**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi joint stock company)**

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

**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi joint stock company)**
**FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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AL-GHANEM

## INDEPENDENT AUDITORS' REPORT

To the shareholders of
AXA Cooperative Insurance Company
(a Saudi joint stock company)

**Scope of audit**

We have audited the accompanying statement of financial position of AXA Cooperative Insurance Company (a Saudi joint stock company) (the "Company") as at December 31, 2013 and the related statements of insurance operations and accumulated surplus, shareholders' income, shareholders' comprehensive income, changes in shareholders' equity, insurance operations cash flows and shareholders' cash flows for the year then ended, and the notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards (IFRS) and the provisions of Article 123 of the Regulations for Companies and presented to us together with all information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**Unqualified opinion**

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

- Present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with IFRS; and
- 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. These financial statements are prepared in accordance with IFRS and not in accordance with the generally accepted accounting principles in the Kingdom of Saudi Arabia.

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**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi joint stock company)**
**STATEMENT OF FINANCIAL POSITION**
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | Notes | As at December 31, 2013 | 2012 |
|---|---|---|---|
| **Insurance operations' assets** | | | |
| Cash and cash equivalents | 4 | 171,605 | 74,118 |
| Short-term deposits | | 26,541 | 61,142 |
| Premiums and insurance balances receivable | | 148,812 | 124,521 |
| Less: Provision for doubtful debts | | (18,230) | (18,230) |
| Premiums and insurance balances receivable - net | 5, 13 | 130,582 | 106,291 |
| Receivable from related parties | 13 | 8,392 | 22,096 |
| Reinsurers' share of unearned premiums | 8 | 27,188 | 24,025 |
| Reinsurers' share of outstanding claims | 7, 8 | 62,804 | 92,714 |
| Deferred policy acquisition costs | 8 | 16,707 | 14,891 |
| Other assets | | 7,610 | 3,763 |
| Available-for-sale investments | 6 | 86,942 | 54,514 |
| Long-term deposit | | 7,500 | 7,500 |
| Held-to-maturity investments | 6 | 75,000 | - |
| Due from shareholders | | 14,823 | 73,894 |
| Furniture, fixtures and equipment | 10 | 8,144 | 8,867 |
| **Total insurance operations' assets** | | 643,838 | 543,815 |
| **Shareholders' assets** | | | |
| Cash and cash equivalents | 4 | 891 | 325 |
| Short-term deposits | | - | 138,819 |
| Other assets | | 1,208 | 3,087 |
| Available-for-sale investments | 6 | 74,314 | 63,085 |
| Long-term deposits | | 56,250 | 36,250 |
| Held-to-maturity investments | 6 | 60,000 | - |
| Statutory deposit | 9 | 20,000 | 20,000 |
| **Total shareholders' assets** | | 212,663 | 261,566 |
| **Total assets** | | 856,501 | 805,381 |

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Paul Adams

Member of Board of Directors | Chief ~~Executive Officer~~ | Finance Manager

**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi joint stock company)**
**STATEMENT OF FINANCIAL POSITION - *(Continued)***
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | Notes | As at December 31, 2013 | 2012 |
|---|---|---|---|
| **Insurance operations' liabilities and accumulated surplus** | | | |
| Reinsurers' balances payable | 13 | **39,165** | 36,548 |
| Unearned premiums | 8 | **210,840** | 180,584 |
| Outstanding claims | | **154,587** | 171,792 |
| Claims incurred but not reported and other reserve | | **158,195** | 44,046 |
| | 8 | **312,782** | 215,838 |
| Advance premiums | | **7,517** | 3,656 |
| Deferred reinsurance commission | 8 | **5,097** | 5,263 |
| Accrued and other liabilities | 11 | **51,355** | 35,518 |
| Payable to a related party | | **-** | 49,730 |
| Employee termination benefits | 12 | **16,495** | 15,875 |
| Total insurance operations' liabilities | | **643,251** | 543,012 |
| Accumulated surplus from insurance operations | | **1,658** | 557 |
| Fair value reserve on available-for-sale investments | | **(1,071)** | 246 |
| Total insurance operations accumulated surplus | | **587** | 803 |
| **Total insurance operations' liabilities and accumulated surplus** | | **643,838** | 543,815 |
| **Shareholders' liabilities and equity** | | | |
| **Shareholders' liabilities** | | | |
| Accrued zakat and income tax | 15 | **5,445** | 5,942 |
| Accrued and other liabilities | 11 | **1,020** | 1,378 |
| Due to insurance operations | | **14,823** | 73,894 |
| **Total shareholders' liabilities** | | **21,288** | 81,214 |
| **Shareholders' equity** | | | |
| Share capital | 16 | **200,000** | 200,000 |
| Fair value reserve | | **2,378** | 4,297 |
| Accumulated deficit | | **(11,003)** | (23,945) |
| **Total shareholders' equity** | | **191,375** | 180,352 |
| **Total shareholders' liabilities and equity** | | **212,663** | 261,566 |
| **Total insurance operations' liabilities and accumulated surplus and shareholders' liabilities and equity** | | **856,501** | 805,381 |
| **Contingencies** | 22 | | |

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Paul Adamson

Member of Board of Directors | Chief Executive Officer | Finance Manager

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi joint stock company)
STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | Notes | Year ended December 31, 2013 | 2012 |
|---|---|---|---|
| **Revenues** | | | |
| Gross premiums written | 8, 13 | **775,596** | 460,486 |
| Less: Reinsurance premiums ceded | 8, 13 | **(104,451)** | (96,367) |
| Net premiums written | | **671,145** | 364,119 |
| Changes in unearned premiums | | **(27,093)** | (5,313) |
| Net premiums earned | 8 | **644,052** | 358,806 |
| Reinsurance commissions | 8, 13 | **13,873** | 12,880 |
| Commission income | | **4,805** | 1,620 |
| **Total revenues** | | **662,730** | 373,306 |
| **Costs and expenses** | | | |
| Gross claims paid | 8 | **509,346** | 347,363 |
| Less: Reinsurers' share | 8 | **(97,775)** | (72,974) |
| Net claims paid | 8, 13 | **411,571** | 274,389 |
| Changes in outstanding claims | | **126,854** | (6,710) |
| Net claims incurred | 8 | **538,425** | 267,679 |
| Policy acquisition costs | 8 | **34,729** | 33,195 |
| General and administrative expenses | 19 | **78,565** | 66,860 |
| **Total costs and expenses** | | **651,719** | 367,734 |
| Net surplus from insurance operations | | **11,011** | 5,572 |
| Shareholders' appropriation of surplus | | **(9,910)** | (5,015) |
| Net result from insurance operations after appropriation of surplus | 14 | **1,101** | 557 |
| Accumulated surplus, beginning of the year | | **557** | - |
| **Accumulated surplus, end of the year** | 14 | **1,658** | 557 |

The accompanying notes from 1 to 25 form an integral part of these financial statements

Member of Board of Directors     Chief Executive Officer     Finance Manager

**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi joint stock company)**
**STATEMENT OF SHAREHOLDERS' INCOME**
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | | Year ended December 31, | |
|---|---|---|---|
| | **Notes** | **2013** | **2012** |
| Net surplus transferred from insurance operations | 14 | **9,910** | 5,015 |
| Commission income | 18 | **6,596** | 6,665 |
| General and administrative expenses | 19 | **(1,759)** | (1,378) |
| **Shareholders' net income for the year** | | **14,747** | 10,302 |
| Weighted average number of outstanding shares | 16 | **20 million** | 20 million |
| **Basic and diluted earnings per share (Saudi Riyals)** | 21 | **0.740** | 0.515 |

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Paul Adamson

Member of Board of Directors

Chief Executive Officer

Finance Manager

**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi Joint Stock Company)**
**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME**
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | Notes | Year ended December 31, 2013 | 2012 |
|---|---|---|---|
| Shareholders' net income for the year | | **14,747** | 10,302 |
| Provision for zakat and income tax | 15 | **(1,805)** | (4,617) |
| Net income for the year | | **12,942** | 5,685 |
| Unrealized (loss) / gain on available-for-sale investments | 6 | **(1,919)** | 3,903 |
| **Total comprehensive income for the year** | | **11,023** | 9,588 |

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Member of Board of Directors | Chief Executive Officer | Finance Manager

**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi joint stock company)**
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | Share capital | Fair value reserve | Accumulated deficit | Total |
|---|---|---|---|---|
| Balance at January 1, 2012 | 200,000 | 394 | (29,630) | 170,764 |
| Net income for the year | - | - | 5,685 | 5,685 |
| Changes in fair value reserve on available-for-sale investments | - | 3,903 | - | 3,903 |
| Balance at December 31, 2012 | 200,000 | 4,297 | (23,945) | 180,352 |
| Balance at January 1, 2013 | 200,000 | 4,297 | (23,945) | **180,352** |
| Net income for the year | - | - | 12,942 | **12,942** |
| Changes in fair value reserve on available-for-sale investments | - | (1,919) | - | **(1,919)** |
| **Balance at December 31, 2013** | **200,000** | **2,378** | **(11,003)** | **191,375** |

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Member of Board of Directors | Chief Executive Officer | Finance Manager

**AXA COOPERATIVE INSURANCE COMPANY**
**(A Saudi joint stock company)**
**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | Notes | Year ended December 31, 2013 | 2012 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net results from insurance operations | | **1,101** | 557 |
| Adjustments to reconcile net results from insurance operations to net cash from operating activities: | | | |
| Shareholders' appropriation of surplus from insurance operations | 14 | **9,910** | 5,015 |
| Depreciation | 10 | **3,388** | 1,962 |
| | | **14,399** | 7,534 |
| Changes in operating assets and liabilities: | | | |
| Premium and insurance balances receivable - net | | **(24,291)** | 4,178 |
| Reinsurers' share of unearned premiums | | **(3,163)** | (2,254) |
| Reinsurers' share of outstanding claims | | **29,910** | (6,072) |
| Deferred policy acquisition costs | | **(1,816)** | (3,052) |
| Other assets | | **(3,847)** | (2,017) |
| Receivable from related parties | | **13,704** | (520) |
| Reinsurers' balances payable | | **2,617** | 33,118 |
| Unearned premiums | | **30,256** | 7,567 |
| Advance premiums | | **3,861** | 3,656 |
| Outstanding claims | | **(17,205)** | (10,587) |
| Claims incurred but not reported and other reserve | | **114,149** | 9,949 |
| Deferred reinsurance commission | | **(166)** | 2,143 |
| Accrued and other liabilities | | **15,837** | 7,549 |
| Payable to a related party | | **(49,730)** | 49,730 |
| Employee termination benefits | | **620** | 1,629 |
| Due from shareholders | | **49,161** | (24,118) |
| **Net cash provided by operating activities** | | **174,296** | 78,433 |
| **Cash flow from investing activities** | | | |
| Purchase of furniture, fixtures and equipment | | **(2,665)** | (5,782) |
| Short-term deposits | | **34,601** | (61,142) |
| Purchase of available-for-sale investments | 6 | **(34,651)** | (25,007) |
| Proceeds from sale of available-for-sale investments | 6 | **906** | 4,749 |
| Long-term deposit | | **-** | (7,500) |
| Purchase of held-to-maturity investments | 6 | **(75,000)** | - |
| **Net cash used in investing activities** | | **(76,809)** | (94,682) |
| **Net increase in cash and cash equivalents** | | **97,487** | (16,249) |
| Cash and cash equivalents, beginning of the year | | **74,118** | 90,367 |
| **Cash and cash equivalents, end of the year** | | **171,605** | 74,118 |
| **Supplemental cash flow information** | | | |
| **Non-cash investing activities** | | | |
| Unrealized (loss) / gain on available-for-sale investments | 6 | **(1,317)** | 729 |
| Short-term deposits transferred from shareholders' operations against due from shareholders' operations | | **59,541** | - |
| Available-for-sale investments transferred to a related party | | **-** | 7,351 |

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Member of Board of Directors | Chief Executive Officer | Finance Manager

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi joint stock company)
STATEMENT OF SHAREHOLDERS' CASH FLOWS
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

| | Notes | Year ended December 31, 2013 | 2012 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Shareholders' net income for the year | | 14,747 | 10,302 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Appropriation of surplus from insurance operations | 14 | (9,910) | (5,015) |
| | | 4,837 | 5,287 |
| Changes in operating assets and liabilities: | | | |
| Other assets | | 1,879 | (1,674) |
| Zakat and income tax paid | | (2,302) | 971 |
| Accrued and other liabilities | | (358) | (2,660) |
| Due to insurance operations | | (49,161) | 24,118 |
| **Net cash (used in) provided by operating activities** | | (45,105) | 26,042 |
| **Cash flow from investing activities** | | | |
| Short-term deposits | | 138,819 | (73,113) |
| Purchase of available-for-sale investments | 6 | (20,059) | (61,329) |
| Proceeds from sale of available-for-sale investments | 6 | 6,911 | 15,095 |
| Long-term deposits | | (20,000) | (36,250) |
| Purchase of held-to-maturity investments | 6 | (60,000) | - |
| **Net cash provided by (used in) investing activities** | | 45,671 | (155,597) |
| **Net change in cash and cash equivalents** | | 566 | (129,555) |
| Cash and cash equivalents, beginning of the year | | 325 | 129,880 |
| **Cash and cash equivalents, end of the year** | | 891 | 325 |
| **Supplemental cash flow information** | | | |
| **Non-cash operating activity -** | | | |
| Zakat and income tax charged to shareholders' comprehensive income | 15 | (1,805) | (4,617) |
| **Non-cash investing activity:** | | | |
| Unrealized (loss) / gain on available-for-sale investments | 6 | (1,919) | 3,903 |

The accompanying notes from 1 to 25 form an integral part of these financial statements.

Member of Board of Directors Chief Executive Officer Finance Manager

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

### a. General information

AXA Cooperative Insurance Company (the "Company") is a Saudi joint stock company established in the Kingdom of Saudi Arabia by the Royal Decree No. M/36 dated 27 Jumada II 1429H (July 1, 2008) (date of inception). The Company was incorporated vide Ministerial Order No Q/192, dated 10 Jumada II 1430H, (June 3, 2009) (date of incorporation). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010271203 issued in Riyadh on 20 Rajab 1430H (July 13, 2009). The Company's registered address is P.O. Box 753, Riyadh 11421, Kingdom of Saudi Arabia.

The principal activities of the Company are to engage in cooperative insurance operations and all related activities including reinsurance activities under the Law on Supervision of Cooperative Insurance (the "Law") and the Company's by-laws and other regulations promulgated in the Kingdom of Saudi Arabia. The Company obtained licence from the Saudi Arabian Monetary Agency ("SAMA") to practice general and medical insurance and reinsurance business in the Kingdom of Saudi Arabia vide licence No. TMN/25/2010, dated 11 Safar 1431H (corresponding to January 26, 2010). The Company has commenced insurance operations on 4 Rabi' I 1431H (corresponding to February 18, 2010) after obtaining full product approval for certain products and temporary approval for the remaining products. Currently, the Company is in the process of obtaining full product approval for the remaining products from the regulator. Management believes that such approvals will be obtained in due course.

### b. Portfolio transfer

The shareholders' of the AXA Insurance (Saudi Arabia) B.S.C. (c) (the 'Seller'), at the time of formation of the Company, had principally agreed to transfer certain of the Seller's assets and liabilities and the insurance portfolio (the "Transfer") in Saudi Arabia to the Company with effect from January 1, 2009, subject to approval and at a value to be determined by SAMA.

On 15 Dhul-Qadah 1433H (corresponding to October 1, 2012), SAMA approved the transfer, with effect from January 1, 2009, at a maximum consideration of Saudi Riyals 106.57 million. Consequent to SAMA's approval, the Company has formally entered into a purchase agreement with the shareholders' of the Seller to effect the transfer. Also, the shareholders of the Company have approved the portfolio transfer at their Extra Ordinary General Assembly Meeting held on December 10, 2012. The effects of the transfer have been reflected in the financial statements for the period from June 3, 2009 to December 31, 2010 and the year ended December 31, 2011. Also see note 22.

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations and presents the financial statements accordingly. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and board of directors of the Company.

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

| | |
|---|---|
| Transfer to shareholders' operations | 90% |
| Transfer to insurance operations' | 10% |
| | 100% |

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

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

- Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income, effective July 1, 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- Amendment to IAS 19, 'Employee benefits', effective January 1, 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting, effective January 1, 2013.This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

- Amendment to IFRS 1, 'First time adoption', on government loans, effective January 1, 2013. This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

- Amendment to IFRSs 10, 11 and 12 on transition guidance, effective January 1, 2013. These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

- IFRS 11, 'Joint arrangements', effective January 1, 2013. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12, 'Disclosures of interests in other entities', effective January 1, 2013. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13, 'Fair value measurement', effective January 1, 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

- IAS 27 (revised 2011), 'Separate financial statements', effective January 1, 2013. IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- IAS 28 (revised 2011), 'Associates and joint ventures', effective January 1, 2013. IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

- Annual improvements 2011, effective January 1, 2013. These annual improvements, address six issues in the 2009- 2011 reporting cycle. It includes changes to:

  - IFRS 1, 'First time adoption'
  - IAS 1, 'Financial statement presentation'
  - IAS 16, 'Property, plant and equipment'
  - IAS 32, 'Financial instruments; Presentation'
  - IAS 34, 'Interim financial reporting'

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

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

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting, effective January 1, 2014. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position.

- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities, effective January 1, 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures, effective January 1, 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

- Amendment to IAS 39 'Novation of derivatives', effective January 1, 2014. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.

- IFRS 9, 'Financial instruments', effective January 1, 2014. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

- IFRIC 21, 'Levies', effective January 1, 2014. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

### 2.2 Use of estimates in the preparation of financial statements

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

## 2. Summary of significant accounting policies (continued)

### 2.3 Segment reporting

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 assets do not include cash and cash equivalents, short-term deposits, available-for-sale investments, held-to-maturity investments, receivable from related parties, premiums and insurance balances receivable, other assets, due from shareholders' and furniture, fixtures and equipment; and

- Segment liabilities do not include reinsurers' balances payable, advance premiums, payable to a related party, accrued and other liabilities and employee termination benefits.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Accident and liability;
- Motor;
- Property;
- Marine;
- Engineering;
- Health; and
- Protection

### 2.4 Foreign currency translations

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the date of statement of financial position. All differences are taken to the statements of insurance operations or to the statement of shareholders' income. Foreign exchange differences are not significant and have not been disclosed separately.

### 2.5 Financial assets

#### 2.5.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, available-for-sale and held-to-maturity investments.

**a) Loans and receivables**

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

**b) Available-for-sale investments**

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

**c) Held-to-maturity investments**

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 recognized in the statement of shareholders' income when the investment is derecognized or impaired.

## 2. Summary of significant accounting policies (continued)

### 2.5 Financial assets (continued)

#### 2.5.2 Recognition and measurement

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Loans and receivable are carried at amortized costs using effective interest method. Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive income and financial position for insurance operations.

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

#### 2.5.3 Determination of fair values

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

#### 2.5.4 Impairment of assets

(a) Financial assets carried at amortised cost

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

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

(b) Available-for-sale investments

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

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

### 2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with less than three months maturity from the date of acquisition.

## 2. Summary of significant accounting policies (continued)

### 2.7 Short-term and long-term deposits

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

### 2.8 Insurance receivables

Receivable from policy holders are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method (if the insurance receivable is due after one year), less impairment, if any.

### 2.9 Insurance contracts

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

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

### 2.10 Deferred policy acquisition costs

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

### 2.11 Claims

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

The Company generally estimates its claims based on previous experience. In addition, a provision based on management’s judgement is maintained for the cost of settling claims incurred but not reported at the date of statement of financial position. Any difference between the provisions at the date of statement of financial position and settlements for the following period is included in the statement of insurance operations for that period.

### 2.12 Reinsurance

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

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

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

## 2. Summary of significant accounting policies (continued)

### 2.13 Liability adequacy test

At each date of the statement of financial position the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an additional risk provision is created.

### 2.14 Revenue recognition

*(a) Recognition of premium and commission revenue*

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

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

*(b) Commission income*

Commission income from short-term deposits is recognized on a time proportion basis using the effective commission rate method.

*(c) Dividend income*

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

### 2.15 Furniture, fixtures and equipment

Furniture, fixtures and equipment are carried at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the income statement, using the straight-line method, to allocate costs of the related assets to their residual values over the estimated useful lives as follows:

| | **Number of years** |
|---|---|
| Furniture and fixtures | 5 |
| Equipment | 3 – 4 |

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

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

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

### 2.16 Accrued and other liabilities

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

### 2.17 Payables

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

## 2. Summary of significant accounting policies (continued)

### 2.18 Employee termination benefits

Employee termination benefits required by Saudi Labour and Workman Law are accrued by the Company and charged to the income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the financial position date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labour law of Saudi Arabia.

### 2.19 De-recognition of financial instruments

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

### 2.20 Off-setting

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

### 2.21 Zakat and income taxes

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

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

### 2.22 Surplus from insurance operations

In accordance with the requirements of the Implementing Regulations for Co-operative Insurance (the Regulations) issued by SAMA, 90% of the net surplus from insurance operations is transferred to the statement of shareholders' income, while 10% of the net surplus is distributable to policyholders. Such surplus distributable to policyholders is disclosed under "Insurance operations' accumulated surplus".

### 2.23 Seasonality of operations

There are no seasonal changes that affect insurance operations.

## 3. Critical accounting estimates and judgments

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

*The ultimate liability arise from claims under insurance contracts*

Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under insurance policies. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 3. Critical accounting estimates and judgments (continued)

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported "IBNR" at 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 past claim settlement trends to predict future claims settlement trends.

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

*Impairment of premiums and insurance balances receivable*

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

*Impairment of available-for-sale investments*

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

## 4. Cash and cash equivalents

| | 2013 | 2012 |
|---|---|---|
| Insurance operations: | | |
| Cash at bank and in hand | **41,316** | 74,118 |
| Time deposits | **130,289** | - |
| | **171,605** | 74,118 |
| Shareholders' operations: | | |
| Cash at bank and in hand | **604** | 325 |
| Time deposits | **287** | - |
| | **891** | 325 |

Time deposits are placed with local and foreign banks with an original maturity of less than three months from the date of acquisition and earn commission income at a rate of 0.08% to 2.7% (2012: 0.80% to 3.5%) per annum.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 5. Premiums and insurance balances receivable

| | 2013 | 2012 |
|---|---|---|
| Receivable from policy holders (Note 13) | **58,847** | 44,906 |
| Receivable from insurance intermediaries | **61,922** | 58,657 |
| Receivable from reinsurers (Note 13) | **28,043** | 20,958 |
| | **148,812** | 124,521 |
| Provision for doubtful debts (Note 13) | **(18,230)** | (18,230) |
| Total | **130,582** | 106,291 |

Movement in provision for doubtful debts is as follows:

| | 2013 | 2012 |
|---|---|---|
| Balance, beginning of the year | **18,230** | 19,180 |
| Reversals during the year | **-** | (950) |
| Balance, end of the year | **18,230** | 18,230 |

Ageing of receivables from insurance and reinsurance contracts is as follows:

| | Total | Neither past due nor impaired | Past due but not impaired | | |
|---|---|---|---|---|---|
| | | | 91 to 180 days | 181 to 360 days | More than 360 days |
| December 31, 2013 | **130,582** | **100,654** | **25,052** | **4,876** | **-** |
| December 31, 2012 | 106,291 | 81,149 | 20,041 | 5,101 | - |

Receivables comprise a large number of customers, intermediaries and insurance companies mainly within the Kingdom of Saudi Arabia and reinsurance companies in the Kingdom of Saudi Arabia, GCC and Europe. Premiums and reinsurance balances receivable include Saudi Riyal 23,669 (December 31, 2012: Saudi Riyal 18,316) due in foreign currencies, mainly US dollars. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company accounts for more than 8% of the premiums receivable as at December 31, 2013 (2012: 6%). In addition, the five largest customers account for 22% of the premiums receivable as at December 31, 2013 (2012: 19%).

Unimpaired premiums and insurance balances receivables are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over these receivables and the vast majority is, therefore, unsecured.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 6. Investments

### Available-for-sale investments

Available-for-sale investments include the following:

| 2013 | Insurance operations | Shareholders' operations |
|---|---|---|
| Quoted bonds | **75,489** | **55,982** |
| Quoted equity | **11,453** | **18,332** |
| | **86,942** | **74,314** |

| 2012 | Insurance operations | Shareholders' operations |
|---|---|---|
| Quoted bonds | 46,817 | 55,479 |
| Quoted equity | 7,697 | 7,606 |
| | 54,514 | 63,085 |

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

| 2013 | Insurance operations | Shareholders' operations |
|---|---|---|
| Balance, January 1, 2013 | **54,514** | **63,085** |
| Purchases | **34,651** | **20,059** |
| Disposals | **(906)** | **(6,911)** |
| Unrealized loss | **(1,317)** | **(1,919)** |
| Balance, December 31, 2013 | **86,942** | **74,314** |

| 2012 | Insurance operations | Shareholders' operations |
|---|---|---|
| Balance, January 1, 2012 | 40,878 | 12,948 |
| Purchases | 25,007 | 61,329 |
| Disposals | (4,749) | (15,095) |
| Transfer to a related party | (7,351) | - |
| Unrealized gain | 729 | 3,903 |
| Balance, December 31, 2012 | 54,514 | 63,085 |

Available-for-sale investments at December 31, 2013 include 1,923,078 shares (2012: 1,923,078) in Najam for Insurance Services, and are held by the Company at Nil value.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 6. Investments (continued)

**Held-to-maturity investments**

**Insurance operations:**

| Type of security | Issuer | Maturity period | Profit margin | Book value net of amortization 2013 | 2012 |
|---|---|---|---|---|---|
| Sukuks | Saudi government | 20 years | 3.21% | **60,000** | - |
| Sukuks | Saudi company | 10 years | 3.47% | **15,000** | - |
| | | | | **75,000** | - |

**Shareholders' operations:**

| Type of security | Issuer | Maturity period | Profit margin | Book value net of amortization 2013 | 2012 |
|---|---|---|---|---|---|
| Sukuks | Saudi government | 20 years | 3.21% | **60,000** | - |

## 7. Reinsurers' share of outstanding claims

All amounts due from reinsurers are expected to be received within 12 months from the statement of financial position date.

## 8. Movement in deferred policy acquisition costs, deferred reinsurance commission, unearned premiums and outstanding claims

### a. Deferred policy acquisition costs

| | 2013 | 2012 |
|---|---|---|
| Balance, January 1 | **14,891** | 11,839 |
| Incurred during the year | **36,545** | 36,247 |
| Amortized during the year | **(34,729)** | (33,195) |
| Balance, December 31 | **16,707** | 14,891 |

### b. Deferred reinsurance commission

| | 2013 | 2012 |
|---|---|---|
| Balance, January 1 | **5,263** | 3,120 |
| Commission received during the year | **13,707** | 15,023 |
| Commission earned during the year | **(13,873)** | (12,880) |
| Balance, December 31 | **5,097** | 5,263 |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 8. Movement in deferred policy acquisition costs, deferred reinsurance commission, unearned premiums and outstanding claims (continued)

### c. Unearned premiums

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurers' Share | Net | Gross | Reinsurers' Share | Net |
| Unearned premiums | **210,840** | **(27,188)** | **183,652** | 180,584 | (24,025) | 156,559 |

The movement in the unearned premiums, and the related reinsurers' share, are as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurers' Share | Net | Gross | Reinsurers' Share | Net |
| At January 1 | **180,584** | **(24,025)** | **156,559** | 173,017 | (21,771) | 151,246 |
| Premiums written | **775,596** | **(104,451)** | **671,145** | 460,486 | (96,367) | 364,119 |
| Premiums earned | **(745,340)** | **101,288** | **(644,052)** | (452,919) | 94,113 | (358,806) |
| At December 31 | **210,840** | **(27,188)** | **183,652** | 180,584 | (24,025) | 156,559 |

### d. Outstanding claims

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurers' Share | Net | Gross | Reinsurers' Share | Net |
| At January 1 | | | | | | |
| Claims outstanding | **171,792** | **(88,440)** | **83,352** | 182,379 | (86,642) | 95,737 |
| Claims incurred but not reported | **44,046** | **(4,274)** | **39,772** | 34,097 | - | 34,097 |
| | **215,838** | **(92,714)** | **123,124** | 216,476 | (86,642) | 129,834 |
| Claims paid during the year | **(509,346)** | **97,775** | **(411,571)** | (347,363) | 72,974 | (274,389) |
| Claims incurred during the year | **606,290** | **(67,865)** | **538,425** | 346,725 | (79,046) | 267,679 |
| At December 31 | **312,782** | **(62,804)** | **249,978** | 215,838 | (92,714) | 123,124 |
| At December 31 | | | | | | |
| Claims outstanding | **154,587** | **(60,413)** | **94,174** | 171,792 | (88,440) | 83,352 |
| Claims incurred but not reported | **158,195** | **(2,391)** | **155,804** | 44,046 | (4,274) | 39,772 |
| Total claims | **312,782** | **(62,804)** | **249,978** | 215,838 | (92,714) | 123,124 |

## 9. Statutory deposit

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

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 10. Furniture, fixtures and equipment

| | Furniture and fixtures | Equipment | Total |
|---|---|---|---|
| **2013** | | | |
| *Cost* | | | |
| January 1, 2013 | 5,490 | 20,518 | **26,008** |
| Additions | 1,106 | 1,559 | **2,665** |
| December 31, 2013 | 6,596 | 22,077 | **28,673** |
| *Accumulated depreciation* | | | |
| January 1, 2013 | (4,790) | (12,351) | **(17,141)** |
| Charge during the year | (859) | (2,529) | **(3,388)** |
| December 31, 2013 | (5,649) | (14,880) | **(20,529)** |
| *Net book value* | | | |
| **December 31, 2013** | **947** | **7,197** | **8,144** |

| | Furniture and fixtures | Equipment | Total |
|---|---|---|---|
| **2012** | | | |
| *Cost* | | | |
| January 1, 2012 | 5,379 | 14,847 | 20,226 |
| Additions | 111 | 5,671 | 5,782 |
| December 31, 2012 | 5,490 | 20,518 | 26,008 |
| *Accumulated depreciation* | | | |
| January 1, 2012 | (4,572) | (10,607) | (15,179) |
| Charge during the year | (218) | (1,744) | (1,962) |
| December 31, 2012 | (4,790) | (12,351) | (17,141) |
| *Net book value* | | | |
| **December 31, 2012** | 700 | 8,167 | 8,867 |

## 11. Accrued and other liabilities

| | 2013 | 2012 |
|---|---|---|
| Insurance operations: | | |
| Accrued salaries and other | **11,814** | 7,030 |
| Commission payable | **8,616** | 8,252 |
| Regulatory fee | **3,913** | 3,237 |
| Unclaimed cheques | **12,951** | 8,149 |
| Payable to vendors | **7,148** | 3,329 |
| Other | **6,913** | 5,521 |
| | **51,355** | 35,518 |
| Shareholders' operations: | | |
| Directors' fees | **1,020** | 1,312 |
| Other | **-** | 66 |
| | **1,020** | 1,378 |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 12. Employee termination benefits

| | 2013 | 2012 |
|---|---|---|
| Balance, January 1 | **15,875** | 14,246 |
| Employee termination benefits paid | **(1,530)** | (313) |
| Charge for the year | **2,150** | 1,942 |
| Balance, December 31 | **16,495** | 15,875 |

## 13. Related party transactions and balances

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

Transactions with related parties included in the income statement are as follows:

### a) Related party transactions

| | 2013 | 2013 |
|---|---|---|
| Gross premiums written | **23,323** | 22,523 |
| Net claims paid | **8,945** | 12,884 |
| Reinsurance ceded | **52,648** | 58,849 |
| Reinsurance recoveries | **29,653** | 74,887 |
| Reinsurance commissions | **5,622** | 5,622 |
| Expenses charged by related parties/ associates | **2,071** | 1,291 |

### b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

| | 2013 | 2012 |
|---|---|---|
| Key management personnel | **5,681** | 5,239 |
| Directors | **1,127** | 1,312 |
| | **6,808** | 6,551 |

The transactions with related parties are carried out at commercial terms and conditions and compensation to key management personnel is on employment terms.

### c) Related party balances

### i) Premiums and reinsurance balances receivable

| | 2013 | 2012 |
|---|---|---|
| Receivable from policy holders | **1,954** | 1,470 |
| Receivable from reinsurers | **2,511** | 3,873 |
| | **4,465** | 5,343 |
| Provision for doubtful debts | **(972)** | (815) |
| Total | **3,493** | 4,528 |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 13. Related party transactions and balances (continued)

### c) Related party balances (continued)

### ii) Receivable from related parties

Receivable from related parties at December 31, 2013 and December 31, 2012 represents amount receivable from the Seller and AXA Insurance (Gulf) B.S.c.

### iii) Reinsurers' balances payable

Reinsurers' balances payable mainly include balances payable to AXA Cessions Paris.

## 14. Insurance operations' accumulated surplus

In accordance with Implementing Regulations for Co-operative Insurance (the "Regulations") issued by SAMA, 90% of the insurance operations' surplus for each year is required to be transferred to the shareholders' income.

## 15. Zakat and income tax matters

(i) Provision for zakat and income tax

Provision for zakat has been made at 2.5% of the higher of approximate zakat base adjusted net income / loss attributable to the Saudi shareholders of the Company.

Income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

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

| **2013** | **Zakat** | **Income tax** | **Total** |
|---|---|---|---|
| Balance, January 1 | 5,004 | 938 | **5,942** |
| Payments | (1,115) | (1,187) | **(2,302)** |
| Provision for the year | 132 | 1,673 | **1,805** |
| Balance, December 31 | **4,021** | **1,424** | **5,445** |

| **2012** | **Zakat** | **Income tax** | **Total** |
|---|---|---|---|
| Balance, January 1 | 3,319 | 666 | 3,985 |
| Payments | (2,660) | - | (2,660) |
| Provision for the year | 4,345 | 272 | 4,617 |
| Balance, December 31 | 5,004 | 938 | 5,942 |

There are no significant deferred tax assets / liabilities as at December 31, 2013 and 2012.

(ii) Status of zakat and income tax certificate

The Company has revised the provision for zakat and income tax to reflect the effect of the Transfer and has submitted the revised returns for the period / years ended December 31, 2009, 2010 and 2011 after taking into account the effect of the Transfer.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 16. Share capital

| | 2013 | 2012 |
|---|---|---|
| Authorized | | |
| 20,000,000 shares of Saudi Riyals 10 each | **200,000** | 200,000 |
| Allotted, issued and fully paid | | |
| 20,000,000 shares of Saudi Riyals 10 each | **200,000** | 200,000 |

## 17. Statutory Reserve

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

## 18. Commission income

Commission income represents income earned from bonds, time deposits, short-term deposits and long-term deposits and realized gain on investments.

## 19. General and administrative expenses

| | 2013 | 2012 |
|---|---|---|
| Insurance operations: | | |
| Staff costs | **55,771** | 47,605 |
| Legal and professional fees | **5,911** | 2,866 |
| Information technology | **3,877** | 1,618 |
| Withholding tax | **3,210** | 4,856 |
| Business travel | **1,464** | 1,339 |
| Printing and stationary | **753** | 470 |
| Provision for doubtful debts | **-** | (950) |
| Other | **7,579** | 9,056 |
| | **78,565** | 66,860 |
| Shareholders' operations: | | |
| Directors' fees and other expenses | **1,127** | 1,312 |
| Other | **632** | 66 |
| | **1,759** | 1,378 |

## 20. Risk management

### 20.1 Risk governance

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

## 20. Risk management (continued)

### 20.1 Risk governance (continued)

*Risk management structure*

*Board of Directors*

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

*Audit Committee and Internal Audit Department*

The Internal Audit Department performs risk assessments with senior management annually. The Internal Audit Department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit Findings and recommendations are reported directly to the Audit Committee.

*Risk Management Committee*

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

*Senior management*

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

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

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

### 20.2 Insurance risk management

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

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

### 20.3 Accident, liability and motor

The accident category includes personal accident, money insurance, business all risk insurance and business travel insurance. Liability insurance includes general third-party liability, product liability and workmen's compensation/employer's liability protection arising out of acts of negligence during their business operations.

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

For accident, liability and motor policies the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has well developed risk acceptance procedures based on critical underwriting factors such as driver's age, diving experience and nature of vehicle to control the quality of risks that it accepts. It also has risk management procedures in place to control the costs of claims.

## 20. Risk management (continued)

### 20.4 Property

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

Significant risks underwritten by the Company under this class are physically inspected by qualified risk engineers to make sure adequate fire protection and security is in place. Also, the Company tracks for the potential of risk accumulation.

### 20.5 Marine

Marine insurance solutions are mainly designed to compensate policyholders from accidents at sea, on land and in the air resulting in the total or partial loss to goods and/or merchandise (cargo insurance).

The underwriting strategy for the marine class of business is to ensure that coverage is provided based on the quality of vessels used and shipping routes followed. Vessel details are validated through international agencies while making the underwriting decisions.

### 20.6 Engineering

Engineering covers two principal types as summarized below:

(i) “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; and

(ii) “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.

Significant risks underwritten by the Company under this class are physically inspected to make sure adequate fire protection, security and project management is in place.

### 20.7 Health and protection

Health insurance is designed to cover the medical expenses incurred as a result of a disease or an illness or an injury. The policy seeks to provide the policyholder and their employees with access to good medical facilities and the latest treatments and technologies, subject to the terms of the relevant policy and the policyholders’ personal circumstances.

Protection insurance covers the risks of death or disability following accident or illnesses and compensates the member or dependents in event of loss.

The main risk the Company faces on health and protection insurance is an increase of medical costs which can be more than expected or increase in claims due to exceptional events like outbreak of pandemic diseases. The underwriting strategy includes management of exposures and concentrations within acceptable risk appetite and risk tolerance levels and optimization of reinsurance strategies through a combination of reinsurance cession with approved and well-rated reinsurers and retrocession arrangements. The Company’s centralized claims management platform controls and manages its medical insurance claims.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.8 Reinsurance risk

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company only deals with reinsurers approved by the Board of Directors of the Company. The criteria may be summarized as follows:

a) Minimum acceptable credit rating by agencies that is not lower than prescribed in the Regulations;
b) Reputation of particular reinsurance companies; and
c) Existing or past business relationships.

Furthermore, the financial strengths and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company before placement of reinsurance.

### 20.9 Frequency and severity of claims

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

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

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross outstanding claims | Net outstanding claims | Gross unearned premiums | Net unearned premiums | Gross outstanding claims | Net outstanding claims | Gross unearned premiums | Net unearned premiums |
| Accident and Liability | **2%** | **2%** | **4%** | **3%** | 1% | 1% | 3% | 3% |
| Motor | **37%** | **47%** | **11%** | **13%** | 18% | 28% | 9% | 10% |
| Property | **23%** | **8%** | **12%** | **4%** | 42% | 21% | 11% | 4% |
| Marine | **4%** | **2%** | **3%** | **2%** | 8% | 11% | 3% | 2% |
| Engineering | **6%** | **7%** | **4%** | **3%** | 7% | 1% | 6% | 5% |
| Other general insurance | **-** | **-** | **-** | **-** | - | - | 3% | 2% |
| Health | **26%** | **32%** | **63%** | **73%** | 22% | 37% | 62% | 71% |
| Protection | **2%** | **2%** | **3%** | **2%** | 2% | 1% | 3% | 3% |
| | **100%** | **100%** | **100%** | **100%** | 100% | 100% | 100% | 100% |

The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.10 Sensitivity analysis

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

| | Shareholders' net income | | Shareholders' equity | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Impact of change in claim liabilities by +10 | | | | |
| Accident and Liability | **(542)** | 91 | **(485)** | 81 |
| Motor | **(11,675)** | (3,453) | **(10,455)** | (3,092) |
| Property | **(2,062)** | (2,764) | **(1,847)** | (2,475) |
| Marine | **(490)** | (1,320) | **(439)** | (1,182) |
| Engineering | **(1,729)** | (97) | **(1,548)** | (87) |
| Other general insurance | **(74)** | (6) | **(66)** | (5) |
| Health | **(7,945)** | (4,614) | **(7,115)** | (4,131) |
| Protection | **(480)** | (150) | **(430)** | (134) |
| | **(24,997)** | (12,313) | **(22,385)** | (11,025) |

| | Shareholders' net income | | Shareholders' equity | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Impact of change in claim liabilities by -10 | | | | |
| Accident and Liability | **542** | (91) | **485** | (81) |
| Motor | **11,675** | 3,453 | **10,455** | 3,092 |
| Property | **2,062** | 2,764 | **1,847** | 2,475 |
| Marine | **490** | 1,320 | **439** | 1,182 |
| Engineering | **1,729** | 97 | **1,548** | 87 |
| Other general insurance | **74** | 6 | **66** | 5 |
| Health | **7,945** | 4,614 | **7,115** | 4,131 |
| Protection | **480** | 150 | **430** | 134 |
| | **24,997** | 12,313 | **22,385** | 11,025 |

### 20.11 Claims development

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

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

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.11 Claims development

| Accident year | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|---|---|---|---|---|---|---|
| At end of reporting year | **367,502** | **284,502** | **346,807** | **340,536** | **485,490** | - |
| One year later | **408,071** | **308,263** | **350,942** | **357,461** | - | - |
| Two years later | **407,774** | **315,189** | **349,900** | - | - | - |
| Three years later | **408,075** | **315,776** | - | - | - | - |
| Four years later | **409,205** | - | - | - | - | - |
| Five years later | - | - | - | - | - | - |
| Current estimate of cumulative claims | **409,205** | **315,776** | **349,900** | **357,461** | **485,490** | **1,917,832** |
| Cumulative payment to date | **(405,886)** | **(310,512)** | **(347,122)** | **(341,789)** | **(359,732)** | **(1,765,041)** |
| Liability recognized till date | **3,319** | **5,264** | **2,778** | **15,672** | **125,758** | **152,791** |
| Reserve with respect to 2008 | | | | | | **1,796** |
| Claim incurred but not reported | | | | | | **158,195** |
| Total reserve | | | | | | **312,782** |

### 20.12 Regulatory framework risk

The operations of the Company are subject to regulatory requirements in 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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management's opinion, the Company has substantially complied with such regulatory requirements.

### 20.13 Financial risk

The Company's principal financial assets and liabilities are cash and cash equivalents, available-for-sale investment, statutory deposit, premium and insurance balances receivable, receivable from a related party and accrued and other liabilities.

The main risks arising from the Company's financial instruments are commission rate risk, credit risk, liquidity risk and market price risks. The audit committee appointed by the Board of Directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

### 20.14 Credit risk

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

The Company only enters into insurance and reinsurance contracts with recognised and credit worthy 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 on-going basis in order to reduce the Company's exposure to bad debts. The Company limits its credit risk with regard to time deposits by dealing with reputed banks only.

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

*Maximum exposure to credit risk*

The Company's maximum exposure to credit risk on its financial assets at December 31, 2013 is Saudi Riyals 787 million (December 31, 2012: Saudi Riyals 682 million).

The table below shows the components of the statement of financial position of the Company at December 31, 2013 and 2012 exposed to credit risk:

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.14 Credit risk (continued)

| | 2013 | 2012 |
|---|---|---|
| Insurance operations' assets | | |
| Cash and cash equivalents | **171,605** | 74,118 |
| Short-term deposits | **26,541** | 61,142 |
| Premiums and insurance balances receivable - net | **130,582** | 106,291 |
| Receivable from related parties | **8,392** | 22,096 |
| Reinsurers' share of outstanding claims | **62,804** | 92,714 |
| Other assets | **4,545** | 1,685 |
| Available-for-sale investments | **86,942** | 54,514 |
| Held-to-maturity investments | **75,000** | - |
| Long-term deposit | **7,500** | 7,500 |
| | **573,911** | 420,060 |
| Shareholders' assets | | |
| Cash and cash equivalents | **891** | 325 |
| Short-term deposits | **-** | 138,819 |
| Other assets | **1,208** | 3,087 |
| Available-for-sale investments | **74,314** | 63,085 |
| Long-term deposits | **56,250** | 36,250 |
| Held-to-maturity investments | **60,000** | - |
| Statutory deposit | **20,000** | 20,000 |
| | **212,663** | 261,566 |
| **Total** | **786,574** | 681,626 |

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

**Insurance operations' financial assets as at December 31, 2013**

| | | Non-Investment grade | | |
|---|---|---|---|---|
| | Investment grade | Satisfactory | Past due but not impaired | Total |
| Cash and cash equivalents | **171,605** | **-** | **-** | **171,605** |
| Short-term deposits | **26,541** | **-** | **-** | **26,541** |
| Premiums and reinsurance balance receivable – net | **-** | **100,654** | **29,928** | **130,582** |
| Receivable from related parties | **-** | **8,392** | **-** | **8,392** |
| Reinsurers' share of outstanding claims | **-** | **62,804** | **-** | **62,804** |
| Other assets | **-** | **4,545** | **-** | **4,545** |
| Available-for-sale investments | **86,942** | **-** | **-** | **86,942** |
| Held-to-maturity investments | **75,000** | **-** | **-** | **75,000** |
| Long-term deposit | **7,500** | **-** | **-** | **7,500** |
| | **367,588** | **176,395** | **29,928** | **573,911** |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.14 Credit risk (continued)

**Insurance operations' financial assets as at December 31, 2012**

| | | Non-Investment grade | | |
|---|---|---|---|---|
| | Investment grade | Satisfactory | Past due but not impaired | Total |
| Cash and cash equivalents | 74,118 | - | - | 74,118 |
| Short-term deposits | 61,142 | - | - | 61,142 |
| Premiums and reinsurance balance receivable – net | - | 81,149 | 25,142 | 106,291 |
| Receivable from related parties | - | 22,096 | - | 22,096 |
| Reinsurers' share of outstanding claims | - | 92,714 | - | 92,714 |
| Other assets | - | 1,685 | - | 1,685 |
| Available-for-sale investments | 54,514 | - | - | 54,514 |
| Long-term deposit | 7,500 | - | - | 7,500 |
| | 197,274 | 197,644 | 25,142 | 420,060 |

**Shareholders' financial assets as at December 31, 2013**

| | | Non-investment grade | | |
|---|---|---|---|---|
| | Investment grade | Satisfactory | Past due but not impaired | Total |
| Cash and cash equivalents | **891** | **-** | - | **891** |
| Short-term deposits | **-** | **-** | - | **-** |
| Other assets | **-** | **1,208** | - | **1,208** |
| Available-for-sale investments | **74,314** | **-** | - | **74,314** |
| Held-to-maturity investments | **60,000** | **-** | - | **60,000** |
| Long-term deposits | **56,250** | **-** | - | **56,250** |
| Statutory deposit | **20,000** | **-** | - | **20,000** |
| | **211,455** | **1,208** | **-** | **212,663** |

**Shareholders' financial assets as at December 31, 2012**

| | | Non-investment grade | | |
|---|---|---|---|---|
| | Investment grade | Satisfactory | Past due but not impaired | Total |
| Cash and cash equivalents | 325 | - | - | 325 |
| Short-term deposits | 138,819 | - | - | 138,819 |
| Other assets | - | 3,087 | - | 3,087 |
| Available-for-sale investments | 63,085 | - | - | 63,085 |
| Long-term deposits | 36,250 | - | - | 36,250 |
| Statutory deposit | 20,000 | - | - | 20,000 |
| | 258,479 | 3,087 | - | 261,566 |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.15 Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with insurance contracts. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

Substantially all the financial liabilities of the Company are due within one year of the date of the statement of financial position.

The table below summarizes the maturities of the Company's undiscounted contractual obligations at December 31, 2013 and 2012. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

| | Less than 12 months | | More than 12 months | | | Total |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Insurance operations' liabilities | | | | | | |
| Reinsurers' balances payable | **39,165** | 36,548 | - | - | **39,165** | 36,548 |
| Outstanding claims | **312,782** | 215,838 | - | - | **312,782** | 215,838 |
| Accrued and other liabilities | **51,355** | 35,518 | - | - | **51,355** | 35,518 |
| Payable to a related party | **-** | 49,730 | - | - | - | 49,730 |
| Employee termination benefits | **-** | - | **16,495** | 15,875 | **16,495** | 15,875 |
| | **403,302** | 337,634 | **16,495** | 15,875 | **419,797** | 353,509 |
| Shareholders' liabilities | | | | | | |
| Accrued and other liabilities | **1,020** | 1,378 | - | - | **1,020** | 1,378 |
| | **404,322** | 339,012 | **16,495** | 15,875 | **420,817** | 354,887 |

### 20.16 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. The Company's financial instruments are not exposed to market risk. Market risk is limited by investing in companies with good credit rating. In addition the key factors that affect market are monitored, including operational and financial performance of the Company.

#### 20.16.1 Currency risk

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against Saudi Riyals. Management believes that currency risk to the Company is not significant.

#### 20.16.2 Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its time deposits, short-term deposit, long-term deposits, available-for-sale and held-to-maturity investments. The Company limits commission rate risk by monitoring changes in commission rates. The Company does not have any interest bearing liabilities.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.16.2 Commission rate risk (continued)

Effective commission rates of the Company's investments and their maturities as at December 31, 2013 and 2012 are as follows:

| **2013** | **Commission bearing** | | | | | |
|---|---|---|---|---|---|---|
| | **Less than 1 year** | **1 to 5 years** | **More than 5 years** | **Effective rate of commission** | **Non-commission bearing** | **Total** |
| **Insurance operations** | | | | | | |
| Cash and cash equivalents | **171,605** | **-** | **-** | **1.30%** | - | **171,605** |
| Short term deposits | **26,541** | **-** | **-** | **1.30%** | - | **26,541** |
| Available-for-sale investments | **86,942** | **-** | **-** | **3.88%** | - | **86,942** |
| Held-to-maturity investments | **-** | **-** | **75,000** | **3.34%** | - | **75,000** |
| Long-term deposit | **-** | **7,500** | **-** | **1.82%** | - | **7,500** |
| December 31, 2013 | **285,088** | **7,500** | **75,000** | | - | **367,588** |
| **Shareholders' operations** | | | | | | |
| Cash and cash equivalents | **891** | **-** | **-** | **1.30%** | **-** | **891** |
| Short-term deposits | **-** | **-** | **-** | **1.30%** | **-** | **-** |
| Available-for-sale investments | **74,314** | **-** | **-** | **3.88%** | **-** | **74,314** |
| Held-to-maturity investments | **-** | **-** | **60,000** | **3.21%** | **-** | **60,000** |
| Long-term deposits | **-** | **56,250** | **-** | **2.40%** | **-** | **56,250** |
| Statutory deposit | **20,000** | **-** | **-** | **0.79%** | **-** | **20,000** |
| December 31, 2013 | **95,205** | **56,250** | **60,000** | | **-** | **211,455** |

| **2012** | **Commission bearing** | | | | | |
|---|---|---|---|---|---|---|
| | **Less than 1 year** | **1 to 5 years** | **More than 5 years** | **Effective rate of commission** | **Non-commission bearing** | **Total** |
| **Insurance operations** | | | | | | |
| Cash and cash equivalents | 74,118 | - | - | 0.98% | - | 74,118 |
| Short term deposits | 61,142 | - | - | 1.5% | | 61,142 |
| Available-for-sale Investments | 54,514 | - | - | 2.5% | - | 54,514 |
| Long-term deposit | - | 7,500 | - | 2.0% | - | 7,500 |
| December 31, 2012 | 189,774 | 7,500 | - | | - | 197,274 |
| **Shareholders' operations** | | | | | | |
| Cash and cash equivalents | 325 | - | - | 0.98% | - | 325 |
| Short-term deposits | 138,819 | - | - | 1.5% | - | 138,819 |
| Available-for-sale Investments | 63,085 | - | - | 2.6% | - | 63,085 |
| Long-term deposits | - | 36,250 | - | | - | 36,250 |
| Statutory deposit | 20,000 | - | - | 0.74% | - | 20,000 |
| December 31, 2012 | 222,229 | 36,250 | - | | - | 258,479 |

There is no significant difference between contractual re-pricing and maturity dates.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.16.2 Commission rate risk (continued)

The following table demonstrates the sensitivity of statements of shareholders' comprehensive operations and shareholders' equity to reasonably possible change in commission rates of the Company's deposits, with all other variables held constant:

| **Currency** | **Change in variable** | **Impact on net income** | |
|---|---|---|---|
| | | **2013** | **2012** |
| Saudi Riyals | +50 basis points | **2,895** | 1,963 |
| Saudi Riyals | - 50 basis points | **(2,895)** | (1,963) |

### 20.16.3 Price risk

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

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

### 20.17 Capital risk management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements as set out in the Law. The Company's current paid-up share capital is in accordance with Article 3 of the Law;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

As per Article 66 of the Regulations, the Company shall maintain solvency margin equivalent to the highest of the following three methods:

- Minimum capital requirement of Saudi Riyals 200 million
- Premium solvency margin
- Claims solvency margin

The Company's solvency margin at December 31, 2013 is 75% (2012: 64%) of the required margin of solvency.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 20. Risk management (continued)

### 20.18 Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair values of the Company's financial instruments are not materially different from their carrying values.

The Company's financial assets consist of cash and cash equivalents, premium and insurance balances receivables, investments, accrued income and financial liabilities consisting of payables and accrued expenses.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the identical assets or liabilities (i.e. without modification or repacking).

Level 2: quoted prices in active markets for similar financial 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.

The table below presents the financial instruments at their fair values as at December 31, 2013 and 2012 based on the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **2013** | | | | |
| Available-for-sale investments: | | | | |
| Insurance operations | **86,942** | **-** | **-** | **86,942** |
| Shareholders' operations | **74,314** | **-** | **-** | **74,314** |
| Held-to-maturity investments: | | | | |
| Insurance operations | **75,000** | **-** | **-** | **75,000** |
| Shareholders' operations | **60,000** | **-** | **-** | **60,000** |
| **2012** | | | | |
| Available-for-sale investments: | | | | |
| Insurance operations | 54,514 | - | - | 54,514 |
| Shareholders' operations | 63,085 | - | - | 63,085 |

## 21. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 has been computed by dividing the shareholders' net income for such years by the weighted average number of shares outstanding during such year.

## 22. Contingencies

### Contingent consideration payable to the Seller

As stated in Note 1, the Company acquired the insurance portfolio from the Seller at a consideration based on SAMA's instructions. Settlement of such consideration can only be made upon fulfilling certain conditions dictated by SAMA which include, among others, the following:

- Maintenance of required solvency margin and minimum share capital;
- Restriction on repayment upto a maximum of 50% of the profit earned in the current year;
- Restriction on settlement in the year of loss or out of retained earnings; and
- Limitation on duration within which payment of consideration can be made.

Considering the above conditions, financial performance and the Company's future business plans, management believes that the Company will not be required to repay the consideration. Accordingly, the consideration of Saudi Riyals 106.57 million is disclosed as a contingent liability. Management will however, reassess the conditions for settlement of the consideration at each balance sheet date during the period in which payment can be made and will recognize a liability, if required.

### Guarantee

At December 31, 2013 the Company was contingently liable for a counter guarantee amounting to Saudi Riyals 1.8 million issued to Yusuf bin Ahmed Kanoo Company LLC (Kanoo), a related party, against a bank guarantee submitted by Kanoo with the Ministry of Foreign Affairs (MOFA) on behalf of the Company.

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 23. Segment reporting

**Insurance operations for the year ended December 31, 2013:**

| | General and medical | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | Accident and Liability | Motor | Property | Marine | Engineering | Other general insurance | Health | Total | Protection | Grand Total |
| Gross premiums written | 22,350 | 317,588 | 66,222 | 40,914 | 25,879 | 2,278 | 282,629 | 757,860 | 17,736 | 775,596 |
| Less: reinsurance premiums ceded | (6,584) | (747) | (51,662) | (21,554) | (16,304) | (232) | (3,810) | (100,893) | (3,558) | (104,451) |
| Net premiums written | 15,766 | 316,841 | 14,560 | 19,360 | 9,575 | 2,046 | 278,819 | 656,967 | 14,178 | 671,145 |
| Changes in unearned premiums | 1,709 | (7,519) | (1,154) | 254 | 1,967 | 91 | (22,161) | (26,813) | (280) | (27,093) |
| Net premiums earned | 17,475 | 309,322 | 13,406 | 19,614 | 11,542 | 2,137 | 256,658 | 630,154 | 13,898 | 644,052 |
| Reinsurance commissions | 913 | - | 6,376 | 4,619 | 1,007 | - | 586 | 13,501 | 372 | 13,873 |
| Total revenue | 18,388 | 309,322 | 19,782 | 24,233 | 12,549 | 2,137 | 257,244 | 643,655 | 14,270 | 657,925 |
| Gross claims paid | 2,953 | 189,298 | 82,851 | 21,922 | 4,281 | 119 | 194,679 | 496,103 | 13,243 | 509,346 |
| Less: reinsurers' share | (104) | (16) | (73,664) | (13,389) | (1,618) | - | (3,870) | (92,661) | (5,114) | (97,775) |
| Net claims paid | 2,849 | 189,282 | 9,187 | 8,533 | 2,663 | 119 | 190,809 | 403,442 | 8,129 | 411,571 |
| Changes in outstanding claims | 1,983 | 82,393 | 3,163 | (1,460) | 5,566 | 451 | 31,754 | 123,850 | 3,004 | 126,854 |
| Net claims incurred | 4,832 | 271,675 | 12,350 | 7,073 | 8,229 | 570 | 222,563 | 527,292 | 11,133 | 538,425 |
| Policy acquisition costs | 2,087 | 4,189 | 5,808 | 3,258 | 3,024 | 206 | 13,792 | 32,364 | 2,365 | 34,729 |
| Operating and administrative salaries | 1,766 | 21,688 | 4,298 | 2,871 | 2,006 | 88 | 18,217 | 50,934 | 1,197 | 52,131 |
| Other general and administrative expenses | 896 | 11,000 | 2,180 | 1,456 | 1,017 | 44 | 9,240 | 25,833 | 601 | 26,434 |
| Total costs and expenses | 9,581 | 308,552 | 24,636 | 14,658 | 14,276 | 908 | 263,812 | 636,423 | 15,296 | 651,719 |
| Surplus from insurance operations | | | | | | | | | | 6,206 |
| Commission Income | | | | | | | | | | 4,805 |
| Net surplus from Insurance operations | | | | | | | | | | 11,011 |
| Shareholders' appropriation of surplus from insurance operations | | | | | | | | | | (9,910) |
| Net result from insurance operations' after appropriation of surplus | | | | | | | | | | 1,101 |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**23. Segment reporting (continued)**

Insurance operations for the year ended December 31, 2012:

| **2012** | General and medical | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Accident and Liability | Motor | Property | Marine | Engineering | Other general insurance | Health | Total | Protection | Grand Total |
| Gross premiums written | 23,452 | 57,131 | 56,776 | 37,386 | 27,458 | 3,669 | 239,490 | 445,362 | 15,124 | 460,486 |
| Less: reinsurance ceded | (6,702) | (930) | (46,289) | (16,983) | (15,673) | (719) | (5,184) | (92,480) | (3,887) | (96,367) |
| Net premiums written | 16,750 | 56,201 | 10,487 | 20,403 | 11,785 | 2,950 | 234,306 | 352,882 | 11,237 | 364,119 |
| Changes in unearned premiums | (754) | (3,892) | 329 | 27 | (10) | 655 | (1,611) | (5,256) | (57) | (5,313) |
| Net premiums earned | 15,996 | 52,309 | 10,816 | 20,430 | 11,775 | 3,605 | 232,695 | 347,626 | 11,180 | 358,806 |
| Reinsurance commissions | 672 | 17 | 7,261 | 3,791 | 888 | 17 | 234 | 12,880 | - | 12,880 |
| Total revenue | 16,668 | 52,326 | 18,077 | 24,221 | 12,663 | 3,622 | 232,929 | 360,506 | 11,180 | 371,686 |
| Gross claims paid | 1,125 | 41,184 | 65,304 | 8,602 | 10,589 | 1,189 | 212,186 | 340,179 | 7,184 | 347,363 |
| Less: reinsurers' share | (115) | (4,801) | (56,207) | (4,502) | (1,315) | (96) | (5,133) | (72,169) | (805) | (72,974) |
| Net claims paid | 1,010 | 36,383 | 9,097 | 4,100 | 9,274 | 1,093 | 207,053 | 268,010 | 6,379 | 274,389 |
| Changes in outstanding claims | (637) | (7,223) | 4,934 | 380 | 3,031 | (2,091) | (2,383) | (3,989) | (2,721) | (6,710) |
| Net claims incurred | 373 | 29,160 | 14,031 | 4,480 | 12,305 | (998) | 204,670 | 264,021 | 3,658 | 267,679 |
| Policy acquisition costs | 1,924 | 4,905 | 5,582 | 2,848 | 2,650 | 519 | 13,380 | 31,808 | 1,387 | 33,195 |
| Operating and administrative salaries | 2,725 | 6,582 | 5,827 | 3,490 | 2,957 | 312 | 20,423 | 42,316 | 1,409 | 43,725 |
| Other general and administrative expenses | 1,592 | 4,085 | 3,654 | 2,127 | 1,809 | 179 | 8,773 | 22,219 | 916 | 23,135 |
| Total costs and expenses | 6,614 | 44,732 | 29,094 | 12,945 | 19,721 | 12 | 247,246 | 360,364 | 7,370 | 367,734 |
| Surplus from insurance operations | | | | | | | | | | 3,952 |
| Commission income | | | | | | | | | | 1,620 |
| Net surplus from insurance operations | | | | | | | | | | 5,572 |
| Insurance operations' surplus transferred to shareholders' operations | | | | | | | | | | (5,015) |
| Net results from insurance operation after appropriation of surplus | | | | | | | | | | 557 |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 23. Segment reporting (continued)

**Insurance operations' financial position as of December 31, 2013:**

| | General and medical | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | Accident and liability | Motor | Property | Marine | Engineering | Other general insurance | Health | Total | Protection | **Grand Total** |
| **Insurance operations' assets** | | | | | | | | | | |
| Reinsurers' share of outstanding claims | 244 | (236) | 50,983 | 7,456 | 2,792 | (210) | 1,775 | 62,804 | - | 62,804 |
| Reinsurers' share of unearned premiums | 2,734 | 15 | 18,289 | 2,734 | 2,887 | - | - | 26,659 | 529 | 27,188 |
| Deferred policy acquisition costs | 658 | 1,801 | 3,132 | 378 | 729 | 22 | 9,987 | 16,707 | - | 16,707 |
| Unallocated assets | | | | | | | | | | 537,139 |
| Total insurance operations' assets | | | | | | | | | | 643,838 |
| **Insurance operations' liabilities** | | | | | | | | | | |
| Unearned premiums | 8,477 | 23,664 | 25,391 | 6,003 | 8,854 | 348 | 133,538 | 206,275 | 4,565 | 210,840 |
| Outstanding claims | 5,663 | 116,516 | 71,607 | 12,358 | 20,082 | 529 | 81,224 | 307,979 | 4,803 | 312,782 |
| Deferred reinsurance commission | 363 | - | 2,510 | 773 | 234 | - | 909 | 4,789 | 308 | 5,097 |
| Unallocated liabilities | | | | | | | | | | 114,532 |
| Total insurance operations' liabilities | | | | | | | | | | 643,251 |

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 23. Segment reporting (continued)

Insurance operations' financial position as of December 31, 2012:

| | General and medical | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | Accident and liability | Motor | Property | Marine | Engineering | Other general insurance | Health | Total | Protection | **Grand Total** |
| **Insurance operations' assets** | | | | | | | | | | |
| Reinsurers' share of outstanding claims | 3,602 | 3,730 | 63,993 | 4,879 | 14,376 | (538) | 1,150 | 91,192 | 1,522 | 92,714 |
| Reinsurers' share of unearned premiums | 1,940 | 22 | 14,669 | 2,621 | 3,724 | 864 | - | 23,840 | 185 | 24,025 |
| Deferred policy acquisition costs | 831 | 1,650 | 1,329 | 818 | 992 | (126) | 9,039 | 14,533 | 358 | 14,891 |
| Unallocated assets | | | | | | | | | | 408,529 |
| Total insurance operations' assets | | | | | | | | | | 540,159 |
| **Insurance operations' liabilities** | | | | | | | | | | |
| Unearned premiums | 5,878 | 16,152 | 20,591 | 6,100 | 11,685 | 4,587 | 111,657 | 176,650 | 3,934 | 180,584 |
| Outstanding claims | 2,694 | 38,263 | 91,631 | 18,079 | 15,345 | (479) | 47,286 | 212,819 | 3,019 | 215,838 |
| Deferred reinsurance commission | 472 | - | 1,772 | 747 | 660 | 140 | 909 | 4,700 | 563 | 5,263 |
| Unallocated liabilities | | | | | | | | | | 137,671 |
| Total insurance operations' liabilities and accumulated surplus | | | | | | | | | | 539,356 |

## 24. Comparative figures

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

## 25. Date of approval

These financial statements were approved by the Company's Board of Directors on February 24, 2014.