,122,098
Less : Impairment against doubtful receivables	(32,415,115)	(28,113,360)
	<b>25,006,155</b>	<b>65,008,738</b>

	<b><i>Total</i></b>	<b><i>Neither past due nor impaired</i></b>	<b><i>Past due but not impaired</i></b>	<b><i>Past due and impaired</i></b>
<b>31 December 2014</b>	<b>57,421,270</b>	<b>1,064,886</b>	<b>23,941,269</b>	<b>32,415,115</b>
31 December 2013	93,122,098	22,998,312	42,010,426	28,113,360

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

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**12. DEFERRED POLICY ACQUISITION COSTS**

	<u>2014</u>	<u>2013</u>
Balance as at beginning of the year	9,620,528	7,027,284
Paid during the year	15,313,876	23,141,633
Amortised during the year	(20,565,781)	(20,548,389)
<b>Balance as at end of the year</b>	<b>4,368,623</b>	<b>9,620,528</b>

**13. GENERAL AND ADMINISTRATION EXPENSES**

**Insurance Operations**

	<u>2014</u>	<u>2013</u>
Employee costs	27,478,699	32,936,069
Office rent	3,362,407	4,831,927
Legal and professional fees	2,647,879	2,416,749
Depreciation	1,985,259	2,097,771
Information technology and communications	1,268,518	1,856,335
Travel and lodging	272,982	829,846
Office supplies, printing and stationery	260,033	420,717
Marketing, advertising and promotions	77,717	254,011
Others	498,713	850,693
	<b>37,852,207</b>	<b>46,494,118</b>

**Shareholders' Operations**

	<u>2014</u>	<u>2013</u>
Employee costs	247,100	468,650
Regulatory and other fees	220,000	220,000
Information technology and communications	81,510	120,550
Travel and lodging	52,526	3,250
Executive committee expenses	46,500	418,500
Legal and professional fees	1,500	214,500
Others	14	1,615
	<b>649,150</b>	<b>1,447,065</b>



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**14. STATUTORY DEPOSIT**

As required by Saudi Arabian Insurance Regulations, the Company is required to deposit 10% of its paid up capital, amounting to SR 20 million (31 December 2013: SR 20 million), within three months from the date of the issuance of the license in a bank designated by SAMA. The statutory deposit is maintained with a local bank and can be withdrawn only with the consent of SAMA.

**15. SHARE CAPITAL**

The authorised and issued capital of the Company as at 31 December 2014 is SAR 200 million (31 December 2013: SR 200 million) consisting of 20 million (31 December 2013: 20 million) shares of SAR 10 each.

**16. OPERATING SEGMENTS**

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

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

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

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

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

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**16. SEGMENTAL INFORMATION (Continued)**

**a) Statement of results for insurance operations**

	For the year ended 31 December 2014					
	<i>Medical</i>	<i>Motor</i>	<i>Marine</i>	<i>Engineering</i>	<i>Others</i>	<i>Total</i>
Gross written premiums	25,603,580	62,791,558	15,626,622	9,821,056	9,895,932	123,738,748
Reinsurance premiums ceded	(18,916,850)	(2,156,500)	(12,786,627)	(9,448,228)	(7,549,063)	(50,857,268)
Net written premiums	6,686,730	60,635,058	2,839,995	372,828	2,346,869	72,881,480
Net changes in unearned premiums	49,849,118	16,049,527	861,160	182,609	853,365	67,795,779
Net earned premiums	56,535,848	76,684,585	3,701,155	555,437	3,200,234	140,677,259
Reinsurance commission earned	4,269,562	--	4,319,611	3,446,341	2,832,899	14,868,413
Policy fee, net	6,100	48,580	41,960	3,400	22,435	122,475
<b>Total underwriting revenue</b>	<b>60,811,510</b>	<b>76,733,165</b>	<b>8,062,726</b>	<b>4,005,178</b>	<b>6,055,568</b>	<b>155,668,147</b>
<b>EXPENSES</b>						
Gross claims paid	(35,774,756)	(59,726,278)	(5,532,225)	(12,844,849)	(2,500,041)	(116,378,149)
Reinsurance share of claims paid	5,754,912	145,000	4,314,836	12,252,572	2,045,996	24,513,316
<b>Net claims paid</b>	<b>(30,019,844)</b>	<b>(59,581,278)</b>	<b>(1,217,389)</b>	<b>(592,277)</b>	<b>(454,045)</b>	<b>(91,864,833)</b>
Net changes in outstanding claims and other technical reserves	4,682,333	(6,936,928)	(567,369)	(438,246)	(5,044,929)	(8,305,139)
<b>Net claims incurred</b>	<b>(25,337,511)</b>	<b>(66,518,206)</b>	<b>(1,784,758)</b>	<b>(1,030,523)</b>	<b>(5,498,974)</b>	<b>(100,169,972)</b>
Policy acquisition costs	(5,476,295)	(9,512,019)	(2,118,452)	(1,851,086)	(1,607,929)	(20,565,781)
Other underwriting expenses, net	(1,001,705)	(2,174,296)	(641,116)	(505,860)	(345,582)	(4,668,559)
Impairment allowance against doubtful and salvage receivables	(3,683,443)	(11,721,162)	--	--	--	(15,404,605)
Impairment against doubtful other receivables (Unallocated)	--	--	--	--	--	(3,150,000)
<b>Underwriting expenses</b>	<b>(35,498,954)</b>	<b>(89,925,683)</b>	<b>(4,544,326)</b>	<b>(3,387,469)</b>	<b>(7,452,485)</b>	<b>(143,958,917)</b>
<b>Underwriting surplus / (deficit) before administration expenses and other income</b>	<b>25,312,556</b>	<b>(13,192,518)</b>	<b>3,518,400</b>	<b>617,709</b>	<b>(1,396,917)</b>	<b>11,709,230</b>
Unallocated income						221,623
Unallocated expenses						(37,852,207)
<b>Net deficit from insurance operations</b>						<b>(25,921,354)</b>

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**16. SEGMENTAL INFORMATION (Continued)**

**a) Statement of results for insurance operations (continued)**

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

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**16 SEGMENTAL INFORMATION (Continued)**

**b) Insurance operation assets and liabilities**

	At 31 December 2014					
	Medical	Motor	Marine	Engineering	Others	Total
<b>Insurance operations assets</b>						
Reinsurers' share of unearned premium	2,359,521	--	168,553	2,808,595	1,602,027	6,938,696
Reinsurers' share of outstanding claims and other technical reserves	8,168,119	2,005,790	2,229,362	6,476,219	2,050,481	20,929,971
Deferred policy acquisition cost	262,370	2,533,834	523,520	577,493	471,406	4,368,623
Allocated assets	10,790,010	4,539,624	2,921,435	9,862,307	4,123,914	32,237,290
Unallocated assets						140,475,653
<b>Total insurance operations assets</b>						172,712,943
<b>Insurance operations liabilities</b>						
Unearned premium reserves	3,370,744	13,954,198	237,856	2,982,520	2,572,643	23,117,961
Outstanding claims and other technical reserves	23,979,472	50,917,984	3,634,952	7,462,591	8,385,201	94,380,200
Unearned commission income	626,224	--	928,057	759,360	473,586	2,787,227
Allocated liabilities	27,976,440	64,872,182	4,800,865	11,204,471	11,431,430	120,285,388
Unallocated liabilities						52,427,555
<b>Total insurance operations liabilities</b>						172,712,943
	At 31 December 2013					
	Medical	Motor	Marine	Engineering	Others	Total
<b>Assets – insurance operations</b>						
Reinsurers' share of unearned premium	--	--	3,603,338	6,608,484	4,567,658	14,779,480
Reinsurers' share of outstanding claims and other technical reserves	1,032,564	1,832,490	3,247,335	10,026,829	7,479,173	23,618,391
Deferred policy acquisition cost	3,598,577	3,603,919	568,171	1,041,553	808,308	9,620,528
Allocated assets	4,631,141	5,436,409	7,418,844	17,676,866	12,855,139	48,018,399
Unallocated assets						182,080,156
<b>Total insurance operations assets</b>						230,098,555
<b>Liabilities – insurance operations</b>						
Unearned premium reserves	50,860,341	30,003,725	4,533,801	6,965,018	6,391,639	98,754,524
Outstanding claims and other technical reserves	21,526,250	43,807,756	4,085,556	10,574,955	8,768,964	88,763,481
Unearned commission income	--	--	1,138,765	1,731,384	1,259,869	4,130,018
Allocated liabilities	72,386,591	73,811,481	9,758,122	19,271,357	16,420,472	191,648,023
Unallocated liabilities						38,450,532
<b>Total insurance operations liabilities</b>						230,098,555



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**17. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

<b>31 December 2014</b>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>Quoted investments</i>				
Equities	<b>17,662,180</b>	--	--	<b>17,662,180</b>
Other quoted investments	--	<b>18,579,957</b>	--	<b>18,579,957</b>
Unquoted equities	--	--	<b>1,923,078</b>	<b>1,923,078</b>
	<b>17,662,180</b>	<b>18,579,957</b>	<b>1,923,078</b>	<b>38,165,215</b>
<b>31 December 2013</b>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>Quoted investments</i>				
Equities	24,039,071	--	--	24,039,071
Other quoted investments	--	18,098,221	--	18,098,221
Unquoted equities	--	--	1,923,078	1,923,078
	24,039,071	18,098,221	1,923,078	44,060,370

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

**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK**

**Risk governance**

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

**Risk management structure**

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

**Board of directors**

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

**Senior management**

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

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

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

**a. Insurance risk**

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

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

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

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

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

**b. Reinsurance risk**

In order to minimize financial exposure arising from large claims, the Company, in the normal course of business, has entered into agreements for reinsurance purposes. The medical policies for 2014 were covered through a proportional treaty arrangement. Motor policies are protected by an excess of loss treaty. Marine, Engineering and other policies have been reinsured on a quota share, surplus and facultative basis.

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

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

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

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**b. Reinsurance risk (continued)**

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

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

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. As shown in Note 9(ii) the Company has reduced its outstanding claims and other technical reserves by the expected recoveries from reinsurers as of 31 December 2014 by SR 20,929,971 (31 December 2013: SR 23,618,391).

**Frequency and severity of claims**

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

**Concentration of insurance risk**

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

Class	2014				2013			
	Outstanding claims and other technical reserves		Unearned premium reserves		Outstanding claims and other technical reserves		Unearned premium reserves	
	<u>Gross (%)</u>	<u>Net (%)</u>	<u>Gross (%)</u>	<u>Net (%)</u>	<u>Gross (%)</u>	<u>Net (%)</u>	<u>Gross (%)</u>	<u>Net (%)</u>
Medical	25	22	15	6	24	32	52	61
Motor	54	67	60	86	49	64	30	36
Marine	4	2	1	-	5	1	5	1
Engineering	8	1	13	1	12	1	7	-
Others	9	9	11	7	10	2	6	2

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

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

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**Sources of uncertainty in estimation of future claim payments**

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

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

**Process used to decide on assumptions**

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

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



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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**Sensitivity analysis**

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

	<b>Net results</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Impact of + 10 percent</b>		
Medical	<b>1,581,135</b>	2,049,368
Motor	<b>4,891,219</b>	4,197,527
Marine	<b>140,559</b>	83,822
Engineering	<b>98,637</b>	54,813
Others	<b>633,472</b>	128,979
	<b><u>7,345,022</u></b>	<u>6,514,509</u>
<b>Impact of - 10 percent</b>		
Medical	<b>(1,581,135)</b>	(2,049,368)
Motor	<b>(4,891,219)</b>	(4,197,527)
Marine	<b>(140,559)</b>	(83,822)
Engineering	<b>(98,637)</b>	(54,813)
Others	<b>(633,472)</b>	(128,979)
	<b><u>(7,345,022)</u></b>	<u>(6,514,509)</u>

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**Claim development**

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

<b>Accident year</b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>Total</u></b>
Estimate of ultimate claim loss								
- At end of accident year	4,082,592	90,784,794	237,726,795	165,208,719	158,769,666	60,068,116	<b>114,190,065</b>	<b>830,830,747</b>
- One year later	4,404,490	84,757,395	221,855,015	137,708,659	200,039,011	108,225,001	--	<b>648,764,570</b>
- Two year later	3,804,215	83,281,810	218,054,031	113,191,147	95,238,141	--	--	<b>513,569,344</b>
- Three year later	--	84,231,233	219,212,203	133,677,427	--	--	--	<b>437,120,863</b>
- Four year later	--	85,552,920	218,755,519	--	--	--	--	<b>304,308,439</b>
Current estimate of cumulative claims	--	82,229,639	218,755,519	133,677,427	95,238,141	108,225,001	<b>114,190,065</b>	<b>752,315,792</b>
Cumulative payments to date	--	82,228,081	217,927,940	131,610,485	91,863,914	82,861,799	<b>51,443,373</b>	<b>657,935,592</b>
Liability recognised in the statement of financial position	--	1,558	827,578	2,066,942	3,374,227	25,363,202	<b>62,746,693</b>	<b>94,380,200</b>

**c. Market risk**

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

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

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

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

*Currency risk*

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

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

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

*Commission rate risk*

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

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

	<b>Carrying Amount</b>	
	<b>2014</b>	<b>2013</b>
<b>Fixed rate instruments</b>		
Financial assets	<b>21,242,822</b>	<b>81,077,351</b>

Presently, the Company does not hold any variable Saudi Inter Bank Offer Rate (SIBOR) based return bearing instruments that expose the Company to commission rate risk.

The Company does not have any commission based financial liabilities as at 31 December 2014.

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

<b>2014</b>					
<b>Financial assets - Insurance Operations</b>	<b>Commission bearing</b>			<b>Non-Commission bearing</b>	<b>Total</b>
	<b>&lt; 1 Year</b>	<b>1-5 Years</b>	<b>&gt; 5 Years</b>		
Cash and Bank balance	--	--	--	75,336,852	75,336,852
Premiums receivable, net	--	--	--	25,006,155	25,006,155
Reinsurers' balance receivable	--	--	--	3,247,153	3,247,153
Reinsurers' share of technical reserves	--	--	--	20,929,971	20,929,971
Other assets	--	--	--	5,563,931	5,563,931
	-	--	--	<b>130,084,062</b>	<b>130,084,062</b>

<b>2014</b>					
<b>Financial assets – Shareholders' Operations</b>	<b>Commission bearing</b>			<b>Non-Commission bearing</b>	<b>Total</b>
	<b>&lt; 1 Year</b>	<b>1-5 Years</b>	<b>&gt; 5 Years</b>		
Cash and Bank balance	--	--	--	13,127,451	13,127,451
Statutory deposit	21,242,822	--	--	--	21,242,822
Investments – available for sale	--	--	--	38,165,215	38,165,215
Other Assets	--	--	--	14,812	14,812
	<b>21,242,822</b>	--	--	<b>51,307,478</b>	<b>72,550,300</b>

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

*Commission rate risk (Continued)*

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

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

*Other Price Risk*

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

The Company's investments amounting to SAR 38.2 million are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

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

	Fair value	Price change	Effect on profit and loss	Effect on Shareholders' equity
<b>31 December 2014</b>	10% increase	<b>3,624,214</b>	<b>557,869</b>	<b>2,890,933</b>
	10% decrease	<b>(3,624,214)</b>	<b>(557,869)</b>	<b>(2,890,933)</b>
31 December 2013	10% increase	4,213,729	--	4,009,785
	10% decrease	(4,213,729)	--	(4,009,785)

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.

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**d. Credit risk**

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

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

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

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

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

	<b>2014</b>	2013
<b><u>Assets - Insurance Operations</u></b>		
Bank balances	<b>75,336,852</b>	78,582,401
Premiums receivables, net	<b>25,006,155</b>	65,008,738
Reinsurers' balance receivable	<b>3,247,153</b>	1,295,054
Reinsurers' share of technical reserves	<b>20,929,971</b>	23,618,391
Other assets	<b>5,563,931</b>	11,991,009
	<b>130,084,062</b>	180,495,593
<b><u>Assets - Shareholders' Operations</u></b>		
Bank balances	<b>13,127,451</b>	31,568,966
Statutory deposit	<b>21,242,822</b>	21,077,351
Investments	<b>38,165,215</b>	18,098,221
Loans receivable	--	500,000
Other assets	<b>14,812</b>	1,448,663
	<b>72,550,300</b>	72,693,201

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

**Rating**

	<b>2014</b>	2013
AA-	<b>88,464,303</b>	110,151,367
A+	<b>21,242,822</b>	21,077,351
	<b>109,707,125</b>	131,228,718

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**d. Credit risk (Continued)**

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

<b><u>Rating</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
AA+	<b>7,042,313</b>	6,999,291
A or A above	<b>11,537,644</b>	11,098,930
	<b><u>18,579,957</u></b>	<b><u>18,098,221</u></b>

*Concentration of credit risk*

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

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

	<b><u>2014</u></b>		<b><u>2012</u></b>	
	<b><u>SR</u></b>	<b><u>%</u></b>	<b><u>SR</u></b>	<b><u>%</u></b>
Banks	<b>109,707,125</b>	<b>54</b>	131,228,718	52
Financial Institutions	<b>42,757,080</b>	<b>21</b>	43,511,666	17
Services & Contracting	<b>17,268,315</b>	<b>9</b>	28,815,564	11
Others	<b>32,901,842</b>	<b>16</b>	49,632,846	20
	<b><u>202,634,362</u></b>	<b><u>100</u></b>	<b><u>253,188,794</u></b>	<b><u>100</u></b>

**e. Liquidity risk**

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

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



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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**e. Liquidity risk (Continued)**

*Maturity Profile*

	2014			
	Less than one year	1 to 5 Years	No fixed maturity	Total
<b>Financial assets - Insurance Operations</b>				
Cash and Bank balance	75,336,852	--	--	75,336,852
Premiums receivable, net	25,006,155	--	--	25,006,155
Reinsurers' balance receivable	3,247,153	--	--	3,247,153
Reinsurers' share of technical reserves	20,929,971	--	--	20,929,971
Other assets	5,563,931	--	--	5,563,931
	<b>130,084,062</b>	<b>--</b>	<b>--</b>	<b>130,084,062</b>
	Less than one year	1 to 5 Years	No fixed maturity	Total
<b>Financial assets – Shareholders' Operations</b>				
Cash and Bank balance	13,127,451	--	--	13,127,451
Statutory deposit	--	--	21,242,822	21,242,822
Investments – available for sale	38,165,215	--	--	38,165,215
Other Assets	14,812	--	--	14,812
	<b>51,307,478</b>	<b>--</b>	<b>21,242,822</b>	<b>72,550,300</b>
	2013			
	Less than one year	1 to 5 Years	No fixed maturity	Total
<b>Financial assets - Insurance Operations</b>				
Cash and Bank balance	78,582,401	--	--	78,582,401
Premiums receivable, net	65,008,738	--	--	65,008,738
Reinsurers' balance receivable	1,295,054	--	--	1,295,054
Reinsurers' share of technical reserves	23,618,391	--	--	23,618,391
Other assets	11,991,009	--	--	11,991,009
	<b>180,495,593</b>	<b>--</b>	<b>--</b>	<b>180,495,593</b>
	Less than one year	1 to 5 years	No fixed maturity	Total
<b>Financial assets – Shareholders' Operations</b>				
Cash and Bank balance	31,568,966	--	--	31,568,966
Statutory deposit	--	--	21,077,351	21,077,351
Investments – available for sale	44,060,370	--	--	44,060,370
Loan receivable	--	--	500,000	500,000
Other Assets	1,448,663	--	--	1,448,663
	<b>77,077,999</b>	<b>--</b>	<b>21,577,351</b>	<b>98,655,350</b>

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

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

	2014			
	Less than one year	1 to 5 years	No fixed maturity	Total
<b>Financial liabilities - Insurance Operations</b>				
Reinsurer balances payable	6,291,258	--	--	6,291,258
Accrued expenses and other liabilities	42,256,826	--	--	42,256,826
Outstanding claims and other technical reserves	94,380,200	--	--	94,380,200
End-of-service Indemnities	--	--	3,879,471	3,879,471
	<b>142,928,284</b>	<b>--</b>	<b>3,879,471</b>	<b>146,807,755</b>
<b>Financial liabilities - Shareholders' Operations</b>				
Accrued expenses and other liabilities	292,525	--	--	292,525
	<b>292,525</b>	<b>--</b>	<b>--</b>	<b>292,525</b>
	2013			
	Less than one year	1 to 5 years	No fixed maturity	Total
<b>Financial liabilities - Insurance Operations</b>				
Reinsurer balances payable	3,065,270	--	--	3,065,270
Accrued expenses and other liabilities	31,814,206	--	--	31,814,206
Outstanding claims and other technical reserves	88,763,481	--	--	88,763,481
End-of-service Indemnities	--	--	3,571,056	3,571,056
	<b>123,642,957</b>	<b>--</b>	<b>3,571,056</b>	<b>127,214,013</b>
<b>Financial liabilities - Shareholders' Operations</b>				
Accrued expenses and other liabilities	364,525	--	--	364,525
	<b>364,525</b>	<b>--</b>	<b>--</b>	<b>364,525</b>

**f. Operational risk**

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

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

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*(Amount in Saudi Riyals)*

**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**f. Operational risk (continued)**

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

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

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

**g. Regulatory framework risk**

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

**19. CAPITAL MANAGEMENT**

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

As per relevant regulatory requirements, the Company need to maintain solvency margins equal to its share capital after the end of its third year of operations. As at 31 December 2014, the Company's solvency margin is below the limit prescribed by SAMA. The Board of Directors and management is in the process of taking necessary steps to ensure that solvency requirements are complied with.

Furthermore, the Capital Market Authority's (CMA) Board has issued its decision on 12 Dhul Qadah 1435 corresponding to (7 September 2014) to suspend trading the shares of the Company in the Saudi Stock Exchange (Tadawul) starting from 12 Dhul Qadah 1435 (corresponding to 7 September 2014) until the company discloses the financial impact of prohibiting it from issuing or renewing any kind of insurance policies. Also the Company has to correct its position in regard to the decision received from SAMA as required by the related rules and regulations. Based on that the CMA will look into whether to continue or discontinue suspending the trading of the shares.

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**20. COMMITMENTS AND CONTINGENCIES**

***a. Legal proceedings and regulations***

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

***b. Capital commitments***

The Company has entered in to a tenancy contract with Messers Hamdi Tha'li Mesaimer Al-Otaibi on 20 March 2014 for a period of 15 years. Rental payments have been stipulated to be paid at the start of each year beginning with SAR 3 million for the first, rising 10% every five years. The agreement amounted to SAR 49.7 million.

**21. RECLASSIFICATION**

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

**22. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 19 February 2015 corresponding to 30 Rabi Al-Thani 1436.