BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 2013

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2013

INDEX	PAGE

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Al Bassam
Certified Public Accountants & Consultants

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

SCOPE OF AUDIT:

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

UNQUALIFIED OPINION:

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

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

EMPHASIS OF A MATTER:

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

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18 Rabi Thani 1435H
(18 February 2014)

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Note	*2013* *SR*	*2012* *SR*
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	6	**121,530,428**	83,841,589
Premiums and reinsurance balances receivable, net	8(a)	**27,750,263**	31,743,493
Due from shareholders' operations		**3,288,847**	6,231,910
Available for sale investments	12(i)(a)	**-**	8,050,824
Reinsurers' share of outstanding claims	10(a)	**38,766,004**	27,789,918
Prepayments and other assets	7	**10,271,255**	4,932,541
Deferred policy acquisition costs	9(a)	**10,531,345**	8,172,281
Reinsurers' share of unearned premiums	9(b)	**28,037,312**	21,636,698
Held to maturity investment	12(i)(c)	**8,000,000**	-
Property and equipment, net	11	**3,299,017**	4,460,391
TOTAL INSURANCE OPERATIONS' ASSETS		**251,474,471**	196,859,645
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	**13,523,880**	33,870,831
Available for sale investments	12(ii)(a)	**56,381,037**	34,540,378
Prepayments and other assets	7	**261,032**	836,300
Statutory deposit		**13,157,101**	13,110,708
TOTAL SHAREHOLDERS' ASSETS		**83,323,050**	82,358,217
TOTAL ASSETS		**334,797,521**	279,217,862

The accompanying notes 1 to 26 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2013

	Note	2013 SR	2012 SR
INSURANCE OPERATIONS' LIABILITIES & SURPLUS			
INSURANCE OPERATIONS' LIABILITIES			
Gross outstanding claims	10(a)	**84,727,336**	65,459,524
Reinsurance and insurance balances payable	14	**21,968,981**	24,309,413
Accrued expenses and other liabilities	16	**8,545,707**	7,374,974
Employees' end of service benefits	17	**2,061,031**	1,480,899
Unearned reinsurance commission	9(c)	**3,805,866**	3,621,073
Gross unearned premiums	9(b)	**124,830,264**	91,952,351
Other reserves		**4,802,146**	2,652,159
TOTAL INSURANCE OPERATIONS' LIABILITIES		**250,741,331**	196,850,393
INSURANCE OPERATIONS' SURPLUS			
Accumulated surplus		**733,140**	-
Changes in fair values of available for sale investments	12(i)(b)	**-**	9,252
TOTAL INSURANCE OPERATIONS' LIABILITIES & SURPLUS		**251,474,471**	196,859,645
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Zakat payable	19	**7,364,263**	7,069,613
Accrued expenses and other liabilities	16	**2,152,540**	1,828,987
Due to a related party	15	**36,244**	8,207
Due to insurance operations		**3,288,847**	6,231,910
TOTAL SHAREHOLDERS' LIABILITIES		**12,841,894**	15,138,717
SHAREHOLDERS' EQUITY			
Share capital	18	**130,000,000**	130,000,000
Accumulated losses		**(58,728,974)**	(63,766,512)
Change in fair values of available for sale investments	12(ii)(b)	**(789,870)**	986,012
TOTAL SHAREHOLDERS' EQUITY		**70,481,156**	67,219,500
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		**83,323,050**	82,358,217
TOTAL LIABILITIES AND EQUITY		**334,797,521**	279,217,862

The accompanying notes 1 to 26 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE COMPREHENSIVE OPERATIONS

For the year ended 31 December 2013

	Note	*2013* *SR*	*2012* *SR*
Gross written premiums	9 (b)	**279,283,805**	233,540,257
Reinsurance premiums ceded	9 (b)	**(75,499,465)**	(48,029,284)
Excess of loss premiums	9 (b)	**(5,046,810)**	(8,827,530)
NET PREMIUMS WRITTEN		**198,737,530**	176,683,443
Movement in unearned premiums, net	9 (b)	**(26,477,299)**	(37,791,727)
NET PREMIUMS EARNED	9 (b)	**172,260,231**	138,891,716
Reinsurance commission income	9 (c)	**14,145,154**	11,441,970
Policy fees		**6,513,376**	2,638,665
TOTAL REVENUES		**192,918,761**	152,972,351
Gross claims paid	10 (a)	**(130,216,178)**	(106,410,851)
Reinsurance share of claims paid	10 (a)	**22,162,976**	8,257,195
NET CLAIMS PAID		**(108,053,202)**	(98,153,656)
Movement in outstanding claims, net	10 (a)	**(8,291,726)**	(20,333,446)
Movement in other reserves	10 (a)	**(2,149,987)**	(207,496)
NET CLAIMS INCURRED		**(118,494,915)**	(118,694,598)
Policy acquisition costs	9 (a)	**(22,854,674)**	(20,680,763)
Inspection and supervision fees		**(2,251,094)**	(1,337,301)
Third party administrator fees		**(4,161,975)**	(421,743)
Other underwriting expenses		**(1,134,605)**	(657,457)
TOTAL UNDERWRITING COSTS		**(148,897,263)**	(141,791,862)
NET UNDERWRITING SURPLUS		**44,021,498**	11,180,489
General and administrative expenses	20	**(37,809,687)**	(31,836,378)
(Reversal of) allowance for doubtful debts	8(c)	**(49,592)**	2,277,933
Special commission income from time deposits	6	**700,508**	585,650
Special commission income from investments		**567,264**	69,613
Realized loss from available for sale investments		**(98,740)**	-
Gain (loss) on disposal of property and equipment		**149**	(28)
SURPLUS (DEFICIT) FROM INSURANCE OPERATIONS		**7,331,400**	(17,722,721)
(Surplus) deficit transferred to shareholders' operations		**(6,598,260)**	17,722,721
NET RESULT FOR THE YEAR		**733,140**	-
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED SUBSEQUENTLY TO INCOME:			
Realised loss on available for sale investments transferred to income		**98,740**	-
Change in fair values of available for sale investments	12(i)(b)	**(98,740)**	9,252
Total comprehensive income for the year		**733,140**	9,252

The accompanying notes 1 to 26 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS

For the year ended 31 December 2013

	Note	***2013*** ***SR***	*2012* *SR*
Surplus (deficit) transferred from insurance operations		**6,598,260**	(17,722,721)
EXPENSES			
General and administrative	20	**(2,190,890)**	(2,417,042)
INCOME (LOSS) FROM OPERATIONS		**4,407,370**	(20,139,763)
Special commission income from time deposits	6	**288,488**	321,687
Special commission income from available for sale investments		**1,134,241**	1,194,212
Realized gain from available for sale investments		**1,613,253**	840,823
INCOME (LOSS) BEFORE ZAKAT		**7,443,352**	(17,783,041)
Zakat	19	**(2,405,814)**	(1,217,266)
NET INCOME (LOSS) FOR THE YEAR		**5,037,538**	(19,000,307)
OTHER COMPREHENSIVE INCOME (LOSS) TO BE RECLASSIFIED SUBSEQUENTLY TO INCOME:			
Realized gain from available for sale investments transferred to income		**(1,613,253)**	(840,823)
Change in fair values of available for sale investments	12(ii)(b)	**(162,629)**	1,931,732
Other comprehensive (loss) income for the year		**(1,775,882)**	1,090,909
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**3,261,656**	(17,909,398)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (AFTER ZAKAT) FOR THE YEAR	21	**0.39**	(1.46)

The accompanying notes 1 to 26 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2013

	Share Capital SR	*Accumulated losses SR*	*Change in fair value of available for sale investments SR*	*Total SR*
2012				
Balance as at 1 January 2012	130,000,000	(44,766,205)	(104,897)	85,128,898
Net loss for the year	-	(19,000,307)	-	(19,000,307)
Other comprehensive income for the year	-	-	1,090,909	1,090,909
Total comprehensive (loss) income for the year	-	(19,000,307)	1,090,909	(17,909,398)
Balance as at 31 December 2012	130,000,000	(63,766,512)	986,012	67,219,500
2013				
Balance as at 1 January 2013	**130,000,000**	**(63,766,512)**	**986,012**	**67,219,500**
Net income for the year	-	**5,037,538**	-	**5,037,538**
Other comprehensive loss for the year	-	-	**(1,775,882)**	**(1,775,882)**
Total comprehensive income (loss) for the year	-	**5,037,538**	**(1,775,882)**	**3,261,656**
Balance as at 31 December 2013	**130,000,000**	**(58,728,974)**	**(789,870)**	**70,481,156**

The accompanying notes 1 to 26 form part of these financial statements.

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2013

	Note	*2013* *SR*	*2012* *SR*
OPERATING ACTIVITIES			
Net result for the year		**733,140**	(17,722,721)
Adjustments for:			
Surplus transferred to shareholders' operations		**6,598,260**	-
Depreciation	11	**2,063,002**	1,827,744
Provision for employees' end of service benefits	17	**750,837**	734,060
(Reversal of) allowance for doubtful debts	8	**49,592**	(2,277,933)
Special commission income from time deposits		**(700,508)**	(585,650)
Special commission income from investments		**(567,264)**	(69,613)
Realized loss from available for sale investments		**98,740**	-
(Gain) loss on disposal of property and equipment		**(149)**	28
Net surplus (deficit) before changes in operating assets and liabilities		**9,025,650**	(18,094,085)
Changes in operating assets and liabilities:			
Premiums and reinsurance balances receivable		**3,943,638**	8,305,949
Prepayments and other assets		**(5,338,714)**	(3,615,919)
Reinsurers' share of outstanding claims		**(10,976,086)**	(11,367,884)
Deferred policy acquisition costs		**(2,359,064)**	(556,100)
Reinsurers' share of unearned premiums		**(6,400,614)**	(8,832,466)
Gross outstanding claims		**19,267,812**	31,701,329
Reinsurance and insurance balances payable		**(2,340,432)**	8,773,309
Accrued expenses and other liabilities		**1,170,733**	3,366,818
Unearned reinsurance commission		**184,793**	210,723
Gross unearned premiums		**32,877,913**	46,624,193
Other reserves		**2,149,987**	207,496
Cash from operating activities		**41,205,616**	56,723,363
Employees' end of service benefits paid	17	**(170,705)**	(46,582)
Net cash from operating activities		**41,034,911**	56,676,781
INVESTING ACTIVITIES			
Purchase of property and equipment	11	**(903,339)**	(1,065,000)
Purchase of available for sale investments	12(i)(b)	**(2,398,868)**	(8,041,572)
Proceeds from sale of available for sale investments	12(i)(b)	**10,440,440**	-
Purchase of held to maturity investments	12(i)(c)	**(8,000,000)**	-
Special commission income from time deposits		**700,508**	585,650
Special commission income from investments		**567,264**	69,613
Realized loss from available for sale investments		**(98,740)**	-
Proceeds from disposal of property and equipment		**1,860**	5,025
Net cash from (used in) investing activities		**309,125**	(8,446,284)
FINANCING ACTIVITY			
Due from shareholders' operations		**(3,655,197)**	(62,496)
Net cash used in financing activity		**(3,655,197)**	(62,496)

...continued on page 8

The accompanying notes 1 to 26 form part of these financial statements.

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS (continued)

For the year ended 31 December 2013

...........continued from page 7

	Note	*2013* *SR*	*2012* *SR*
INCREASE IN CASH AND CASH EQUIVALENTS		**37,688,839**	48,168,001
Cash and cash equivalents at beginning of the year		**83,841,589**	35,673,588
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**121,530,428**	83,841,589
***Non-cash transactions*:**			
Transfer of surplus (deficit) to shareholders' comprehensive operations		**6,598,260**	(17,722,721)
Net change in fair value of available for sale investments	12(i)(b)	-	9,252

BURUJ COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' CASH FLOWS
For the year ended 31 December 2013

	Note	2013 SR	2012 SR
OPERATING ACTIVITIES			
Income (loss) before zakat		**7,443,352**	(17,783,041)
Adjustments for:			
(Surplus) deficit transferred from insurance operations		**(6,598,260)**	17,722,721
Special commission income from time deposits		**(288,488)**	(321,687)
Special commission income from available for sale investments		**(1,134,241)**	(1,194,212)
Realized gain from available for sale investments		**(1,613,253)**	(840,823)
Net deficit before changes in operating assets and liabilities		**(2,190,890)**	(2,417,042)
Changes in operating assets and liabilities:			
Prepayments and other assets		**575,268**	(13,952)
Statutory deposit		**(46,393)**	(110,708)
Accrued expenses and other liabilities		**323,553**	(40,324)
Due to a related party		**28,037**	(66,497)
Cash used in operations		**(1,310,425)**	(2,648,523)
Zakat paid	19	**(2,111,164)**	-
Net cash used in operating activities		**(3,421,589)**	(2,648,523)
INVESTING ACTIVITIES			
Special commission income from time deposits		**288,488**	321,687
Special commission income from available for sale investments		**1,134,241**	1,194,212
Purchase of available for sale investments	12(ii)(b)	**(48,877,553)**	(19,025,330)
Proceeds from sale of available for sale investments	12(ii)(b)	**26,874,265**	20,586,908
Net cash (used in) from investing activities		**(20,580,559)**	3,077,477
FINANCING ACTIVITY			
Due to insurance operations		**3,655,197**	62,496
Net cash from financing activity		**3,655,197**	62,496
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(20,346,951)**	491,450
Cash and cash equivalents at the beginning of the year		**33,870,831**	33,379,381
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	**13,523,880**	33,870,831
Non-cash transactions:			
Transfer of (surplus) deficit from insurance operations		**(6,598,260)**	17,722,721
Net change in fair values of available for sale investments	12(ii)(b)	**(1,775,882)**	1,090,909

The accompanying notes 1 to 26 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Buruj Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010280606 dated 10 Safar 1431H, corresponding to 26 January 2010. The registered office address of the Company is P O Box 51855, Riyadh 11553, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed on the Tadawul (the Saudi Arabian Stock Market) on 15 February 2010.

The Company was licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree numbered 72/M dated 28 Shawal 1429H (corresponding to 29 October 2008), pursuant to Council of Ministers resolution numbered 313 dated 27 Shawal 1429H (corresponding to 28 October 2008). On 10 Muharram 1431H (corresponding to 27 December 2009), the Ministry of Commerce and Industry issued a resolution declaring the incorporation of the Company.

On 15 Jumada Thani 1431H (corresponding to 29 May 2010), the Saudi Arabian Monetary Agency ("SAMA") issued a formal approval to transact insurance business.

The Company launched its insurance operations on 1 July 2010 after receipt of an authorization from SAMA to commence insurance operations as product approval and related formalities were completed.

2 BASIS OF PREPARATION

The accompanying financial statements have been prepared on the historical cost basis, except for the measurement at fair value of "available for sale investments".

Statement of compliance
The financial statements of the Company have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS").

As required by Saudi Arabian insurance regulations, the Company maintains separate books of accounts for Insurance 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.

Functional and presentational currency
The functional and presentation currency of the Company is Saudi Riyals.

Transfer of deficit / surplus
The Company is required to distribute 10% of the net surplus from insurance operations to policyholders and the remaining 90% to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency ("SAMA"). Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

The insurance operations resulted in a surplus for the year ended 31 December 2013 (deficit for the year ended 31 December 2012). Accordingly, 90% of the net surplus amounting to SR 6.6 million (31 December 2012: entire deficit of SR 17.7 million) has been transferred to the shareholders' operations.

3A CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND AMENDMENTS ISSUED

The Company applied, for the first time, certain standards and amendments during the year ended 31 December 2013. These include IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. This has resulted in changes to presentation and additional disclosures in the accompanying financial statements.

3A CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND AMENDMENTS ISSUED (continued)

Changes in accounting policies (new and amended standards and interpretations)
Several other amendments were applied for the first time in 2013. However, they did not impact the financial statements of the Company. The nature and the impact of each new standards and amendments with a significant impact on the Company's financial statements is described below:

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

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 12.

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

IAS 1 Clarification of the requirement for comparative information (Amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2013 in the case of the Company), presented as a result of retrospective restatement, or reclassification of items in financial statements if any, does not have to be accompanied by comparative information in the related notes. As the Company has not restated any prior year figures there has been no impact on the Company's financial statements.

3B STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

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

3B STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company, since none of the entities in the Company would qualify to be an investment entity under IFRS 10.

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

IFRIC Interpretation 21 Levies (IFRIC 21)
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. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Product classification
The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Premiums earned and commission income
Premiums are taken into income and recorded in the statement of insurance comprehensive operations, over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

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

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

Claims
Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to the statement of insurance operations, in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date. The ultimate liability may be in excess of or less than the amount provided.

Any difference between the provisions at reporting date and settlements and provisions in the following year is included in the statement of insurance operations for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

Fair value measurement
The Company measures financial instruments, such as investments in available for sale or derivatives if any, and non-financial assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 13. 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
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 set out above. The Company's management determines the policies and procedures for both recurring fair value measurement, such as available for sale financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation, if any.

External valuers are involved for valuation of significant assets, such as available for sale financial assets if any, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by investment committee after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case. At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The investment committee, in conjunction with the Company's external valuers, also compares at each reporting date, changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the investment committee and the Company's external valuers present the valuation results to the audit committee and the Company's independent auditors. This includes a discussion of the major assumptions used in the valuations.

Liability adequacy test
At each end of reporting period, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities net of related deferred policy acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of insurance comprehensive operations initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy tests, captioned as premium deficiency reserves.

Unearned commission income
Commission income on outwards reinsurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate. Amortisation is recorded in the statement of insurance comprehensive operations.

Statutory deposit
Statutory deposit represents 10% of the paid up capital of the Company which is maintained with a bank designated by SAMA in accordance with The Cooperative Insurance Companies Control Law for insurance companies. This statutory deposit cannot be withdrawn without the consent of SAMA. Accrued interest is included under statutory deposit and accrued expenses and other liabilities.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance
Reinsurance contracts are contracts entered into by the Company with reinsurers under which the Company is compensated for losses on insurance contracts issued.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers on settlement of claims and other receivables such as profit commissions, if any, and reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount.

Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment, if any is recognised in the statement of insurance comprehensive operations.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Property and equipment
Property and equipment are measured at cost less accumulated depreciation. Depreciation is charged to the statement of insurance operations on a straight line basis over the estimated useful lives of the assets. The carrying values of property and equipment are reviewed to determine any 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. Expenditure for repairs and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

Deferred policy acquisition costs
Commissions and other costs directly and indirectly 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. For marine, such costs are deferred on the same basis as premiums are earned. Amortisation is recorded in the statement of insurance comprehensive 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 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 costs are also considered in the liability adequacy test for each reporting period.

Accounts payable and accruals
Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Zakat
Zakat is provided for in accordance with Saudi Arabian fiscal regulations. Zakat is accrued and charged to the statement of shareholders' comprehensive operations.

Employees' end of service benefits
The Company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Leases
Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand and at banks and time deposits with original maturities of less than three months from the date of the acquisition.

Special commission income
Special commission income is recognised on an effective yield basis.

Statutory reserve
In accordance with its by-laws, the Company allocates 20% of its net income of 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 for the year ended 31 December 2013.

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the rates of exchange ruling at the reporting date. All differences are taken to the statement of insurance or shareholders comprehensive operations.

Offsetting
Financial assets and financial 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 liabilities simultaneously. Income and expense are not offset in the statement of insurance or shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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

Impairment and uncollectibility of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of operations. Impairment is determined as follows:

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of operations;

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

c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Segmental 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 products and services and has five reportable operating segments as follows:

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Segmental reporting (continued)

- Motor insurance which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Medical products which provide health care cover to policyholders.
- Property which provides coverage against fire, and any other insurance included under this class of insurance.
- General Accident and liability which provides coverage against accidental death to individual and group of persons under Personal Accident Insurance and insures the interest of employers under Fidelity Guarantee and affords cover for loss or damage under Money and certain public liability insurances.
- Engineering products which provide companies with solutions against unfortunate events with respect to activities undertaken during construction projects.
- Marine products which provide cover for unpredictable events during sea voyage and inland transit with solutions against unfortunate events incidences during travel and transit.

Shareholders' Funds is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations' is allocated to this segment on an appropriate basis. Segment performance is evaluated based on income or loss which, in certain respects, is measured differently from income or loss in the financial statements.

Transfer pricing for intersegment transactions between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segment only.

Investments

All investments are initially recognised at their fair value, including acquisition charges associated with the investment, excluding those held at fair value through income statement. For investments 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 any deduction for transaction costs.

Available for sale investments ("AFS")

Available for sale investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'change in fair values of available for sale investments'. When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the statement of shareholders' comprehensive income. Where the Company holds more than one investment in the same security they are deemed to be disposed of on a 'first in first out' basis. Interest earned whilst holding AFS financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding AFS investments are recognised in the statement of shareholders' comprehensive income when the right of payment has been established. The losses arising from impairment of such investments are recognised in the statement of insurance or shareholders' comprehensive operations.

Held to maturity investments ("HTM")

Held to maturity investments are non-derivative financial assets which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity and are initially measured at amortised cost adjusted by the amount of amortisation of premium or accretion of discount using the effective interest method. Any permanent decline in value of HTM investments is recognised in the statement of insurance operations. Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Company's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer-term nature of these investments.

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the foreseeable future are discussed below.

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that 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 reporting period, for which the insured event has occurred prior to the end of reporting period. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

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

Impairment losses on receivables
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.

Deferred policy acquisition costs
Certain acquisition costs related to sale of new policies are recorded as deferred acquisition costs and are amortised over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment.

Fair value of financial instruments that are not quoted in an active market
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

6 CASH AND CASH EQUIVALENTS

	31 December 2013		31 December 2012	
	Insurance operations SR	*Shareholders' operations SR*	*Insurance operations SR*	*Shareholders' operations SR*
Cash in hand and at banks	**113,655,218**	**13,523,880**	42,279,100	5,770,831
Short term deposits	**7,875,210**	**-**	41,562,489	28,100,000
Cash and cash equivalents	**121,530,428**	**13,523,880**	83,841,589	33,870,831

Short term deposits placed with local banks have an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 1.87% per annum (2012: 1.30%). The carrying amounts disclosed above reasonably approximate their fair values at the reporting date.

Cash at bank and short term deposits are placed with counterparties who have investment grade credit ratings which is equivalent to A+ to A- under Standard and Poor's rating methodology.

7 PREPAYMENTS AND OTHER ASSETS

	31 December 2013		31 December 2012	
	Insurance operations SR	*Shareholders' operations SR*	*Insurance operations SR*	*Shareholders' operations SR*
Accrued income	**2,849,423**	**261,032**	241,823	336,300
Prepaid third party administrator fees	**2,471,658**	**-**	1,075,804	
Prepaid excess of loss premiums	**1,918,167**	**-**	1,698,192	-
Insurance syndicate receivable	**1,178,668**	**-**	913,477	-
Prepaid rent	**721,658**	**-**	574,039	-
Prepaid IT expenses	**437,556**	**-**	121,315	-
Others	**694,125**	**-**	307,891	500,000
	10,271,255	**261,032**	4,932,541	836,300

8 PREMIUMS AND REINSURANCE BALANCES RECEIVABLE, NET

(a) Premiums and reinsurance balances receivable are comprised of the following:

	31 December 2013 SR	*31 December 2012 SR*
Premiums receivable	**34,217,620**	39,041,173
Less: Allowance for doubtful debts	**(7,909,106)**	(7,747,446)
	26,308,514	31,293,727
Reinsurance balances receivable	**2,261,456**	1,381,541
Less: Allowance for doubtful debts	**(819,707)**	(931,775)
	1,441,749	449,766
Total premiums and reinsurance balances receivable, net	**27,750,263**	31,743,493

8 PREMIUMS AND REINSURANCE BALANCES RECEIVABLE, NET (continued)

(b) As at 31 December 2013 and 2012, the ageing of unimpaired balances is as follows:

			Past due but not impaired		
2013	*Total SR*	*Neither past due nor impaired SR*	*91 to 180 days SR*	*181 to 365 days SR*	*More than 365 days SR*
Policyholders	**26,308,514**	**11,087,173**	**5,947,948**	**9,109,566**	**163,827**
Reinsurers	**1,441,749**	**1,129,863**	**36,551**	**2,180**	**273,155**
2012					
Policyholders	31,293,727	17,684,728	7,513,357	5,701,411	394,231
Reinsurers	449,766	18,265	96,997	24,832	309,672

The Company classifies policyholders' and reinsurers' balances as 'past due and impaired' on a case by case basis. An impairment adjustment, if any, is recorded in the statement of insurance comprehensive operations. It is not the practice of the Company to obtain collateral over premiums and reinsurance balances receivables and these are, therefore, unsecured.

The Company does not have an internal credit ratings assessment process. The amounts which are neither past due nor impaired in respect of policyholders balances are from individuals and corporates, which have not been subjected to a rating process by the Company.

Balances due from reinsurers are with counterparties who have investment grade credit ratings which is equivalent to AA+ to BBB under Standard and Poor's rating methodology.

(c) The movement in provision for doubtful policyholders' and reinsurance balances for the years ended 31 December 2013 and 2012 are set out below:

2013	*Policyholders SR*	*Reinsurers' SR*	*Total SR*
Beginning balance	**7,747,446**	**931,775**	**8,679,221**
Charge (reversal) for the year *(statement of insurance operations)*	**161,660**	**(112,068)**	**49,592**
Closing balance	**7,909,106**	**819,707**	**8,728,813**

2012	*Policyholders SR*	*Reinsurers' SR*	*Total SR*
Beginning balance	10,606,789	350,365	10,957,154
Charge for the year *(statement of insurance operations)*	(2,859,343)	581,410	(2,277,933)
Closing balance	7,747,446	931,775	8,679,221

9 MOVEMENT IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED PREMIUMS AND UNEARNED REINSURANCE COMMISSION

(a) DEFERRED POLICY ACQUISITION COSTS

	2013 *SR*	*2012* *SR*
Beginning balance	**8,172,281**	7,616,181
Paid during the year	**25,213,738**	21,236,863
Amortised during the year *(statement of insurance operations)*	**(22,854,674)**	(20,680,763)
Closing balance	**10,531,345**	8,172,281

(b) UNEARNED PREMIUMS

	31 December 2013			*31 December 2012*		
	Gross SR	***Reinsurers' share SR***	***Net SR***	*Gross SR*	*Reinsurers' share SR*	*Net SR*
Beginning balance	**91,952,351**	**(21,636,698)**	**70,315,653**	45,328,158	(12,804,232)	32,523,926
Premiums written during the year (see note below)	**279,283,805**	**(80,546,275)**	**198,737,530**	233,540,257	(56,856,814)	176,683,443
Premiums earned during the year	**(246,405,892)**	**74,145,661**	**(172,260,231)**	(186,916,064)	48,024,348	(138,891,716)
Closing balance	**124,830,264**	**(28,037,312)**	**96,792,952**	91,952,351	(21,636,698)	70,315,653

Note: Reinsurers' share of premiums written during the year include excess of loss premiums of SR 5,046,810 for the year ended 31 December 2013 (2012 : SR 8,827,530).

(c) UNEARNED REINSURANCE COMMISSION

	2013 *SR*	*2012* *SR*
Beginning balance	**3,621,073**	3,410,350
Commission received during the year	**14,329,947**	11,652,693
Commission earned during the year	**(14,145,154)**	(11,441,970)
Closing balance	**3,805,866**	3,621,073

10 CLAIMS

(a) OUTSTANDING CLAIMS

	31 December 2013			*31 December 2012*		
	Gross SR	*Reinsurers' share SR*	*Net SR*	*Gross SR*	*Reinsurers' share SR*	*Net SR*
Outstanding at 31 December	(55,201,641)	26,421,202	(28,780,439)	(40,477,369)	20,968,695	(19,508,674)
Incurred but not reported	(29,525,695)	12,344,802	(17,180,893)	(24,982,155)	6,821,223	(18,160,932)
Total outstanding claims	(84,727,336)	38,766,004	(45,961,332)	(65,459,524)	27,789,918	(37,669,606)
Other reserves	(4,802,146)	-	(4,802,146)	(2,652,159)	-	(2,652,159)
	(89,529,482)	38,766,004	(50,763,478)	(68,111,683)	27,789,918	(40,321,765)
Claims paid during the year	(130,216,178)	22,162,976	(108,053,202)	(106,410,851)	8,257,195	(98,153,656)
Outstanding at 1 January	(40,477,369)	20,968,695	(19,508,674)	(28,199,628)	14,630,481	(13,569,147)
Incurred but not reported	(24,982,155)	6,821,223	(18,160,932)	(5,558,566)	1,791,553	(3,767,013)
Total outstanding claims	(65,459,524)	27,789,918	(37,669,606)	33,758,194	16,422,034	17,336,160
Other reserves	(2,652,159)	-	(2,652,159)	(2,444,663)	-	(2,444,663)
	(68,111,683)	27,789,918	(40,321,765)	(36,202,857)	16,422,034	(19,780,823)
Claims incurred	(151,633,976)	33,139,062	(118,494,914)	(138,319,677)	19,625,079	(118,694,598)

Note
Gross outstanding claims in the statement of financial position include claims outstanding at the reporting date and IBNR. The other reserves which comprise mainly of premium deficiency reserves are disclosed separately in the statement of financial position.

(b) CLAIMS DEVELOPMENT TABLE

Claims triangulation analysis by accident year
The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company launched its insurance operations on 1 July 2010. Accordingly, claims development table has been set out from the year ended 31 December 2010. Additionally, the Company had acquired the insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of Saudi Pearl Insurance Company Limited's (E.C.) as at 1 January 2009. Accordingly, the claims development table includes claims history prior to 31 December 2010 that has been summarised under 31 December 2010 and earlier.

In setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherited in the estimation process, the actual overall claim provision may not always be in surplus.

10 CLAIMS (continued)

(b) CLAIMS DEVELOPMENT TABLE (continued)

GROSS			*2013*		
Accident year	*31 December 2010 and earlier SR*	*31 December 2011 SR*	*31 December 2012 SR*	*31 December 2013 SR*	*Total SR*
Estimate of cumulative claims:					
At end of accident year	43,342,909	48,666,959	139,961,586	156,996,004	-
One year later	44,622,211	52,104,474	138,929,703	-	-
Two years later	42,356,049	49,315,376	-	-	-
Three years later	42,426,913	-	-	-	-
Current estimate of cumulative claims incurred	42,426,913	49,315,376	138,929,703	156,996,004	**387,667,996**
Cumulative payments to date	(41,219,165)	(44,570,466)	(122,366,168)	(94,784,861)	**(302,940,660)**
Total cumulative gross outstanding claims recognised in statement of financial position	1,207,748	4,744,910	16,563,535	62,211,143	**84,727,336**

NET (after considering effect of reinsurance)			*2013*		
Accident year	*31 December 2010 and earlier SR*	*31 December 2011 SR*	*31 December 2012 SR*	*31 December 2013 SR*	*Total SR*
Estimate of cumulative claims:					
At the reporting date	9,416,080	27,780,509	118,882,521	122,125,959	-
One year later	10,021,759	29,144,085	116,898,249	-	-
Two years later	8,997,730	28,144,906	-	-	-
Three years later	9,093,286	-	-	-	-
Current estimate of cumulative claims incurred	9,093,286	28,144,906	116,898,249	122,125,959	**276,262,400**
Cumulative payments to date	(8,484,514)	(27,197,451)	(110,841,796)	(83,777,307)	**(230,301,068)**
Total cumulative gross outstanding claims recognised in statement of financial position	608,772	947,455	6,056,453	38,348,652	**45,961,332**

11 PROPERTY AND EQUIPMENT, NET

The estimated useful lives of property and equipment for the calculation of depreciation are as follows:

Leasehold improvements	10 years	Furniture, fixtures and office equipment	7-10 years
Computer equipment and software	4 years	Motor vehicles	4 years

	Leasehold improvements SR	*Furniture, fixtures and office equipment SR*	*Computer equipment and software SR*	*Motor vehicles SR*	***Total 2013 SR***	*Total 2012 SR*
Cost:						
Beginning balance	2,062,789	1,429,446	6,566,247	317,806	**10,376,288**	9,322,788
Additions during the year	61,540	239,734	602,065	-	**903,339**	1,065,000
Disposals during the year	(48,700)	(5,298)	(17,658)	(3,417)	**(75,073)**	(11,500)
	2,075,629	1,663,882	7,150,654	314,389	**11,204,554**	10,376,288
Accumulated depreciation:						
Beginning balance	883,196	478,834	4,494,884	58,983	**5,915,897**	4,094,600
Charge for the year (note 20)	297,421	168,082	1,518,901	78,598	**2,063,002**	1,827,744
Disposals during the year	(48,700)	(5,296)	(17,657)	(1,709)	**(73,362)**	(6,447)
	1,131,917	641,620	5,996,128	135,872	**7,905,537**	5,915,897
Net book value:						
At 31 December 2013	943,712	1,022,262	1,154,526	178,517	**3,299,017**	
At 31 December 2012	1,179,593	950,612	2,071,363	258,823		4,460,391

12 INVESTMENTS

(i) Insurance operations (Available for sale)

(a) Available for sale ("AFS") investments amounting to SR 8,050,824 as at 31 December 2012, which comprised of a portfolio of quoted debt securities (Sharia'a compliant instruments) issued by sovereign, quasi sovereign, and corporates based in the Gulf Cooperative Council (the "GCC") countries, managed at the discretion of a locally regulated financial institution, were fully sold during the three month period ended 31 December 2013. As at the year end, there were no investments carried under the AFS category in insurance operations.

(b) The movement during the year in AFS was as follows:

	31 December 2013 SR	*31 December 2012 SR*
At the beginning of the year	**8,050,824**	-
Purchased during the year	**2,398,868**	8,041,572
Sold during the year	**(10,440,440)**	-
	9,252	8,041,572
Change in fair values	**(9,252)**	9,252
At the end of the year	-	8,050,824

12 INVESTMENTS (continued)

(i) Insurance operations (Held to maturity)

(c) During the current year, the Company invested SR 8,000,000 in a secured unquoted Sukuk issued by an unquoted company registered in the Kingdom of Saudi Arabia and maturing on 7 April 2015. The rate of return on the Sukuk is calculated based on 3-month Saudi Inter-Bank Offered Rate ("SIBOR") plus a margin of 170 basis points per annum and paid quarterly. This investment has been classified under Held to Maturity ("HTM"). Management is of the opinion that the fair value of the HTM investment as at 31 December 2013 was not materially different from its carrying value.

(ii) Shareholders operations

(a) Available for sale investments of shareholders operations comprise the following:

	Nature of investments	*31 December 2013 SR*	*31 December 2012 SR*
GCC bonds and sukuks	Quoted	**26,185,907**	32,617,300
Units in trading fund	NAV**	**21,194,005**	-
Units in real estate funds	NAV**	**4,782,400**	-
Local equity investment	Quoted	**2,295,647**	-
Unquoted local equity investment	Unquoted	**1,923,078**	1,923,078
		56,381,037	34,540,378

** NAV: Net Asset Value as announced by asset manager.

(b) The movement during the year in available for sale investments are as follows:

	31 December 2013 SR	*31 December 2012 SR*
At the beginning of the year	**34,540,378**	34,170,224
Purchased during the year	**48,877,553**	19,025,330
Sold during the year	**(26,874,265)**	(20,586,908)
	56,543,666	32,608,646
Change in fair values	**(162,629)**	1,931,732
At the end of the year	**56,381,037**	34,540,378

The cumulative change in fair values of available for sale investments for the year ended 31 December 2013 amounting to SR (789,870) (31 December 2012: SR 986,012) is presented within shareholders' equity in the statement of financial position.

*(iii) The analysis of **total investments** (insurance and shareholders' operations) by counterparties is as follows:*

	2013 SR	*2012 SR*
Government and quasi government	**6,236,921**	6,901,206
Banks and financial institutions	**35,208,158**	19,209,865
Corporates	**22,935,958**	16,480,131
Total	**64,381,037**	42,591,202

12 INVESTMENTS (continued)

*(iv) The credit quality of **total investments** (insurance and shareholders' operations) is as follows:*

	2013 *SR*	*2012* *SR*
AA- To AA	**-**	4,398,532
A- To A+	**7,616,238**	12,521,772
BBB- To BBB+	**7,885,455**	13,358,856
Unrated	**48,879,344**	12,312,042
Total	**64,381,037**	42,591,202

Credit ratings are based on Standard and Poor's rating methodology or the issuer in case of unrated investments.

13 DETERMINATION OF FAIR VALUE AND FAIR VALUES HIERARCHY

The following table shows an analysis of financial instruments recorded at fair value (excludes HTM) by level of the fair value hierarchy:

2013	*Level 1* *SR*	*Level 2* *SR*	*Level 3* *SR*	*Total* *SR*
Bonds and sukuks	**20,685,907**	**5,500,000**	**-**	**26,185,907**
Trading and real estate funds	**-**	**25,976,405**	**-**	**25,976,405**
Equities	**2,295,647**	**-**	**1,923,078**	**4,218,725**
	22,981,554	**31,476,405**	**1,923,078**	**56,381,037**
2012				
Bonds and sukuks	35,168,124	5,500,000	-	40,668,124
Equities	-	-	1,923,078	1,923,078
	35,168,124	5,500,000	1,923,078	42,591,202

Transfers between levels

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

During the years ended 31 December 2012 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

There was no recurring fair value measurements categorised within Level 3 of the fair value hierarchy as set out in the table above.

14 REINSURANCE AND INSURANCE BALANCES PAYABLE

	2013 SR	*2012 SR*
Reinsurance balance payable	**11,045,581**	17,192,984
Brokers and salesmen payable	**5,331,463**	5,293,631
Payable to policyholders	**2,498,192**	-
Inspection and supervision fees payable	**1,219,761**	414,570
Surveyor's expenses payable	**1,098,270**	762,768
Other insurance payables	**775,714**	645,460
	21,968,981	24,309,413

15 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

a) *The following are the details of major related party transactions during the year:*

		Amounts of transactions	
Related party	***Nature of transactions***	***31 December 2013 SR***	*31 December 2012 SR*
Shareholders	Gross written premiums	**23,031,875**	20,914,982
	Reinsurance premium ceded	**(2,197,928)**	(3,449,404)
	Gross claims incurred	**(5,020,368)**	(19,074,230)
	General and administrative expenses	**(28,037)**	-
Board of Directors and committees' members	Remuneration, fees and other expenses	**1,653,000**	(1,698,864)
	Gross written premiums	**14,233,123**	10,315,307
	Insurance brokerage contracts	**(3,216,367)**	(2,765,695)

Balances in respect of the above transactions with related parties are included in the relevant account heads in the statements of financial position and comprehensive income.

b) *Compensation of key management personnel*

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

	2013 SR	*2012 SR*
Short-term benefits	**2,816,323**	2,716,680
End of service benefits	**120,204**	127,306
	2,936,527	2,843,986

16 ACCRUED EXPENSES AND OTHER LIABILITIES

	2013		*2012*	
	Insurance operations SR	***Shareholders' operations SR***	*Insurance operations SR*	*Shareholders' operations SR*
Provision for withholding taxes	**1,625,118**	**-**	948,554	-
Employees' related accruals and payables	**2,722,142**	**-**	1,729,323	-
Third party claims payables	**2,220,406**	**-**	2,863,552	-
Accrued minimum deposit premiums	**1,381,322**	**-**	-	-
Professional fees accruals and payables	**368,150**	**-**	470,325	-
Board of directors and committee's remuneration fees and expenses	**-**	**1,871,759**	-	1,718,279
Others	**228,569**	**280,781**	1,363,220	110,708
	8,545,707	**2,152,540**	7,374,974	1,828,987

17 EMPLOYEES' END OF SERVICE BENEFITS

	2013 SR	*2012 SR*
Beginning balance	**1,480,899**	793,421
Charged during the year	**750,837**	734,060
Paid during the year	**(170,705)**	(46,582)
At the end of the year	**2,061,031**	1,480,899

18 SHARE CAPITAL

The authorised, issued and paid up share capital of the Company is SR 130 million divided into 13 million shares of SR 10 each.

19 ZAKAT

Zakat charge for the year is comprised of the following:

	2013 SR	*2012 SR*
Current year charge	**1,761,388**	1,217,266
Prior year adjustments	**644,426**	-
	2,405,814	1,217,266

Movement in provision during the year is set out below:

	2013 SR	*2012 SR*
At the beginning of the year	**7,069,613**	5,852,347
Provided during the year	**2,405,814**	1,217,266
Payments during the year	**(2,111,164)**	-
At the end of the year	**7,364,263**	7,069,613

19 ZAKAT (continued)

The provision for the year is based on the following:

	2013 *SR*	*2012* *SR*
Shareholders' equity	**66,233,488**	85,233,795
Book value of long term assets and statutory deposit	**(18,222,095)**	(19,494,177)
Provisions	**13,467,195**	-
	61,478,588	65,739,618
Adjusted income (loss) for the year	**8,976,920**	(17,048,981)
Zakat base	**70,455,508**	48,690,637

Status of assessments

On review of the zakat return by the Department of Zakat and Income tax ("DZIT") for the long period ended 31 December 2010, a demand of SR 2,256,659 raised by the DZIT. The Company paid this demand and filed an appeal with DZIT.

On review of the zakat return by the DZIT for the year ended 31 December 2011, a demand of SR 2,378,604 has been raised by the DZIT. However, the Company has filed an appeal with the DZIT. This appeal is in progress. The final assessment has not yet been carried out by the DZIT.

On review of the zakat return by the DZIT for the year ended 31 December 2012, an additional demand of SR 544,407 has been raised by the DZIT. However, the Company has filed an appeal with the DZIT. This appeal is in progress. The final assessment has not yet been carried out by the DZIT.

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2013		*2012*	
	Insurance operations SR	***Shareholders' operations SR***	*Insurance operations SR*	*Shareholders' operations SR*
Employees' salaries and costs	**25,243,413**	-	21,304,080	-
Office rent	**3,252,338**	-	2,187,893	-
Withholding taxes	**3,105,787**	-	1,881,430	
Depreciation (note 11)	**2,063,002**	-	1,827,744	-
Legal and professional fees	**1,173,025**	-	1,427,189	-
Utilities and telecommunications	**1,012,971**	-	891,041	-
Information technology expenses	**711,728**	-	775,702	-
Stationery and office supplies	**549,852**	-	736,455	-
Board of Directors and committees remuneration fees and expenses	-	**1,653,000**	-	1,782,864
Listing fees	-	**220,000**	-	220,000
Others	**697,571**	**317,890**	804,844	414,178
	37,809,687	**2,190,890**	31,836,378	2,417,042

21 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted loss per share (after zakat) for the year has been calculated by dividing the net income (loss) for the year by the ordinary issued and outstanding shares at the year end of 13 million shares.

22 RISK MANAGEMENT

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

Risk management structure
A cohesive organisational 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 the Company's pre-defined risk appetite.

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

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

a) Insurance risk
Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property and fire, general accident, engineering, motor, medical and marine risks.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Company issues short term insurance policies in connection with property, general accident and liability, motor and marine risks. These are regarded as short-term insurance contracts as mainly claims are advised and settled within one year of the insured event taking place and therefore it is unlikely to have significant reserve movements (see note on Engineering). This helps to mitigate insurance risk. The insurance risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company only underwrites comprehensive polices for owner/drivers over 21 years of age.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover for such damage to limit the losses for any individual claim to SR 500,000 (2012: SR 500,000).

Property
For property insurance contracts the main risks are fire and business interruption. The Company only underwrites policies for properties containing fire detection equipment. These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to SR 500,000 (2012: SR 500,000).

22 RISK MANAGEMENT (continued)

a) Insurance risk (continued)

General accident and liability
For general accident contracts, the various insurance covers provided by the Company can be broadly classified under Personal Accident (excluding illness), Fidelity Guarantee, and Cash in Transit, Cash in Premises, Cash in Safe, Public Liability, Workmen's Compensation, and the like. These insurances afford protection for business enterprises towards loss or damage to person, property and interest giving cover per collusion accumulation as well. The Company has reinsurance cover for such damage to limit losses for any individual claim to SR 500,000 (2012: SR 500,000).

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim to SR 500,000 (2012: SR 500,000).

Engineering
For engineering the main risks is loss or damage to buildings and civil work under construction like erection for plant or equipment and their related testing and commissioning. Engineering policies extend beyond annual periods in respect of tenure. The Company mitigates such risks by recognition of lower earned premiums during the first year of long-term policies and reinsures significant risks by undertaking treaty, facultative as well as excess of loss reinsurance arrangements.

The underwriting policy is to ensure that construction all risks are comprehensive in terms of documentation of specific coverage and the risks are well diversified. Engineering all risks cover normally plant and machinery erection and is usually extended beyond erection to include testing and commissioning. The Company has reinsurance cover to limit losses for any individual claim to SR 500,000 (2012: SR 500,000).

Sensitivity analysis
The general insurance claims provision is sensitive to the above key assumptions. A hypothetical 10% change in the net claims ratio would impact income by approximately SR 11,849,491 (2012: SR 11,869,460) annually in aggregate.

b) Reinsurance risk
In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk arising from similar geographic regions, activities and economic characteristics of reinsurers.

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure for outstanding claims in this connection is:

	2013 *SR*	*2012* *SR*
Europe	**15,213,161**	13,193,608
Middle East including Kingdom of Saudi Arabia	**11,208,041**	7,775,087
Reinsurers' share of outstanding claims (note 10(a))	**26,421,202**	20,968,695

22 RISK MANAGEMENT (continued)

c) Special commission rate risk
Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its cash and cash equivalents. The sensitivity of the income is the effect of assumed changes in special commission rates, with all other variables held constant, on the Company's income for one year, based on the floating rate financial assets held at 31 December 2013. The Company had a single floating rate HTM investment as at 31 December 2013 (2012 SR nil) and the impact on the net income for this investment is not expected to be significant.

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. For all classes of financial instruments held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position. The following policies and procedures are in place to mitigate the Company' exposure to credit risk:

- To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. Accordingly, as a pre-requisite, the parties with whom reinsurance is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company seeks to manage its credit risk with respect to policyholders by setting credit limits for individual customers and by monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by the management. Accordingly, as a pre-requisite, the bank with whom cash and cash equivalents are maintained is required to have a minimum acceptable security rating level affirming its financial strength.
- As a pre-requisite, the Company deals with only those reinsurers who have a credit rating of not less than BBB. These credit ratings are monitored on a yearly basis.

The table below shows the maximum exposure to credit risk for the significant components of the statement of financial position.

	2013		*2012*	
	Insurance' operations	***Shareholders' operations***	*Insurance' operations*	*Shareholders' operations*
Assets				
Cash at banks and time deposits	**121,421,807**	**13,523,880**	83,756,816	33,870,831
Reinsurers' share of outstanding claims	**38,766,004**	**-**	27,789,918	-
Premiums and reinsurance balances receivable, net	**27,750,263**	**-**	31,743,493	-
Investments	**8,000,000**	**56,381,037**	8,050,824	34,540,378
Other assets	**4,380,818**	**261,032**	1,155,300	836,300
Statutory deposit	**-**	**13,157,101**	-	13,110,708
	200,318,892	**83,323,050**	152,496,351	82,358,217

e) Liquidity risk

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

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

Maturity profiles
The table below summarises the expected maturity profile of the financial assets and financial liabilities of the Company as of the reporting date. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities.

22 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

	31 December 2013					
	Insurance operations			*Shareholders' operations*		
	Up to one year SR	*No term SR*	*Total SR*	*Up to one year SR*	*No term SR*	*Total SR*
ASSETS						
Statutory deposit	-	-	-	-	13,157,101	13,157,101
Prepayments and other assets	9,092,587	1,178,668	10,271,255	261,032	-	261,032
Reinsurers' share of outstanding claims	38,766,004	-	38,766,004	-	-	-
Premiums and reinsurance balances receivable, net	27,750,263	-	27,750,263	-	-	-
Due from shareholders' operations	3,288,847	-	3,288,847	-	-	-
Available for sale investments	-	-	-	54,457,959	1,923,078	56,381,037
Cash and cash equivalents	121,530,428	-	121,530,428	13,523,880	-	13,523,880
TOTAL ASSETS	200,428,129	1,178,668	201,606,797	68,242,871	15,080,179	83,323,050

Held to maturity investment amounting to SR 8,000,000 (2012 : SR nil) is expected to mature on 7 April 2015.

	31 December 2013					
	Insurance operations			*Shareholders' operations*		
	Up to one year SR	*No term SR*	*Total SR*	*Up to one year SR*	*No term SR*	*Total SR*
LIABILITIES						
Gross outstanding claims	84,727,336	-	84,727,336	-	-	-
Due to a related party	-	-	-	36,244	-	36,244
Employees' end of service benefits	-	2,061,031	2,061,031	-	-	-
Reinsurance and insurance balances Payable	21,968,981	-	21,968,981	-	-	-
Zakat payable	-	-	-	7,364,263	-	7,364,263
Accrued expenses and other liabilities	8,545,707	-	8,545,707	2,152,540	-	2,152,540
Due to insurance operations	-	-	-	3,288,847	-	3,288,847
TOTAL LIABILITIES	115,242,024	2,061,031	117,303,055	12,841,894	-	12,841,894

22 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

	31 December 2012					
	Insurance operations			*Shareholders' operations*		
	Up to one year SR	*No term SR*	*Total SR*	*Up to one year SR*	*No term SR*	*Total SR*
ASSETS						
Statutory deposit	-	-	-	-	13,110,708	13,110,708
Prepayments and other assets	4,019,064	913,477	4,932,541	336,300	500,000	836,300
Reinsurers' share of outstanding claims	27,789,918	-	27,789,918	-	-	-
Premiums and reinsurance balances receivable, net	31,743,493	-	31,743,493	-	-	-
Due from insurance operations	-	6,231,910	6,231,910	-	-	-
Available for sale investments	8,050,824	-	8,050,824	32,617,300	1,923,078	34,540,378
Cash and cash equivalents	83,841,589	-	83,841,589	33,870,831	-	33,870,831
TOTAL ASSETS	155,444,888	7,145,387	162,590,275	66,824,431	15,533,786	82,358,217

	31 December 2012					
	Insurance operations			*Shareholders' operations*		
	Up to one year SR	*No term SR*	*Total SR*	*Up to one year SR*	*No term SR*	*Total SR*
LIABILITIES						
Gross outstanding claims	65,459,524	-	65,459,524	-	-	-
Due to a related party	-	-	-	8,207	-	8,207
Employees' end of service benefits	-	1,480,899	1,480,899	-	-	-
Reinsurance and insurance balances Payable	24,309,413	-	24,309,413	-	-	-
Zakat payable	-	-	-	7,069,613	-	7,069,613
Accrued expenses and other liabilities	7,374,974	-	7,374,974	1,828,987	-	1,828,987
Due to shareholders' operations	-	-	-	-	6,231,910	6,231,910
TOTAL LIABILITIES	97,143,911	1,480,899	98,624,810	8,906,807	6,231,910	15,138,717

Liquidity profile
None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all contractually payable on the basis as set out above.

f) Currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in Saudi Riyals or currencies pegged to the Saudi Riyal.

22 RISK MANAGEMENT (continued)

g) Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument 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 has investments in quoted 'sukuks', fixed rate bonds and domestic quoted equities (see note 12 (ii)(a)), which have been classified under 'available for sale' investments. The Company limits its market price risks by closely monitoring developments in markets in which such investments are quoted. A 5% change in the market price of these quoted investments, with all other variables held constant, would change the 'other comprehensive income' and consequently 'shareholders' equity (for investments held under shareholders' operations) by SR 1.15 million (2012: SR 1.63 million) and insurance operations' surplus (for investments held under insurance operations) by SR Nil (2012: SR 0.40 million).

h) Capital management

The Company manages its capital to ensure that it is able to continue as going concern and comply with SAMA's capital requirements in the Kingdom of Saudi Arabia while maximising the return to stakeholders through the equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital and reserves.

The operations of the Company are subject to local regulatory requirements within the jurisdiction 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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

The Company is currently reassessing its capital needs to maintain sufficient liquid resources and accordingly comply with the prescribed requirements for maintaining solvency margins.

i) Fair values of financial instruments

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Company include cash and cash equivalents, statutory deposit, investments, premiums and reinsurance balances receivables, and reinsurers' share of outstanding claims; its financial liabilities consist of gross outstanding claims, reinsurance and insurance balances payable, accrued expenses and other liabilities. Accounting policies for financial assets and liabilities are set out in note 4.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

23 SEGMENT INFORMATION

Consistent with the Company's internal reporting process, operating segments have been approved by Management in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include general and administrative expenses, allowance for doubtful debts, special commission income on term deposits and AFS investments, gain or loss on property, plant and equipment and investments.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, premiums and reinsurance balances receivable and cash and cash equivalents. Accordingly they are included in unallocated assets. Segment liabilities do not include insurance operations' due to shareholders operations, employees' end-of-service benefits, and reinsurance and insurance balances payable, accrued expenses and other liabilities. Accordingly they are included in unallocated liabilities.

23 SEGMENT INFORMATION (continued)

Operating segments

For the year ended 31 December 2013	***Property SR***	***Motor SR***	***Marine SR***	***Medical SR***	***Others SR***	***Total SR***
Gross written premiums	19,796,422	137,559,211	17,661,108	92,591,087	11,675,977	279,283,805
Reinsurance premiums ceded	(18,466,670)	(1,124,278)	(12,614,644)	(33,022,934)	(10,270,939)	(75,499,465)
Excess of loss premiums	(111,390)	(3,829,147)	(925,069)	-	(181,204)	(5,046,810)
Net premiums written	1,218,362	132,605,786	4,121,395	59,568,153	1,223,834	198,737,530
Movement in unearned premiums, net	(66,582)	(6,543,618)	168,058	(20,503,356)	468,199	(26,477,299)
Net premiums earned	1,151,780	126,062,168	4,289,453	39,064,797	1,692,033	172,260,231
Reinsurance commission income	3,932,090	84,197	4,607,519	2,679,716	2,841,632	14,145,154
Policy fees	14,965	6,300,606	185,025	-	12,780	6,513,376
Total revenues	5,098,835	132,446,971	9,081,997	41,744,513	4,546,445	192,918,761
Net claims paid	(1,354,044)	(102,440,177)	(1,091,740)	(2,812,903)	(354,338)	(108,053,202)
Movement in outstanding claims, net	(579,615)	(3,794,670)	1,645,982	(4,954,615)	(608,808)	(8,291,726)
Movement in other reserves, net	-	(2,149,987)	-	-	-	(2,149,987)
Net claims incurred	(1,933,659)	(108,384,834)	554,242	(7,767,518)	(963,146)	(118,494,915)
Policy acquisition costs	(1,779,377)	(11,935,104)	(1,307,032)	(6,639,018)	(1,194,143)	(22,854,674)
Inspection and supervision fees	(55,154)	(680,190)	(81,047)	(1,388,866)	(45,837)	(2,251,094)
Third party administrator fees	-	-	-	(4,161,975)	-	(4,161,975)
Other underwriting expenses	(133,950)	(865,655)	-	(135,000)	-	(1,134,605)
Total underwriting costs	(3,902,140)	(121,865,783)	(833,837)	(20,092,377)	(2,203,126)	(148,897,263)
Net underwriting surplus	1,196,695	10,581,188	8,248,160	21,652,136	2,343,319	44,021,498
Unallocated expenses						(37,859,279)
Unallocated income						1,169,181
Surplus from insurance operations						7,331,400

23 SEGMENT INFORMATION (continued)

Operating segments

For the year ended 31 December 2012	*Property SR*	*Motor SR*	*Marine SR*	*Medical SR*	*Others SR*	*Total SR*
Gross written premiums	13,561,486	167,346,570	19,608,914	21,393,520	11,629,767	233,540,257
Reinsurance premiums ceded	(12,515,615)	(1,040,701)	(13,480,624)	(11,323,928)	(9,668,416)	(48,029,284)
Excess of loss premiums	(164,424)	(7,843,834)	(733,362)	-	(85,910)	(8,827,530)
Net premiums written	881,447	158,462,035	5,394,928	10,069,592	1,875,441	176,683,443
Movement in unearned premiums, net	(78,808)	(30,763,917)	311,599	(7,198,574)	(62,027)	(37,791,727)
Net premiums earned	802,639	127,698,118	5,706,527	2,871,018	1,813,414	138,891,716
Reinsurance commission income	2,713,919	(7,135)	6,644,759	-	2,090,427	11,441,970
Policy fees	11,920	2,391,583	221,097	-	14,065	2,638,665
Total revenues	3,528,478	130,082,566	12,572,383	2,871,018	3,917,906	152,972,351
Net claims paid	(111,965)	(96,595,369)	(977,732)	(69,593)	(398,997)	(98,153,656)
Movement in outstanding claims, net	(357,167)	(16,317,213)	(3,204,944)	(752,894)	298,772	(20,333,446)
Movement in other reserves, net	-	(207,496)	-	-	-	(207,496)
Net claims incurred	(469,132)	(113,120,078)	(4,182,676)	(822,487)	(100,225)	(118,694,598)
Policy acquisition costs	(1,283,092)	(16,467,200)	(1,678,784)	(462,797)	(788,890)	(20,680,763)
Inspection and supervision fees	(45,102)	(830,751)	(90,594)	(320,903)	(49,951)	(1,337,301)
Third party administrator fees	-	-	-	(421,743)	-	(421,743)
Other underwriting expenses	(38,350)	(619,107)	-	-	-	(657,457)
Total underwriting costs	(1,835,676)	(131,037,136)	(5,952,054)	(2,027,930)	(939,066)	(141,791,862)
Net underwriting surplus (deficit)	1,692,802	(954,570)	6,620,329	843,088	2,978,840	11,180,489
Unallocated expenses						(29,558,473)
Unallocated income						655,263
Deficit from insurance operations						(17,722,721)

23 SEGMENT INFORMATION (continued)

Operating segments
As at 31 December 2013

	Property SR	*Motor* SR	*Marine* SR	*Medical* SR	*Others* SR	*Total* SR
ASSETS						
Reinsurers' share of unearned premiums	5,809,175	528,453	2,524,448	13,492,819	5,682,417	28,037,312
Reinsurers' share of outstanding claims	13,043,722	3,409,224	5,738,083	8,464,853	8,110,122	38,766,004
Deferred policy acquisition costs	564,176	5,034,139	200,747	4,035,325	696,958	10,531,345
SEGMENT ASSETS	19,417,073	8,971,816	8,463,278	25,992,997	14,489,497	77,334,661
Unallocated assets						174,139,810
TOTAL ASSETS						251,474,471
LIABILITIES						
Gross unearned premiums	6,210,209	67,531,706	3,541,530	41,194,749	6,352,070	124,830,264
Gross outstanding claims	14,606,052	37,509,757	8,848,068	14,172,362	9,591,097	84,727,336
Unearned reinsurance commission	1,312,149	39,634	919,126	-	1,534,957	3,805,866
Other reserves	100,000	4,702,146	-	-	-	4,802,146
SEGMENT LIABILITIES	22,228,410	109,783,243	13,308,724	55,367,111	17,478,124	218,165,612
Unallocated liabilities						33,308,859
TOTAL LIABILITIES						251,474,471

Operating segments
As at 31 December 2012

	Property SR	*Motor* SR	*Marine* SR	*Medical* SR	*Others* SR	*Total* SR
ASSETS						
Reinsurers' share of unearned premiums	4,265,932	523,650	2,424,444	8,120,441	6,302,231	21,636,698
Reinsurers' share of outstanding claims	9,903,179	3,256,534	7,699,615	1,770,492	5,160,098	27,789,918
Deferred policy acquisition costs	473,208	5,549,561	223,290	1,193,456	732,766	8,172,281
SEGMENT ASSETS	14,642,319	9,329,745	10,347,349	11,084,389	12,195,095	57,598,897
Unallocated assets						139,260,748
TOTAL ASSETS						196,859,645
LIABILITIES						
Gross unearned premiums	4,600,384	60,983,285	3,609,584	15,319,015	7,440,083	91,952,351
Gross outstanding claims	10,885,894	33,562,397	12,455,582	2,523,385	6,032,266	65,459,524
Unearned reinsurance commission	1,056,962	39,510	904,390	-	1,620,211	3,621,073
Other reserves	100,000	2,552,159	-	-	-	2,652,159
SEGMENT LIABILITIES	16,643,240	97,137,351	16,969,556	17,842,400	15,092,560	163,685,107
Unallocated liabilities						33,174,538
TOTAL LIABILITIES						196,859,645

24 CONTINGENCIES AND COMMITMENTS

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. The Company did not have any significant outstanding legal proceedings as at the reporting date.

b) Operating lease commitments

The minimum future lease payments for the use of the Company's premises total SR 3,130,630 payable during 2014 (2013: SR 2,559,770).

25 COMPARATIVE FIGURES

Captions and amounts under 'reinsurance and insurance balances payable' (note 14) and 'accrued expenses and other liabilities' (note 16) have been amended and reclassified to conform to the presentation in the current year. The aggregate amounts of notes 14 and 16 remain unchanged.

26 APPROVAL OF THE FINANCIAL STATEMENTS

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