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UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

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

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

**SCOPE OF AUDIT**

We have audited the accompanying statement of financial position of United Cooperative Assurance Company – A Saudi Joint Stock Company ('the Company') as at 31 December 2014 and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, statement of insurance operations cash flows and statement of shareholders' operations cash flows for the year then ended and the related notes 1 to 28 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards ("IFRS") and the provisions of Article 123 of the Saudi Regulations for Companies and presented 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**UNQUALIFIED OPINION**

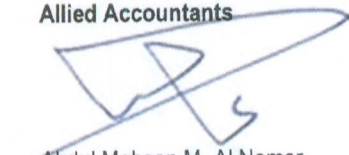
In our opinion, the financial statements taken as a whole:

1. Present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and the results of its operations and its cash flows for the year then ended in accordance with IFRSs; and
2. Comply in all material respects, with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

**EMPHASIS OF MATTER**


We draw attention to note 2 to the accompanying financial statements that these financial statements have been prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

**PKF Al-Bassam & Al-Nemer**  
Allied Accountants

  
Abdul Mohsen M. Al Nemer  
Certified Public Accountant  
Registration No. 399



**Deloitte & Touche**  
Bakr Abulkhair & Co.

  
Al-Mutahhar Y. Hamiduddin  
Certified Public Accountant  
License No. 296



24 February 2015  
5 Jamad Al-Awwal 1436H  
Jeddah, Kingdom of Saudi Arabia

**UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

At 31 December 2014

	Note	2014 SR'000	2013 SR'000
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	5	73,642	86,018
Available-for-sale investments	6	56,276	54,858
Premiums receivable, net	7	354,777	411,024
Reinsurance receivables, net	8	5,459	8,830
Reinsurers' share of unearned premiums	13	165,936	123,901
Reinsurers' share of outstanding claims	15	100,845	114,716
Deferred policy acquisition cost	9	13,985	7,117
Prepayments and other receivables	10	87,468	84,811
Due from shareholders' operations		164,499	86,610
Furniture, fittings and office equipment	11	4,468	6,849
<b>Total insurance operations' assets</b>		<b>1,027,355</b>	<b>984,734</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	5	58,056	92,486
Available-for-sale investments	6	182,204	165,017
Prepayments and other receivables		2,798	878
Goodwill	1	78,400	78,400
Statutory deposit	21	28,000	28,000
<b>Total shareholders' assets</b>		<b>349,458</b>	<b>364,781</b>
<b>TOTAL ASSETS</b>		<b>1,376,813</b>	<b>1,349,515</b>

The accompanying notes 1 to 28 form part of these financial statements.

**UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION – (continued)**

At 31 December 2014

	Note	2014 SR'000	2013 SR'000
<b>INSURANCE LIABILITIES AND SURPLUS</b>			
<b>Insurance operations' liabilities</b>			
Reinsurance payables		128,588	190,992
Unearned commission income	12	29,443	25,437
Unearned premiums	13	431,188	375,450
Premium deficiency reserve	14	-	13,727
Unexpired risk reserve		3,282	-
Claims handling provision		2,405	-
Catastrophe reserve		500	500
Outstanding claims	15	350,692	296,662
Payables to policy holders		20,853	29,425
Accrued and other payables	16	27,051	22,439
Employees' terminal benefits		11,974	9,085
Total insurance operations' liabilities		<u>1,005,976</u>	<u>963,717</u>
<b>Insurance operations' surplus</b>			
Accumulated surplus from insurance operations		21,258	21,258
Available-for-sale investments reserve	6	121	(241)
Total insurance operations' liabilities and surplus		<u>1,027,355</u>	<u>984,734</u>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Shareholders' liabilities</b>			
Accrued and other payables		1,400	1,059
Due to a financial institution	17	18,750	18,750
Due to a related party	25	270	270
Due to insurance operations		164,499	86,610
Accrued zakat and income tax	18	11,176	21,929
Total shareholders' liabilities		<u>196,095</u>	<u>128,618</u>
<b>Shareholders' equity</b>			
Share capital	19	280,000	280,000
Statutory reserve	20	31,944	31,944
Accumulated losses		(160,460)	(76,627)
Available-for-sale investments reserve	6	1,879	846
Total shareholders' equity		<u>153,363</u>	<u>236,163</u>
Total shareholders' liabilities and equity		<u>349,458</u>	<u>364,781</u>
<b>TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<u><u>1,376,813</u></u>	<u><u>1,349,515</u></u>

The accompanying notes 1 to 28 form part of these financial statements.

**UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 SR'000	2013 SR'000
<b>Revenues</b>			
Gross premiums written		1,165,152	1,292,975
Less: Reinsurance premiums ceded		(361,618)	(413,749)
Excess of loss premiums		(7,424)	(5,959)
Net written premiums		796,110	873,267
Changes in net unearned premiums	13	(13,703)	(6,544)
Net premiums earned		782,407	866,723
Reinsurance commission received	12	42,825	47,361
<b>Net revenues</b>		<b>825,232</b>	<b>914,084</b>
<b>Cost and expenses</b>			
Gross claims paid	15	822,594	865,472
Less: Reinsurers' share	15	(96,508)	(64,710)
Net claims paid		726,086	800,762
Changes in net outstanding claims		67,901	68,446
Net claims incurred	15	793,987	869,208
Policy acquisition cost	9	21,299	23,951
Premium deficiency reserve	14	(13,727)	13,727
Unexpired risk reserve		3,282	(1,421)
Claims handling provision		2,405	-
Catastrophe reserve		-	500
<b>Net cost and expenses</b>		<b>807,246</b>	<b>905,965</b>
<b>Net result of insurance operations</b>		<b>17,986</b>	<b>8,119</b>
General and administrative expenses	23	(102,020)	(99,613)
Supervision and inspection fee		(5,828)	(4,423)
CCHI fee		(1,758)	(983)
Investment income		7,368	4,718
Release of doubtful debts provision	7, 8	-	5,450
<b>Deficit from insurance operations</b>		<b>(84,252)</b>	<b>(86,732)</b>
Shareholders' share of insurance operations deficit		84,252	86,732
Surplus for the year		-	-
Accumulated surplus at the beginning of the year		21,258	21,258
<b>Accumulated surplus at the end of the year</b>		<b>21,258</b>	<b>21,258</b>

The accompanying notes 1 to 28 form part of these financial statements.

**UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' OPERATIONS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 SR'000	2013 SR'000
<b>Revenues</b>			
Shareholders' share of insurance operations deficit		(84,252)	(86,732)
Commission income		3,409	3,237
Investment income		98	8
Realised gain on investments		2,978	7,750
		<u>(77,767)</u>	<u>(75,737)</u>
<b>EXPENSES</b>			
General and administrative expenses	23	1,362	1,503
Board remunerations	25	1,169	1,016
		<u>2,531</u>	<u>2,519</u>
<b>NET LOSS FOR THE YEAR</b>		<u>(80,298)</u>	<u>(78,256)</u>
Weighted average number of ordinary shares outstanding ('000)	22	<u>28,000</u>	<u>28,000</u>
Loss per share for the year – basic and diluted (SR)	22	<u>(2.87)</u>	<u>(2.79)</u>

UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2014

	<i>Note</i>	<b>2014 SR'000</b>	<b>2013 SR'000</b>
Net loss for the year		<b>(80,298)</b>	(78,256)
<b>Other comprehensive income</b>			
Change in fair value of available-for-sale investments	6	<b>1,033</b>	616
<b>Other expenses</b>			
Zakat and income tax	18	<b>(3,535)</b>	(5,882)
Total comprehensive loss for the year		<b><u>(82,800)</u></b>	<b><u>(83,522)</u></b>



The accompanying notes 1 to 28 form part of these financial statements.



**UNITED COOPERATIVE ASSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

*For the year ended 31 December 2014*

	Saudi founding shareholders and general public				Non-Saudi founding shareholders				Total			
	Share capital	Accumulated losses	Statutory reserve	Available-for-sale investments reserve	Share capital	Accumulated losses	Statutory reserve	Available-for-sale investments reserve	Share capital	Accumulated losses	Statutory reserve	Available-for-sale investments reserve
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance as at 31 December 2013	274,400	(74,972)	31,306	829	5,600	(1,655)	638	17	280,000	(76,627)	31,944	846
Change in fair value of available-for-sale investments (note 6)	-	-	-	1,012	-	-	-	21	-	-	-	1,033
Net loss for the year	-	(78,692)	-	-	-	(1,606)	-	-	-	(80,298)	-	-
Zakat and income tax for the year (note 18)	-	(3,535)	-	-	-	-	-	-	-	(3,535)	-	-
<b>Balance as at 31 December 2014</b>	<b>274,400</b>	<b>(157,199)</b>	<b>31,306</b>	<b>1,841</b>	<b>5,600</b>	<b>(3,261)</b>	<b>638</b>	<b>38</b>	<b>280,000</b>	<b>(160,460)</b>	<b>31,944</b>	<b>1,879</b>

*For the year ended 31 December 2013*

	Saudi founding shareholders and general public				Non-Saudi founding shareholders				Total			
	Share capital	Accumulated losses	Statutory reserve	Available-for-sale investments reserve	Share capital	Accumulated losses	Statutory reserve	Available-for-sale investments reserve	Share capital	Accumulated losses	Statutory reserve	Available-for-sale investments reserve
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance as at 31 December 2012	196,000	86,262	31,306	225	4,000	1,515	638	5	200,000	87,777	31,944	230
Change in fair value of available-for-sale investments	-	-	-	604	-	-	-	12	-	-	-	616
Net loss for the year	-	(76,691)	-	-	-	(1,565)	-	-	-	(78,256)	-	-
Bonus share issued	78,400	(78,400)	-	-	1,600	(1,600)	-	-	80,000	(80,000)	-	-
Transaction cost – issuance of bonus shares	-	(261)	-	-	-	(5)	-	-	-	(266)	-	-
Zakat and income tax for the year (note 18)	-	(5,882)	-	-	-	-	-	-	-	(5,882)	-	-
<b>Balance as at 31 December 2013</b>	<b>274,400</b>	<b>(74,972)</b>	<b>31,306</b>	<b>829</b>	<b>5,600</b>	<b>(1,655)</b>	<b>638</b>	<b>17</b>	<b>280,000</b>	<b>(76,627)</b>	<b>31,944</b>	<b>846</b>



The accompanying notes 1 to 28 form part of these financial statements.

**UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	2014 SR'000	2013 SR'000
<b>Cash flows from operating activities:</b>		
Surplus for the year from insurance operations	-	-
Adjustment for:		
Depreciation	3,679	4,532
Employees' terminal benefits, net	2,889	1,772
Realised gain on available-for-sale investments	-	(555)
Release of provision for doubtful debts	-	(5,450)
Provision for doubtful receivables	2,086	-
Reinsurers' share of unearned premiums	(42,035)	(32,526)
Unearned premiums	55,738	39,070
Premium deficiency reserve	(13,727)	13,727
Unexpired risk reserve	3,282	(1,421)
Claims handling provision	2,405	-
Catastrophe reserve	-	500
	<u>14,317</u>	<u>19,649</u>
Changes in operating assets and liabilities:		
Premiums receivable	53,924	(124,152)
Reinsurance receivables	3,608	10,910
Reinsurers' share of outstanding claims	13,871	(39,527)
Deferred policy acquisition cost	(6,868)	2,016
Prepayments and other receivables	(2,657)	1,975
Due from shareholders' operations	(77,889)	(86,610)
Reinsurance payables	(62,404)	134,320
Unearned commission income	4,006	8,772
Outstanding claims	54,030	107,973
Payables to policy holders	(8,572)	8,397
Accrued and other payables	4,612	(4,960)
Due to shareholders' operations	-	(22,847)
Net cash flows (used in) / from operating activities	<u>(10,022)</u>	<u>15,916</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of furniture, fittings and office equipment	(1,298)	(2,638)
Purchase of available-for-sale investments	(10,812)	(125,981)
Time deposits	-	90,732
Proceeds from sale of available-for-sale investments	9,756	73,857
Net cash flows (used in) / from investing activities	<u>(2,354)</u>	<u>35,970</u>
<b>(Decrease) / increase in cash and cash equivalents</b>	<u>(12,376)</u>	<u>51,886</u>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>86,018</u>	<u>34,132</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>73,642</u>	<u>86,018</u>
<b>Non-cash transactions</b>		
Change in fair value of available-for-sale investments	<u>362</u>	<u>(258)</u>

The accompanying notes 1 to 28 form part of these financial statements.

**UNITED COOPERATIVE ASSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS OPERATIONS' CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>2014</b>	<b>2013</b>
	<b>SR'000</b>	<b>SR'000</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(80,298)	(78,256)
Adjustment for:		
Realised gain on available-for-sale investments	(2,978)	(7,750)
	<u>(83,276)</u>	<u>(86,006)</u>
Changes in operating assets and liabilities:		
Prepayments and other receivables	(1,920)	(673)
Due from insurance operations	-	22,847
Due from a related party	-	500
Due to insurance operations	77,889	86,610
Accrued and other payables	341	331
Cash (used in) / from operations	<u>(6,966)</u>	<u>23,609</u>
 Zakat and income tax paid	 (14,288)	 (5,772)
Net cash flows (used in) / from operating activities	<u>(21,254)</u>	<u>17,837</u>
 <b>INVESTING ACTIVITIES</b>		
Time deposits	-	166,301
Purchase of available-for-sale-investments	(79,074)	(206,044)
Proceeds from sale of available-for-sale investments	65,898	71,594
Net cash flows (used in) / from investing activities	<u>(13,176)</u>	<u>31,851</u>
 <b>FINANCING ACTIVITIES</b>		
Transaction cost	-	(266)
Statutory deposit	-	(8,000)
Due to a financial institution	-	18,750
Net cash flows from financing activities	<u>-</u>	<u>10,484</u>
 Net (decrease) / Increase in cash and cash equivalents	 (34,430)	 60,172
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>92,486</u>	<u>32,314</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>58,056</u>	<u>92,486</u>
 <b>Non-cash transactions</b>		
Change in fair value of available-for-sale investments	<u>1,033</u>	<u>616</u>

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

United Cooperative Assurance ("the Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030179955 dated 6 Jamad-al-Thani 1429H, corresponding to 6 June 2008. Registered Office address of the Company is Al-Mukmal Centre (1<sup>st</sup> and 4<sup>th</sup> floor) Al Rawdah Street, Khaleidiya District, P. O. Box 5019, Jeddah 21422, Kingdom of Saudi Arabia.

The activities of the Company are to transact cooperative insurance and reinsurance operations and related activities in the Kingdom of Saudi Arabia. On 29 Rabi Al Thani 1429H (5 May 2008), the Company received a license from the Saudi Arabian Monetary Agency ("SAMA") to engage in insurance and reinsurance in Saudi Arabia. The Company started the operations on 1 January 2009.

The Company entered into an agreement with UCA Insurance Bahrain BSC ('the seller') pursuant to which it acquired the sellers insurance operations in the Kingdom of Saudi Arabia, effective from 31 December 2008, at a goodwill amount of SR 78.40 million, as approved by the SAMA, along-with related insurance assets and liabilities of an equivalent amount (SR 656.95 million).

Further, goodwill of SR 78.40 million, as approved by SAMA, and a corresponding liability (payable to the Seller) had retrospectively recorded in financial statements. In accordance with the instructions of SAMA, the initial Instalment (50% of the portfolio price) was to be paid on 31 December 2009 and periodic payments are to be made till the end of 2015, subject to that the payment will not exceed 50% of the surplus available for distribution, after obtaining SAMA's approval before making any such payment. The Company got approval of SAMA on 18 Sha'ban 1432H corresponding to 19 July 2011, for the payment of goodwill for the years 2009 and 2010 amounting to SR 25.12 million and SR 28.32 million respectively. Accordingly, the Company decreased its liability with respect of goodwill by SR 53.44 million. The Company got approval of SAMA on 10 Jammad Al-Awwal 1433H corresponding to 02 April 2012 regarding the payment of remaining goodwill amounting to SR 24.962 million. Accordingly, the Company fully settled its liability with respect of goodwill of SR 24.962 million. The Company also paid fee on goodwill amounting to 5.1 million during the year ended 31 December 2012.

## 2. BASIS OF PREPARATION

### Basis of measurement

The financial statements are prepared under the historical cost convention except measurement of available-for-sale investments which are measured at fair value.

### Statement of compliance

The Company has prepared these financial statements in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, 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.

### Basis of presentation

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. Assets, liabilities, income and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses of joint operations is determined by the management and approved by the Board of Directors.

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

Transfer to Shareholders' operations	90%
Transfer to Policyholders' operations	10%
	<hr/>
	100%

If the insurance operations results in a deficit, the entire deficit is borne by the shareholders' operations.

**Basis of presentation – (continued)**

In accordance with article 70 of the Saudi Arabian Monetary Agency ("SAMA") implementing regulations, the Company must obtain SAMA approval before distribution of policyholders surplus directly to policyholders at a time, and according to criteria set by its board of directors, provided that the customer contract is active and paid up to date at the time of settlement of the cooperative distribution account.

**Functional and presentational currency**

The functional and presentational currency of the Company is Saudi Riyals (SR). The financial statement values are presented in Saudi Riyals, unless otherwise indicated.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Insurance contracts**

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

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

Insurance contracts are principally divided into marine, property, motor, engineering and accident and liability and are principally short term insurance contracts.

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

Accident insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types (a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs. (b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Reinsurance**

In the ordinary course of business, the Company cedes insurance premiums and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' statement of financial position representing premiums due to reinsurers, net of commission income which represents income earned from reinsurance companies, or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties.

The Company assesses its reinsurance assets, if any, for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in the statement of insurance operations and accumulated surplus. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated following the same method used for these financial assets.

**Impairment and uncollectibility of financial assets**

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

- for financial assets at amortized cost, the impairment loss is based on the difference between the present value of future anticipated cash flows and the carrying amount;
- for financial assets at fair value, the impairment loss is based on the decline in fair value; and
- for assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

Significant financial difficulty of the issuer or debtor;

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

**Impairment of non-financial assets**

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

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**Deferred policy acquisition costs**

Direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a pro-rata basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the cost incurred during the last quarter. Amortization is recorded in the statement of insurance operations and accumulated surplus.

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

**(a) Available-for-sale investments**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Such investments are initially recognized at cost and subsequently measured at fair value. Cumulative changes in fair value of investments are shown as a separate component in the statement of financial position and shareholders' comprehensive income. Realized gains or losses on sale of these investments are reported in the related statements of insurance operations and accumulated surplus or shareholders' operations. Dividends, commission income and foreign currency gain/loss on available-for-sale investments are recognized in the statement of shareholders' comprehensive operations.

Any permanent decline in value of investments is adjusted for and reported in the related statements of insurance operations or shareholders' operations as impairment charges.

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

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

**(b) Investments in held to maturity securities**

Investments which have fixed or determined payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of shareholders' operations or statement of insurance operations and accumulated surplus when the investment is derecognized or impaired.

**Trade date accounting**

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

**Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, cash at banks and short term deposits with an original maturity of less than three months at the date of acquisition.

**Goodwill**

Purchase price paid in excess of fair value of net assets is considered as goodwill. Goodwill is tested for impairment by management at least once at the end of each financial year. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in the future periods.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment**

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis based on the following estimated useful lives:

	Years
Motor vehicles	4
Furniture and fittings	4 – 10
Computers and office equipment	4 – 10
Leasehold improvements	5

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

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of shareholders' operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**Provisions for obligations**

Provisions are recognized when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Trade and other payables**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

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

**Foreign currency translation**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are included in the statement of insurance operations and accumulated surplus or shareholders' operations.

**Liability adequacy test**

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

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

**Insurance and other receivables**

Insurance and other receivables are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an provision account, and the amount of the loss is recognized in the statement of insurance operations and accumulated surplus. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Subsequent recoveries, of amounts previously written off are credited in the statement of insurance operations and accumulated surplus. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Employees' terminal benefits**

Employees' terminal benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labour Regulations on termination of their employment contracts. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. Terminal benefits payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Saudi Arabia.

#### **Revenue recognition**

##### *Recognition of premiums and commission revenue*

Gross premiums and commissions on insurance contracts are recognized when the insurance policy is issued. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents last three months of the premiums written during the current financial period.

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:

- At last three month of premiums for marine cargo business as marine cargo policies cover variable periods shorter than one year, in order to spread the premiums earned over the tenure of the insurance policies.
- Engineering business premiums are calculated using the new method as communicated by the regulator assuming that the premiums are earned linearly over time on the basis of increase in risk.
- Actual number of days for other lines of business

##### *Commission income*

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

##### *Dividend income*

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

#### **Claims**

Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses net of salvage recoveries.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on Management's judgment and the Company's experience is maintained for the cost of settling claims incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of insurance operations and accumulated surplus for that year.

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

#### **Salvage and subrogation reimbursements**

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

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### De-recognition of financial instruments

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

#### Leases

Operating lease payments are recognised as an expense in the statement of insurance operations and accumulated surplus on a straight-line basis over the lease term.

#### Zakat and income tax

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

No adjustments are made in the financial statements to account for the effect of deferred income taxes since zakat and income tax are the liabilities of the shareholders' in the Kingdom of Saudi Arabia.

#### Unearned commission income

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

#### Cash dividend to shareholders

The Company recognises a liability to make cash distributions to shareholders of the Company when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders and SAMA. A corresponding amount is recognised directly in equity.

#### Fair values of financial instruments

Financial instruments comprise cash and cash equivalents, premiums receivable, reinsurance receivables, investments, outstanding claims, reinsurance payables, payables to policyholders and certain other assets and liabilities.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or based on the expected discounted cash flows.

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

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

#### Offsetting financial assets and liabilities

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Premium deficiency reserve

The Company carries out an analysis of loss / combined ratios for the expired period. Such ratios are being calculated by taking into account the relevant incurred but not reported provision and then used for the determination of premium deficiency reserve for each class of business.

#### Segmental reporting

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

- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies.
- Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Other classes, which covers any other classes of insurance not included above.

Shareholders' income is a non-operating segment. Income earned from short term deposits, 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 deficit or surplus from the insurance operations is allocated to this segment on an appropriate basis.

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

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices 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.

#### New IFRS, IFRIC and amendments thereof, adopted by the Company

The accounting policies used in preparation of these financial statements are consistent with those of the previous financial year and the adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on the financial statements of the Company.

The Company has adopted the following amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

<b><u>Standard / Interpretation</u></b>	<b><u>Description</u></b>
IAS 1	Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
IAS 7 and IAS 34	Annual improvement to IFRS 2012 – 2014 cycle
IAS 19	Revision to IAS 19 Employee Benefits
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
IAS 36	Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
IAS 39	Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
IFRS 1	Amendments to IFRS 1 Government Loans
IFRS 7	Amendments IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRIC 21	Levies

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

<u>Standard/ Interpretation</u>	<u>Description</u>	<u>Effective date</u>
IFRS 9	Financial Instruments – Classification & Measurement	1 January 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Inventor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
IFRS 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27	Amendment to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
IFRS 5, IFRS 7, IAS 19 and IAS 34	Annual improvements to IFRS 2012 – 2014 cycle that includes amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016

The Company is currently assessing the implications of the above mentioned standards, amendments or interpretations on the Company's financial statements on adoption.

Adoption of the relevant standards and interpretations applicable to the Company would result in some additional disclosures and changes in certain classifications in the financial statements. However, the Company does not expect any significant impact on its financial position or performance from such adoption.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year 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 needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

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

**4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS – continued**

**Premium deficiency reserve**

Estimation of the premium deficiency reserve is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will continue in future.

**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 acquisition costs**

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortized in the statement of insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus.

**Reinsurance**

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

**Impairment of available-for-sale investments**

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

**Useful lives of furniture, fittings and equipment**

The Company's management determines the estimated useful lives of its furniture, fittings and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

**Fair values of financial instruments**

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

**Going concern**

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

UNITED COOPERATIVE ASSURANCE COMPANY  
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

5. CASH AND CASH EQUIVALENTS

	2014 SR'000	2013 SR'000
<i>Insurance operations</i>		
Cash at banks	73,642	17,442
Short term deposits	-	68,576
	<u>73,642</u>	<u>86,018</u>
<i>Shareholders' operations</i>		
Cash in hand and at banks	58,056	955
Short term deposits	-	91,531
	<u>58,056</u>	<u>92,486</u>

Cash at banks are placed with counterparties who have good credit ratings.

The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date.

6. AVAILABLE-FOR-SALE INVESTMENTS

*Insurance operations*

Available-for-sale-investments at local banks represent units in investment funds listed in Tadawul whereas the investments with foreign banks are listed in international stock exchanges. The unrealized gain of SR 0.121 million as at 31 December 2014 (31 December 2013: unrealized loss of SR 0.241 million) was credited to the surplus from insurance operations as available-for-sale-investment reserve.

Movement in available for sale investments have summarized below:

	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
<b>As at 31 December 2014</b>				
Investment in bonds	4,016	-	266	4,282
Investment in sukuk	50,842	(9,756)	16	41,102
Investment in equities	-	812	80	892
Investment in mutual funds	-	10,000	-	10,000
	<u>54,858</u>	<u>1,056</u>	<u>362</u>	<u>56,276</u>
<b>As at 31 December 2013</b>				
Investment in equities	843	(850)	7	-
Investment in bonds	500	3,770	(254)	4,016
Investment in sukuk	1,096	49,757	(11)	50,842
	<u>2,439</u>	<u>52,677</u>	<u>(258)</u>	<u>54,858</u>

UNITED COOPERATIVE ASSURANCE COMPANY  
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

6. AVAILABLE-FOR-SALE INVESTMENTS – (continued)

*Shareholders' operations*

	2014 SR'000	2013 SR'000
Quoted securities	60,560	45,578
Unquoted securities	121,644	119,439
	<u>182,204</u>	<u>165,017</u>

i) Available-for-sale – quoted securities

	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
As at 31 December 2014				
Investment in equities	-	15,921	(1,769)	14,152
Investment in bonds	21,738	-	571	22,309
Investment in sukuk	23,840	(9,767)	24	14,097
Investment in mutual funds	-	10,000	2	10,002
	<u>45,578</u>	<u>16,154</u>	<u>(1,172)</u>	<u>60,560</u>
As at 31 December 2013				
Investment in equities	1,991	(2,020)	29	-
Investment in bonds	14,195	8,204	(661)	21,738
Investment in sukuk	4,091	19,766	(17)	23,840
	<u>20,277</u>	<u>25,950</u>	<u>(649)</u>	<u>45,578</u>

ii) Available-for-sale – unquoted securities

	Balance at the beginning of the year SR'000	Movement during the year SR'000	Change in fair value for the year SR'000	Balance at the end of the year SR'000
As at 31 December 2014				
Investment in local company	1,923	-	-	1,923
Investment in sukuk	60,000	-	-	60,000
Investment in murabaha deposit	57,516	-	2,205	59,721
	<u>119,439</u>	<u>-</u>	<u>2,205</u>	<u>121,644</u>
As at 31 December 2013				
Investment in local company	1,923	-	-	1,923
Investment in sukuk	-	60,000	-	60,000
Investment in murabaha deposit	-	56,250	1,266	57,516
	<u>1,923</u>	<u>116,250</u>	<u>1,266</u>	<u>119,439</u>

The unrealized gain of SR 1.033 million as at 31 December 2014 (31 December 2013: Unrealized gain SR 0.616 million) was charged to the statement of changes in shareholders' equity as available-for-sale investments reserve. The available-for-sale reserve as of 31 December 2014 is SR 1.879 million (31 December 2013: SR 0.846 million).

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.

UNITED COOPERATIVE ASSURANCE COMPANY  
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

7. PREMIUMS RECEIVABLE

	2014 SR'000	2013 SR'000
Due from policyholders	203,449	185,599
Due from policyholders - related parties	173,422	245,203
Provision for doubtful debt	(22,094)	(19,778)
	<u>354,777</u>	<u>411,024</u>

Movement in provision for doubtful debts is as follows:

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	19,778	25,535
Provision for the year	2,323	-
Release of provision during the year	-	(5,753)
Utilisation during the year	(7)	(4)
Balance at the end of the year	<u>22,094</u>	<u>19,778</u>

As at 31 December 2014	<i>Past due but not impaired</i>			Total
	Less than 90 days	91 to 180 days	More than 180 days	
<i>Amount in SR '000</i>				
Premiums receivable	119,201	51,234	33,014	203,449
Premiums receivable – related parties	160,485	12,937	-	173,422
Provision for doubtful debts	-	(9,626)	(12,468)	(22,094)
Premiums receivable, net	<u>279,686</u>	<u>54,545</u>	<u>20,546</u>	<u>354,777</u>

As at 31 December 2013	<i>Past due but not impaired</i>			Total
	Less than 90 days	91 to 180 days	More than 180 days	
<i>Amount in SR '000</i>				
Premiums receivable	125,082	30,903	29,614	185,599
Premiums receivable – related parties	237,933	7,209	61	245,203
Provision for doubtful debts	-	(5,717)	(14,061)	(19,778)
Premiums receivable, net	<u>363,015</u>	<u>32,395</u>	<u>15,614</u>	<u>411,024</u>

Past due but not impaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 72% of this balance as at 31 December 2014 (31 December 2013: 74%). Premiums receivable comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

8. REINSURANCE RECEIVABLES, NET

	2014 SR'000	2013 SR'000
Reinsurance receivables	7,921	11,529
Provision for doubtful debt	(2,462)	(2,699)
	<u>5,459</u>	<u>8,830</u>

Movement in provision for doubtful debts is as follows:

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	2,699	2,396
Provision for the year	-	303
Release of provision during the year	(237)	-
Balance at the end of the year	<u>2,462</u>	<u>2,699</u>

As at 31 December 2014	<i>Past due but not impaired</i>			Total
	Less than 90 days	91 to 180 days	More than 180 days	
<i>Amount in SR '000</i>				
Reinsurance receivables	1,297	619	6,005	7,921
Provision for doubtful debts	-	-	(2,462)	(2,462)
Reinsurance receivables, net	<u>1,297</u>	<u>619</u>	<u>3,543</u>	<u>5,459</u>

31 December 2013	<i>Past due but not impaired</i>			Total
	Less than 90 days	91 to 180 days	More than 180 days	
<i>Amount in SR '000</i>				
Reinsurance receivables	6,788	548	4,193	11,529
Provision for doubtful debts	-	-	(2,699)	(2,699)
Reinsurance receivables, net	<u>6,788</u>	<u>548</u>	<u>1,494</u>	<u>8,830</u>

Past due but not impaired reinsurance receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured.

9. DEFERRED POLICY ACQUISITION COST

	2014 SR'000	2013 SR'000
As at 1 January	7,117	9,133
Cost incurred during the year	28,167	21,935
Charge for the year	(21,299)	(23,951)
As at 31 December	<u>13,985</u>	<u>7,117</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

10. PREPAYMENTS AND OTHER RECEIVABLES

	2014 SR'000	2013 SR'000
Deferred third party administrator (TPA) fee	2,610	2,336
Prepaid expenses	4,477	4,451
Accrued interest	335	342
Advances to hospitals	48,936	51,519
Others	31,110	26,163
	<u>87,468</u>	<u>84,811</u>

11. PROPERTY AND EQUIPMENT

*Insurance Operations*

	<i>Motor Vehicles</i>  SR'000	<i>Furniture &amp; fittings</i>  SR'000	<i>Computers &amp; office equipment</i>  SR'000	<i>Leasehold Improvements</i>  SR'000	<i>Total</i>  SR'000
<b>Cost:</b>					
At the beginning of the year	232	7,424	7,924	4,115	19,695
Additions	199	624	298	177	1,298
Closing balance	<u>431</u>	<u>8,048</u>	<u>8,222</u>	<u>4,292</u>	<u>20,993</u>
<b>Depreciation:</b>					
At the beginning of the year	147	4,539	5,369	2,791	12,846
Charge for the year	93	1,532	1,237	817	3,679
Closing balance	<u>240</u>	<u>6,071</u>	<u>6,606</u>	<u>3,608</u>	<u>16,525</u>
<b>Net book value:</b>					
At 31 December 2014	<u>191</u>	<u>1,977</u>	<u>1,616</u>	<u>684</u>	<u>4,468</u>
At 31 December 2013	<u>85</u>	<u>2,885</u>	<u>2,555</u>	<u>1,324</u>	<u>6,849</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**12. UNEARNED COMMISSION INCOME**

	2014 SR'000	2013 SR'000
As at 1 January	25,437	16,665
Commission received during the year	46,831	56,133
Commission earned during the year	(42,825)	(47,361)
As at 31 December	<u>29,443</u>	<u>25,437</u>

**13. MOVEMENT IN UNEARNED PREMIUMS**

	2014 SR'000	2013 SR'000
Gross unearned premiums as at 1 January	375,450	336,380
Gross unearned premiums as at 31 December	(431,188)	(375,450)
Movement in unearned premiums	<u>(55,738)</u>	<u>(39,070)</u>
Reinsurers' share of unearned premiums as at 1 January	(123,901)	(91,375)
Reinsurers' share of unearned premiums as at 31 December	165,936	123,901
Movement in reinsurance share of unearned premiums	<u>42,035</u>	<u>32,526</u>
Movement in unearned premiums, net	<u>(13,703)</u>	<u>(6,544)</u>

**14. PREMIUM DEFICIENCY RESERVE**

During the year, the Company has released following reserves in respect of premium deficiency for its motor and medical class of business. The Company created these provisions during 2013 based on the assumption that the premiums for these classes will not be sufficient to provide for the expected claims and other attributable expenses related to the unexpired periods of the policies in force at the balance sheet date. Class wise breakdown of premium deficiency reserve as follows:

	2014 SR'000	2013 SR'000
Motor	-	8,001
Medical	-	5,726
	<u>-</u>	<u>13,727</u>

Movements in premium deficiency reserve is as follows:

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	13,727	-
(Release) / provided during the year	(13,727)	13,727
Balance at the end of the year	<u>-</u>	<u>13,727</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**15. CLAIMS**

	2014 SR'000	2013 SR'000
Gross claims paid	822,594	865,472
Gross outstanding claims at the end of the year (see note (i) below)	350,692	296,662
	<u>1,173,286</u>	<u>1,162,134</u>
Gross outstanding claims at the beginning of the year	(296,662)	(188,689)
Gross claims incurred	<u>876,624</u>	<u>973,445</u>
Reinsurance recoveries	(96,508)	(64,710)
Reinsurers' share of outstanding claims at the end of the year (see note (ii) below)	(100,845)	(114,716)
	<u>(197,353)</u>	<u>(179,426)</u>
Reinsurers' share of outstanding claims at the beginning of the year	114,716	75,189
Reinsurers' share of claims	<u>(82,637)</u>	<u>(104,237)</u>
Net claims incurred	<u>793,987</u>	<u>869,208</u>

- i. Gross outstanding claims as at 31 December 2014 include provision for claims incurred but not reported (IBNR) amounting to SR 186.28 million (2013: 126.96 million).
- ii. Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

**CLAIMS DEVELOPMENT TABLE**

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

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

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

**As at 31 December 2014**

Accident year	2010 & earlier	2011	2012	2013	2014	Total
	<b>SR'000</b>					
Estimate of ultimate claims cost:						
At the end of accident year	1,161,681	723,478	795,389	915,814	705,178	
One year later	1,068,892	625,231	826,300	970,795	-	
Two years later	1,062,719	680,641	852,094	-	-	
Three years later	1,060,519	698,131	-	-	-	
Four years later	1,069,719	-	-	-	-	
Current estimate of cumulative claims	<u>1,069,719</u>	<u>698,131</u>	<u>852,094</u>	<u>970,795</u>	<u>705,178</u>	<u>4,295,917</u>
Cumulative payments to date	<u>(1,063,728)</u>	<u>(690,453)</u>	<u>(833,383)</u>	<u>(878,386)</u>	<u>(479,275)</u>	<u>(3,945,225)</u>
Liability recognised in statement of financial position	<u>5,991</u>	<u>7,678</u>	<u>18,711</u>	<u>92,409</u>	<u>225,903</u>	<u>350,692</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

15. CLAIMS – (continued)

CLAIMS DEVELOPMENT TABLE – (continued)

As at 31 December 2013

Accident year	2009 & earlier	2010	2011	2012	2013	Total
	<i>SR'000</i>					
Estimate of ultimate claims cost:						
At the end of accident year	591,580	613,595	723,478	795,389	915,814	
One year later	557,418	560,074	625,231	826,300	-	
Two years later	565,555	545,650	680,641	-	-	
Three years later	554,840	554,506	-	-	-	
Four years later	553,727	-	-	-	-	
Current estimate of cumulative claims	553,727	554,506	680,641	826,300	915,814	3,530,988
Cumulative payments to date	(551,222)	(552,875)	(674,146)	(799,073)	(657,010)	(3,234,326)
Liability recognised in statement of financial position	2,505	1,631	6,495	27,227	258,804	296,662

16. ACCRUED AND OTHER PAYABLES

	2014 <i>SR'000</i>	2013 <i>SR'000</i>
<i>Insurance Operations</i>		
Accrued expenses	438	144
Garages	644	1,042
Third party administrator (TPA) fees	889	830
Insurance brokers	3,324	1,834
Surveyor	1,309	3,058
Commission and incentives payable	1,665	1,985
CCHI fees payable	1,680	1,557
Supervision and inspection fee payable	1,694	1,717
Withholding tax payable	7,239	6,368
Others	8,169	3,904
	<u>27,051</u>	<u>22,439</u>

17. DUE TO A FINANCIAL INSTITUTION

During 2013, the Company obtained an overdraft facility of USD 5,000,000 from BSI, SA for the purpose of additional investment in BSI, SA Murabaha certificates. The overdraft is for the period of three (3) months and carries a commission rate of 2.55% P.A. on a rolling basis.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**18. ZAKAT AND INCOME TAX**

**Zakat and Income Tax**

The Zakat and Income tax payable by the Company has been calculated in accordance with Zakat regulations in Kingdom of Saudi Arabia.

The Zakat and Income tax provision for the year is based on the following:

	2014 SR'000	2013 SR'000
Share capital	280,000	200,000
Statutory deposit	(28,000)	(20,000)
Statutory reserves	31,944	31,944
(Accumulated losses) / retained earnings	(76,627)	87,777
End of services benefits	9,085	7,313
Zakat provision	7,641	21,819
Furniture, fittings and office equipment, net	(4,468)	(6,849)
	<u>219,575</u>	<u>322,004</u>
Loss for the year	(80,298)	(78,256)
Provision for doubtful debts	2,086	(5,450)
End of services benefits	<u>2,889</u>	<u>1,772</u>
Zakat base	<u>144,252</u>	<u>240,070</u>
Attributable to Saudi Shareholders @ 98%	<u>141,367</u>	<u>235,269</u>
Zakat @ 2.5%	<u>3,535</u>	<u>5,882</u>
Income tax	<u>-</u>	<u>-</u>
Attributable to Non Saudi Shareholder @ 2%	<u>-</u>	<u>-</u>
Income tax @ 20%	<u>-</u>	<u>-</u>
<b>Zakat and income tax</b>	<u><b>3,535</b></u>	<u><b>5,882</b></u>

The movement in the Zakat and Income tax payable is as follows:

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	21,929	21,819
Charge for the year	3,535	5,882
Paid during the year	(14,288)	(5,772)
Balance at the end of the year	<u>11,176</u>	<u>21,929</u>

As the Company has losses during the year, no provision has been provided for income tax.

The differences between the financial and the zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

**Status of assessment:**

The Company has filed its zakat declarations for the years ended 31 December 2009 to 2013 and obtained restricted zakat certificates.

During 2013, the Company received the final zakat assessments for the years 2009 to 2011 from the Department of Zakat and Income Tax (DZIT) claiming zakat liability amounting to SR 17.69 million. The management believes that the existing provision for zakat is sufficient. The Management has filed an objection against the above assessments and is confident of receiving a favourable ruling. However, during the year, the Company has made payment amounting to SR 14.288 million with respect to these assessments.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**19. SHARE CAPITAL**

The authorised and issued share capital of the Company is SR 280 million divided into 28 million ordinary shares of SR 10 each.

During the year, the Board of directors recommended an increase in the Company's capital through offering a rights issue with a total value of SR 140 million. The Company has obtained SAMA initial approval on 23 Jumaad Al Thani 1435H corresponding to 23 April 2014. On 21 July 2014, the Board of directors has recommended an increase in the Company's capital through offering a rights issue with a revised value of SR 210 million instead of SR 140 million. SAMA has approved the revised increase in capital of SR 210 million on 9 Shawwal 1435H corresponding to 5 August 2014. On 24 December 2014, the Company got the approval from Capital Market Authority (CMA) for its increase in share capital by SAR 210 million by way of right issue. As a result of this rights issue, the share capital of the Company will increase to SR 490 million comprising of 49 million shares of SR 10 each in issued and fully paid up shares.

Subsequently, on 18 February 2015 corresponding to 29 Rabi Al-Thani 1436H, the Company hold its extra ordinary general assembly and got the approval of shareholders for increase in share capital of 210 million by way of right issue.

**20. STATUTORY RESERVE**

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. The reserve is not available for distribution. As the Company has accumulated losses, as at year end, no transfer to statutory reserve has been made during the year.

**21. STATUTORY DEPOSIT**

	2014 SR'000	2013 SR'000
<i>Shareholders' Operations</i>		
Statutory deposit	28,000	28,000

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 28 million in a bank designated by the Saudi Arabian Monetary Agency (SAMA). The deposit is under lien of SAMA and the cannot be withdrawn by the Company without SAMA approval.

**22. BASIC AND DILUTED LOSS PER SHARE**

Loss per share for the year have been calculated by dividing the net loss for the year by the weighted average number of issued and outstanding shares for the year. Diluted loss per share is not applicable on the Company.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2014 SR'000	2013 SR'000
<i>Insurance operations</i>		
Employee costs (note 25)	72,079	69,885
Legal and professional fees	1,291	1,066
Office rent	8,994	9,681
Provision for doubtful receivables (note 7 & 8)	2,086	-
Depreciation	3,679	4,532
Office expenses	1,805	2,526
Communication expenses	4,015	4,824
Vehicle expenses	94	106
Withholding tax	2,250	1,500
Printing & stationery	1,707	1,740
Courier and postage	555	528
Electricity	283	267
Other	3,182	2,958
	<u>102,020</u>	<u>99,613</u>
<i>Shareholders operations</i>		
	2014 SR'000	2013 SR'000
Professional fees	463	628
Others	899	875
	<u>1,362</u>	<u>1,503</u>

24. SEGMENTAL 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, release of doubtful debt and investment income.

Segment assets do not include insurance operations' cash and cash equivalents, time deposit, available-for-sale investments, premium receivables, reinsurance receivables, prepayments and other receivables, furniture, fittings and office equipment, net and due from insurance operations.

Segment liabilities do not include reinsurance payables, payable to policy holders, accrued and other payables, due to shareholders' operations and employees' terminal benefits.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

24. SEGMENTAL INFORMATION – (continued)

	Medical SR'000	Motor SR'000	Others SR'000	Total SR'000
<b>For the year ended 31 December 2014</b>				
<b>Insurance operations</b>				
Gross premiums written	166,416	585,131	413,605	1,165,152
Premiums ceded	(22)	(1,139)	(360,457)	(361,618)
Excess of loss premiums	(534)	(2,286)	(4,604)	(7,424)
Net premiums written	165,860	581,706	48,544	796,110
Change in net unearned premiums	249	(16,993)	3,041	(13,703)
Net premiums earned	166,109	564,713	51,585	782,407
Reinsurance commission earned	1	932	41,892	42,825
Net revenue	166,110	565,645	93,477	825,232
<b>COSTS AND EXPENSES:</b>				
Gross claim paid	156,432	563,678	102,484	822,594
Less: Reinsurance share	(3,235)	(591)	(92,682)	(96,508)
Net claims paid	153,197	563,087	9,802	726,086
Change in net outstanding claims	(3,564)	66,773	4,692	67,901
Net claims incurred	149,633	629,860	14,494	793,987
Premium deficiency reserve	(5,726)	(8,001)	-	(13,727)
Unexpired risk reserve	-	-	3,282	3,282
Claims handling provision	-	2,405	-	2,405
Policy acquisition cost	4,326	8,775	8,198	21,299
Net cost and expenses	148,233	633,039	25,974	807,246
<b>Net underwriting results</b>	<b>17,877</b>	<b>(67,394)</b>	<b>67,503</b>	<b>17,986</b>
Supervision and inspection fee	(828)	(2,831)	(2,169)	(5,828)
CCHI fees	(1,758)	-	-	(1,758)
Unallocated general and administrative expenses				(102,020)
Release of doubtful debt provision				-
Investment income				7,368
<b>Deficit from insurance operations</b>				<b>(84,252)</b>
<b>As at 31 December 2014</b>				
Reinsurance share of unearned premiums	-	664	165,272	165,936
Reinsurance share of outstanding claims	1,314	3,574	95,957	100,845
Deferred acquisition cost	1,161	6,495	6,329	13,985
Unallocated assets				746,589
				<u>1,027,355</u>
Unearned commission income	-	160	29,283	29,443
Unearned premiums	54,316	193,139	183,733	431,188
Unexpired risk reserve	-	-	3,282	3,282
Claims handling provision	-	2,405	-	2,405
Catastrophe reserve	-	-	500	500
Outstanding claims	50,431	185,266	114,995	350,692
Unallocated liabilities				209,845
				<u>1,027,355</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

24. SEGMENTAL INFORMATION – (continued)

	Medical SR'000	Motor SR'000	Others SR'000	Total SR'000
For the year ended 31 December 2013				
Insurance operations				
Gross premiums written	153,080	673,171	466,724	1,292,975
Premiums ceded	(8)	(4,498)	(409,243)	(413,749)
Excess of loss premiums	(2,048)	(1,162)	(2,749)	(5,959)
Net premiums written	151,024	667,511	54,732	873,267
Change in net unearned premiums	10,065	(8,260)	(8,349)	(6,544)
Net premiums earned	161,089	659,251	46,383	866,723
Reinsurance commission earned	3	1,022	46,336	47,361
Net revenue	161,092	660,273	92,719	914,084
COSTS AND EXPENSES:				
Gross claim paid	168,507	620,355	76,610	865,472
Less: Reinsurance share	(1,891)	(522)	(62,297)	(64,710)
Net claims paid	166,616	619,833	14,313	800,762
Change in net outstanding claims	24,007	40,305	4,134	68,446
Net claims incurred	190,623	660,138	18,447	869,208
Premium deficiency reserve	5,726	8,001	(1,421)	12,306
Catastrophe reserve	-	-	500	500
Policy acquisition cost	4,184	12,822	6,945	23,951
Net cost and expenses	200,533	680,961	24,471	905,965
Net underwriting results	(39,441)	(20,688)	68,248	8,119
Supervision and inspection fee	(490)	(2,479)	(1,454)	(4,423)
CCHI fees	(983)	-	-	(983)
Unallocated general and administrative expenses				(99,613)
Release of doubtful debt provision				5,450
Investment income				4,718
Deficit from insurance operations				(86,732)
As at 31 December 2013				
Reinsurance share of unearned premiums	-	1,476	122,425	123,901
Reinsurance share of outstanding claims	-	204	114,512	114,716
Deferred acquisition cost	878	3,026	3,213	7,117
Unallocated assets				739,000
				984,734
Unearned commission income	1	121	25,315	25,437
Unearned premiums	54,565	176,958	143,927	375,450
Premium deficiency reserve	5,726	8,001	-	13,727
Catastrophe reserve	-	-	500	500
Outstanding claims	52,681	115,123	128,858	296,662
Unallocated liabilities				272,958
				984,734

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**25. RELATED PARTY TRANSACTIONS**

The following are the details of major related party transactions during the year.

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>		<i>Balance as of 31 December</i>	
		<i>For the year ended 31 December</i>			
		<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
		<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b><i>Insurance Operations</i></b>					
Shareholders:					
Saudi Bin Laden – Group	Premium	224,341	387,375		
	Payments and claims	(301,066)	(309,214)	158,300	235,025
Rashed Al Rashed – Group	Premium	30,418	36,391		
	Payments and claims	(25,088)	(37,727)	14,892	9,562
Board member:					
Claim and risk services (CARS)	Claim handling fee	(7,861)	(7,135)		
	Payment made	7,802	7,762	(889)	(830)
Claim and risk services (CARS)	Premium	621	694		
	Payments and claims	(1,009)	(151)	157	545
Law Office of Hassan Mahassni	Premium	372	323		
	Payments and claims	(371)	(318)	72	71
Key management personnel	Remuneration and related expenses	4,702	4,308	-	-
<b><i>Shareholders' Operations</i></b>					
Najm for insurance services	Payment received	-	500	(270)	(270)
Board members	Board of directors remunerations	1,169	1,016	(40)	-

**26. GEOGRAPHICAL DISTRIBUTION**

Most of the Company's assets and liabilities are located in the Kingdom of Saudi Arabia except for the below foreign investments and short term deposits.

<b>Type of Investments</b>	<b>Location</b>	<b>2014</b>	<b>2013</b>
		<b>SR'000</b>	<b>SR'000</b>
Investments in murabaha deposit	Middle east	59,721	57,516
Investments in bonds	Middle east	2,503	2,346
		<b>62,224</b>	<b>59,862</b>

The above investments were held and placed outside Saudi Arabia as at the financial position date.

## 27. 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. The Company is exposed to insurance, reinsurance, regulatory framework, credit, liquidity, foreign currency, commission rate, and market 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 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 and Internal Audit Function

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

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

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

### Insurance risk management

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies and procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local market are closely observed, reacting were necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

27. RISK MANAGEMENT – (continued)

Insurance risk management – (continued)

*Independent actuarial review of claims and claims reserves*

In further mitigation of the insurance risk, the Company utilises an independent actuary who performs periodical reviews of the Company's claims modelling and claims projections as well as verifying the closing position claims reserves are adequate.

*Key assumptions*

The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

*Sensitivities*

The Company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below

	2014 SR'000		2013 SR'000	
<u>Outstanding claims net of reinsurance</u>	Effect of 10% increase	Effect of 10% decrease	Effect of 10% increase	Effect of 10% decrease
	<u>(8,031)</u>	<u>8,031</u>	<u>(7,250)</u>	<u>7,250</u>
	2014 SR'000		2013 SR'000	
<u>Incurred but not reported (IBNR) reserve net of reinsurance</u>	Effect of 15% increase	Effect of 15% decrease	Effect of 15% increase	Effect of 15% decrease
	<u>(25,431)</u>	<u>25,431</u>	<u>(16,416)</u>	<u>16,416</u>
TOTAL	<u>(33,462)</u>	<u>33,462</u>	<u>(23,666)</u>	<u>23,666</u>

**27. RISK MANAGEMENT – (continued)**

**Frequency and Severity of Claims**

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

**Fire and Burglary**

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional treaties.

**Motor**

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 50% of gross written premium.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

**General Accident and Workmen's Compensation**

For miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

**Marine**

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

**Concentration of insurance risk**

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

**Medical**

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. This risk is covered by per occurrence excess of loss treaty.

**Regulatory framework risk**

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

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**27. RISK MANAGEMENT – (continued)**

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk 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's exposure to credit risk:

The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

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

The Company investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.

The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

There are no significant concentrations of credit risk within the Company.

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

**As at 31 December 2014**

	Insurance operations SR '000	Shareholders operations SR '000
Cash and cash equivalents	73,642	58,056
Investments	56,276	182,204
Premiums and insurance balances receivable	360,236	-
Reinsurers' share of unearned premium	165,936	-
Reinsurers' share of outstanding claims	100,845	-
Prepayments and other receivables	87,468	2,798
	<b>844,403</b>	<b>243,058</b>

**As at 31 December 2013**

	Insurance operations SR '000	Shareholders operations SR '000
Cash and cash equivalents	86,018	92,486
Investments	54,858	165,017
Premiums and insurance balances receivable	419,854	-
Reinsurers' share of unearned premium	123,901	-
Reinsurers' share of outstanding claims	114,716	-
Prepayments and other receivables	84,811	878
	<b>884,158</b>	<b>258,381</b>

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**27. RISK MANAGEMENT – (continued)**

**Maturity profiles**

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

**As at 31 December 2014**

	Up to one year SR '000	More than one year SR' 000	Total SR' 000
<b>Insurance Operations' Financial Liabilities</b>			
Reinsurance payables	104,076	24,512	128,588
Accrued and other payables	27,051	-	27,051
Outstanding claims	225,903	124,789	350,692
	357,030	149,301	506,331
<b>Shareholders' Financial Liabilities</b>			
Accrued and other payables	1,400	-	1,400
Due to financial institution	18,750	-	18,750
Due to a related party	-	270	270
	20,150	270	20,420
<b>Total Financial Liabilities</b>	<b>377,180</b>	<b>149,571</b>	<b>526,751</b>

**As at 31 December 2013**

	Up to one year SR '000	More than one year SR' 000	Total SR' 000
<b>Insurance Operations' Financial Liabilities</b>			
Reinsurance payables	185,612	5,380	190,992
Accrued and other payables	22,439	-	22,439
Outstanding claims	258,804	37,858	296,662
	466,855	43,238	510,093
<b>Shareholders' Financial Liabilities</b>			
Accrued and other payables	728	-	728
Due from financial institution	18,750	-	18,750
Due to a related party	270	-	270
	20,079	-	20,079
<b>Total Financial Liabilities</b>	<b>486,934</b>	<b>43,238</b>	<b>530,172</b>

**Liquidity profile**

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



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)**

**27. RISK MANAGEMENT – (continued)**

**Foreign currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

**As at 31 December 2014**

	SR SR '000	US Dollar SR' 000	Total SR '000
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	61,653	11,989	73,642
Available-for-sale investments	51,395	4,881	56,276
Premiums receivable, net	354,777	-	354,777
Reinsurance receivables, net	5,459	-	5,459
Reinsurers' share of unearned premium	165,936	-	165,936
Reinsurers' share of outstanding claims	100,845	-	100,845
Prepayments and other receivables	87,468	-	87,468
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>	<b>827,533</b>	<b>16,870</b>	<b>844,403</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	57,737	319	58,056
Available-for-sale investments	105,176	77,028	182,204
<b>TOTAL SHAREHOLDERS ASSETS</b>	<b>162,913</b>	<b>77,347</b>	<b>240,260</b>
<b>TOTAL ASSETS</b>	<b>990,446</b>	<b>94,217</b>	<b>1,084,663</b>

**As at 31 December 2013**

	SR '000	US Dollar SR' 000	Total SR '000
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	80,365	5,653	86,018
Available-for-sale investments	50,259	4,599	54,858
Premiums receivable, net	411,024	-	411,024
Reinsurance receivables, net	8,830	-	8,830
Reinsurers' share of unearned premium	123,901	-	123,901
Reinsurers' share of outstanding claims	114,716	-	114,716
Prepayments and other receivables	84,811	-	84,811
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>	<b>873,906</b>	<b>10,252</b>	<b>884,158</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	92,137	349	92,486
Available-for-sale investments	90,764	74,253	165,017
<b>TOTAL SHAREHOLDERS ASSETS</b>	<b>182,901</b>	<b>74,602</b>	<b>257,503</b>
<b>TOTAL ASSETS</b>	<b>1,056,807</b>	<b>84,854</b>	<b>1,141,661</b>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 – (continued)

27. RISK MANAGEMENT – (continued)

Foreign currency risk – (continued)

As at 31 December 2014

	SR SR '000	US Dollar SR '000	Total SR '000
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payables	128,588	-	128,588
Accrued and other payables	27,051	-	27,051
Outstanding claims	350,692	-	350,692
	506,331	-	506,331
SHAREHOLDERS' LIABILITIES			
Accrued and other payables	1,400	-	1,400
Due to financial institution	-	18,750	18,750
Due to a related party	270	-	270
TOTAL SHAREHOLDERS' LIABILITIES	1,670	18,750	20,420
TOTAL LIABILITIES	508,001	18,750	526,751

As at 31 December 2013

	SR SR '000	US Dollar SR '000	Total SR '000
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payables	190,992	-	190,992
Accrued and other payables	22,439	-	22,439
Outstanding claims	296,662	-	296,662
	510,093	-	510,093
SHAREHOLDERS' LIABILITIES			
Accrued and other payables	1,059	-	1,059
Due from financial institution	-	18,750	18,750
Due to a related party	270	-	270
TOTAL SHAREHOLDERS' LIABILITIES	1,329	18,750	20,079
TOTAL LIABILITIES	511,422	18,750	530,172

## 27. RISK MANAGEMENT – (continued)

### Commission rate risk

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the company to cash flow commission risk, whereas fixed commission rate instruments expose the company to fair value interest risk.

The Company is exposed to commission rate risk on certain of its investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of statement of Shareholders' comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders' comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at December 31:

	Change in basis points	Effect on (loss) / income for the year SR'000
2014	50	-
2013	50	+/- 801

### i) 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 interest 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.

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.

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

#### As at 31 December 2014

	Level 1	Level 2	Level 3	Total
Available for sale Investments				
<b>Equity securities:</b>				
Insurance operations	10,895	-	-	10,895
Shareholders' operations	14,152	10,002	1,923	26,077
<b>Debt securities:</b>				
Insurance operations	5,381	40,000	-	45,381
Shareholders' operations	26,406	70,000	-	96,406
<b>Deposit certificates:</b>				
Shareholders' operations	-	59,721	-	59,721
	<b>56,834</b>	<b>179,723</b>	<b>1,923</b>	<b>238,480</b>

27. RISK MANAGEMENT – (continued)

i) Market price risk – (continued)

As at 31 December 2013

	Level 1	Level 2	Level 3	Total
Available for sale Investments				
<b>Equity securities:</b>				
Shareholders' operations	-	-	1,923	1,923
<b>Debt securities:</b>				
Insurance operations	14,858	40,000	-	54,858
Shareholders' operations	35,578	70,000	-	105,578
<b>Deposit certificates:</b>				
Shareholders' operations	-	57,516	-	57,516
	50,436	167,516	1,923	219,875

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted.

**Capital management**

Capital requirements are set and regulated by the Saudi Arabian Monetary Agency. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders' or issue shares.

As required by Saudi Arabian Insurance Regulations (Article 66 of Implementation Regulations issued by SAMA), the Company is required to maintain minimum Solvency Margin equivalent to the highest of minimum capital requirement, premium solvency margin or claims solvency margin. As at 31 December 2014, the Company's solvency level is less than the minimum solvency margin required by the Implementation Regulations and is in the purview of the above-mentioned article of the Implementation Regulations. The Company got approval from SAMA to raise the capital by SR 210 million by way of right issue. An extra ordinary general meeting ("EGM") to this effect was successfully concluded on 18 February 2015.

28. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the board of directors on 24 February 2015 corresponding to 5 Jamad Al-Awwal 1436H.