THE COMPANY FOR
COOPERATIVE INSURANCE

(A SAUDI JOINT STOCK COMPANY)

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

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KPMG Al Fozan & Al Sadhan

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INDEPENDENT AUDITORS' REPORT

To the shareholders of The Company for Cooperative Insurance

SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of The Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at December 31, 2013, and the related statements of income - insurance operations and accumulated surplus and cash flows for insurance operations, statements of comprehensive income and cash flows for shareholders' operations and statement of changes in shareholders' equity for the year then ended and notes 1 to 35 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provision of Article 123 of the Regulation for Companies and the Company's By-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

UNQUALIFIED OPINION:

In our opinion the financial statements taken as a whole:

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

EMPHASIS OF MATTER:

We draw attention to the fact that these financial statements are prepared in accordance with IFRS and not in accordance with the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

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5th Rabi'II, 1435H
February 5, 2014

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

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	Notes	2013	2012
		SR '000	
ASSETS - INSURANCE OPERATIONS			
Due from shareholders' operations		**489,625**	-
Property and equipment, net	4	**265,816**	235,787
Investment property		**9,861**	9,861
Investments in associates	5	**5,377**	105,487
Available for sale investments	6	**1,968,124**	1,702,569
Prepaid expenses and other assets	7	**315,228**	284,534
Deferred policy acquisition costs	8	**163,680**	179,493
Reinsurers' share of outstanding claims	8,9	**1,699,886**	598,050
Reinsurers' share of unearned premium	8	**489,328**	524,777
Receivables, net	10	**1,531,469**	1,863,276
Cash and cash equivalents	12	**792,078**	473,239
Total assets - Insurance operations		**7,730,472**	5,977,073
ASSETS - SHAREHOLDERS			
Due from insurance operations		-	35,597
Accrued investment income		**5,146**	9,536
Investments in associates	5	**64,048**	53,790
Available for sale investments	6	**1,866,910**	1,944,067
Statutory deposit	11	**100,000**	75,000
Cash and cash equivalents	12	**198,766**	122,781
Total assets – Shareholders		**2,234,870**	2,240,771
TOTAL ASSETS		**9,965,342**	8,217,844

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

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

STATEMENT OF FINANCIAL POSITION (Continued)
AS AT DECEMBER 31

	Notes	2013	2012
		SR'000	
LIABILITIES AND SURPLUS - INSURANCE OPERATIONS			
Liabilities - Insurance operations:			
Surplus distribution payable		-	27,201
Due to shareholders' operations		-	35,597
Accrued expenses and other liabilities	14	**1,288,843**	1,241,171
Reserve for takaful activities		**13,642**	13,730
Reserve for discontinued operations	15	**11,410**	11,402
Outstanding claims and reserves	8,16	**3,094,127**	1,161,282
Unearned commission income	8	**50,697**	68,751
Unearned premiums	8	**2,847,389**	2,969,711
Reinsurers' balances payable		**345,793**	381,591
Total liabilities - Insurance operations		**7, 651,901**	5,910,436
Surplus - Insurance operations:			
Fair value reserve on investments		**78,571**	66,637
Total liabilities and surplus - Insurance operations		**7,730,472**	5,977,073
LIABILITIES AND EQUITY - SHAREHOLDERS			
Shareholders' liabilities:			
Due to insurance operations		**489,625**	-
Accrued expenses and other liabilities		**1,127**	858
Dividends payable		**5,151**	5,368
Zakat	17	**98,399**	91,607
Total liabilities - Shareholders		**594,302**	**97,833**
Shareholders' equity:			
Share capital	18	**1,000,000**	750,000
Legal reserve	19	**651,756**	651,756
Fair value reserve on investments		**288,183**	198,418
Accumulated (loss) / profit		**(299,371)**	542,764
Total Shareholders' equity		**1,640,568**	2,142,938
Total Shareholders' liabilities and equity		**2,234,870**	2,240,771
TOTAL LIABILITIES, INSURANCE OPERATION SURPLUS AND SHAREHOLDERS' EQUITY		**9,965,342**	8,217,844

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

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

STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
YEAR ENDED DECEMBER 31

	Notes	2013	2012
		SR'000	
REVENUES			
Gross premiums written		**5,604,993**	5,634,638
Less: Reinsurance ceded		**(963,517)**	(1,133,638)
Net premiums written	8	**4,641,476**	4,501,000
Changes in unearned premiums		**86,873**	(549,811)
Net premiums earned	8	**4,728,349**	3,951,189
Reinsurance commissions	8	**127,640**	241,425
Investment income, net	21	**155,223**	57,538
Other income		**24,967**	5,973
Total revenues		**5,036,179**	4,256,125
COSTS AND EXPENSES			
Gross claims paid		**4,759,087**	3,661,876
Less: Reinsurance share		**(707,304)**	(504,228)
Net claims paid	8	**4,051,783**	3,157,648
Changes in outstanding claims		**831,009**	74,061
Net claims incurred	8	**4,882,792**	3,231,709
Policy acquisition costs	8	**405,129**	360,035
Excess of loss expenses		**64,821**	70,224
Changes in reserves for Takaful activities		**(88)**	(1,313)
Other underwriting expenses		**72,861**	82,492
Impairment charges for investments	6	**-**	3,541
Operating and selling expenses	22	**228,835**	187,765
Other general and administrative expenses	22	**39,135**	49,658
Total costs and expenses		**5,693,485**	3,984,111
(Deficit) / surplus from insurance operations		**(657,306)**	272,014
Shareholders' appropriation from deficit / (surplus)	1	**657,306**	(244,813)
Surplus from insurance operations after shareholders' appropriation		**-**	27,201
Distribution of surplus	1	**-**	(27,201)
ACCUMULATED SURPLUS, END OF THE YEAR		**-**	-

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

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

STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS
YEAR ENDED DECEMBER 31

	Notes	2013	2012
		SR'000	
Appropriation of (deficit) / surplus from insurance operations	1	**(657,306)**	244,813
Investment income, net	21	**93,223**	110,503
Other expenses		**(141)**	(701)
Impairment charges for investments	6	**-**	(3,144)
(Loss) / income from operations before zakat		**(564,224)**	351,471
Zakat	17	**(26,711)**	(31,750)
Net (loss) / income for the year		**(590,935)**	319,721
Other comprehensive income:			
This will be reclassified subsequently to profit or loss when specific conditions are met:			
Change in fair value of investments		**89,765**	38,259
Comprehensive (loss) / income for the year		**(501,170)**	357,980
(Loss) / earnings per share:			
Basic and diluted (loss) / earnings per share (SR)	23	**(5.91)**	3.20
Weighted average number of shares in issue		**100,000,000**	100,000,000

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2013 AND 2012

	Notes	Share capital	Legal reserve	Fair value reserve on investments	Retained earnings	Total
				SR '000		
Balance at January 1, 2012		750,000	587,812	160,159	550,887	2,048,858
Dividends	13	-	-	-	(262,500)	(262,500)
Board of Directors' remuneration	25	-	-	-	(1,400)	(1,400)
Net income for the year		-	-	-	319,721	319,721
Changes in fair value of investments		-	-	38,259	-	38,259
Transfer to legal reserve		-	63,944	-	(63,944)	-
Balance at December 31, 2012		750,000	651,756	198,418	542,764	2,142,938
Balance at January 1, 2013		**750,000**	**651,756**	**198,418**	**542,764**	**2,142,938**
Issuance of bonus shares	13	**250,000**	-	-	**(250,000)**	-
Board of Directors' remuneration	25	-	-	-	**(1,200)**	**(1,200)**
Net loss for the year		-	-	-	**(590,935)**	**(590,935)**
Changes in fair value of investments		-	-	**89,765**	-	**89,765**
Balance at December 31, 2013		**1,000,000**	**651,756**	**288,183**	**(299,371)**	**1,640,568**

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

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

STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS
YEAR ENDED DECEMBER 31

	2013	2012
	SR '000	
Cash flows from operating activities:		
Surplus from insurance operations after shareholders' appropriation	-	27,201
Adjustments to reconcile (deficit) / surplus from insurance operations to net cash (used in) / provided by operating activities:		
Shareholders' appropriation from (deficit) / surplus	**(657,306)**	244,813
Depreciation	**11,238**	14,132
Impairment charge for investments	-	3,541
Investment income	**(149,257)**	(13,737)
Share of profit from investments in associates, net	**(5,966)**	(10,581)
Operating (deficit) / surplus before changes in operating assets and liabilities	**(801,291)**	265,369
Changes in operating assets and liabilities:		
Receivables, net	**331,807**	(546,156)
Reinsurers' share of outstanding claims	**(1,101,836)**	141,371
Reinsurers' share of unearned premiums	**35,449**	(14,260)
Deferred policy acquisition costs	**15,813**	(16,032)
Prepaid expenses and others assets	**(30,694)**	(96,096)
Reinsurers' balances payable	**(35,798)**	(110,100)
Unearned premium income	**(122,322)**	564,071
Unearned commission income	**(18,054)**	(4,051)
Outstanding claims	**1,932,845**	(67,310)
Reserve for discontinued operations	**8**	4,420
Reserve for takaful activities	**(88)**	(1,313)
Accrued expenses and other liabilities	**47,672**	371,040
Due from / to shareholders	**132,084**	(284,130)
Net cash provided by operating activities	**385,595**	206,823
Cash flows from investing activities:		
Proceeds from sale of and matured investments	**1,515,381**	883,276
Purchase of investments	**(1,522,669)**	(648,624)
Property and equipment, net	**(41,267)**	(73,102)
Dividends received from investments in associates	**9,000**	9,000
Net cash (used in) / from investing activities	**(39,555)**	170,550
Cash flows from financing activities		
Surplus paid to policyholders	**(27,201)**	(47,365)
Net cash used in financing activities	**(27,201)**	(47,365)
Net change in cash and cash equivalents	**318,839**	330,008
Cash and cash equivalents, beginning of year	**473,239**	143,231
Cash and cash equivalents, end of year	**792,078**	473,239
Non-cash supplemental information:		
Changes in fair value of investments	**11,934**	27,538

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

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

STATEMENT OF CASH FLOWS - SHAREHOLDERS
YEAR ENDED DECEMBER 31

	Note	2013	2012
		SR '000	
Cash flows from operating activities:			
Net (loss) / income for the year		**(590,935)**	319,721
Adjustments to reconcile net (loss) / income to net cash (used in) / provided by operating activities:			
Appropriation of (deficit) / surplus from insurance operations		**657,306**	(244,813)
Investment income		**(78,618)**	(70,010)
Impairment charges for investments		**-**	3,144
Share of profit from investments in associates, net		**(14,605)**	(12,276)
Operating profit / (loss) before changes in operating assets and liabilities		**(26,852)**	(4,234)
Changes in operating assets and liabilities:			
Accrued investment income		**4,390**	(4,711)
Due to / from insurance operations		**(132,084)**	284,130
Accrued expenses and other liabilities		**269**	231
Zakat, net		**6,792**	13,357
Net cash (used in) / provided by operating activities		**(147,485)**	288,773
Cash flows from investing activities:			
Statutory deposit		**(25,000)**	-
Proceeds from sale and matured investments		**691,321**	1,144,623
Purchase of investments		**(448,886)**	(1,169,342)
Dividends received from investment in associates		**7,452**	11,183
Net cash from / (used in) investing activities		**224,887**	(13,536)
Cash flows from financing activities:			
Dividends paid		**(217)**	(261,580)
Board of Directors' remuneration	25	**(1,200)**	(1,400)
Net cash used in financing activities		**(1,417)**	(262,980)
Net change in cash and cash equivalents		**75,985**	12,257
Cash and cash equivalents, beginning of year		**122,781**	110,524
Cash and cash equivalents, end of year		**198,766**	122,781
Non-cash supplemental information:			
Changes in fair value of investments		**89,765**	38,259

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

1. GENERAL

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

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

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

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

b) Basis of measurement

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

c) Functional and presentation currency

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

2. BASIS OF PREPARATION (Continued)

d) Fiscal year

The Company follows a fiscal year ending December 31.

e) Critical accounting judgments, estimates and assumptions

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

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

Further details of the specific estimate and judgments made by management are given in the accounting policies. Following are the critical areas of estimation and judgments:

i) Estimation of the insurance contract reserves

Incurred but not reported claims

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The actuary calculated the claims reserves using a methodology that involves blending of the following two reserving methods:

- Lag development method (Chain ladder method)
- Projection of Ultimate Incurred Method (Projection method)

The estimates are blend from the above two methods using credibility factors developed from the data. The claims reserves are sensitive to assumptions made about the number of months used to average the completion factors for the chain ladder method and the claims trend used in the projection method.

Based on the actuary's assessment, the Company believes that reserves for medical business are very sensitive which could be subject to changes in assumptions used. Following range depicts the sensitivity of medical reserves resulting from changes in assumptions:

	Medical Claims Reserves	
	Gross	**Net**
Higher	+11%	+12%
Lower	-14%	-16%

2. BASIS OF PREPARATION (Continued)

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

Premium deficiency reserve

Estimation of the premium deficiency for medical business is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to apply on month to month basis. Such analysis is used to project loss ratios based on 'Per Member Per Month' (PMPM) claims against related earned premiums for different cohort of medical policies.

Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that claims and earned premium are expected to increase at the same rate (Scenario 3). The following table, however, represents sensitivity of trend in loss ratio based on variability of relationships between claims and earned premiums:

Assumptions	**Scenario 1**	**Scenario 2**	**Scenario 3**
Expected trend in earned premium Per Life Per Month	16 %	18.4%	**16%**
Expected trend in claims Per Life Per Month	21%	17.8%	**16%**
Expected trend in loss ratio	4.3%	-0.47%	**0%**
Loss ratio to use for annual PDR calculation	126.1%	120.4%	**121 %**

Currently the management has based the working of premium deficiency reserve on the loss ratio of 121%. The incremental impact of the sensitivity to the changes in loss ratio is as indicated below on the profit and loss of the Company, while keeping all other assumptions constant.

Loss ratio	**110%**	**115%**	**125%**	**130%**
Incremental impact on profit / (loss) – SR'000	143,477	78,260	(52,174)	(117,391)

Stop loss recovery

Stop loss recovery is based on the underlying arrangement with the reinsurer. As per the terms of the treaty till underwriting years 2012-2013, reinsurer will cover 55% of the claims of an underwriting year if they exceed the loss ratio of 100% (to a maximum cap of 120%). Estimation of stop loss recovery at the reporting period is highly sensitive to the underlying loss ratios used for the calculations of medical reserves. It is based on the written premium and using an estimate of the monthly loss ratios (taking a 12 month rolling average, using projections of the monthly claims and earned premium on a seasonally adjusted basis). The expected gross claims are generated by these premiums on the basis of loss ratio.

The Company believes that loss ratio applicable to estimate the recovery of stop losses will be lower than that of the above reserve estimates due to volatility of assumptions used in the calculation of loss ratio.

2. BASIS OF PREPARATION (Continued)

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

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

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

iii) Impairment of receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2012, except for the adoption of the following new standards and other amendments to existing standards mentioned below which had no financial impact on the financial statements of the Company.

New standards

IFRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. The adoption of IFRS 13 has only resulted in additional disclosures as given in note 26.

Amendments to existing standards

- Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.

- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- IAS 19 Employee Benefits – Amendments: The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income.

- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:

  - IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes;
  - IAS 16 – Property, plant and equipment: Classification of servicing equipment;
  - IAS 34 – Interim Financial Reporting: Segment assets and liabilities.

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

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

a) Revenue Recognition

Recognition of premium and commission revenue

Premiums and commission are taken into statement of income over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents the premium written during the last three months of the current financial year.

Investment income

Investment income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable. Income from investments is principally earned from bonds, sukuks, local and foreign equity funds and investments in shares.

Dividend income

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

b) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Claims

Gross claims consists of benefits and claims paid to policyholders and third parties, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses.

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

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

d) Salvage and subrogation reimbursement

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

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

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

e) Reinsurance

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Reinsurance (Continued)

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

f) Deferred policy acquisition costs

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

g) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs. In performing these tests management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of income - insurance operations by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision) accordingly. In prior years, the Company had a policy of initially writing off related deferred policy acquisition costs and subsequently charging the premium deficiency reserve to the statement of income - insurance operations. This change in policy however does not have any impact on the prior year financial statements.

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

h) Insurance contracts with discretionary participation feature (DPF)

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

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

Surplus is paid to both, direct clients through the Company's regional offices, or to indirect clients via Brokers, Agents, and Banks. The regulations provide that the payment to the client, Broker, Agent, or Bank of the share of the surplus is subject to the settlement of all due outstanding premiums, irrespective of the year to which such premium relates.

This provision stipulates the offset of any client's, Broker, Agent, or Bank's share of surplus against such due outstanding premiums.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Receivables

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

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

j) Investments

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Derivative financial instruments

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

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

l) Investments in associates

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

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

m) De-recognition of financial instruments

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

n) Offsetting

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

o) Trade date accounting

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Impairment of financial assets

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

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

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

- For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective commission rate.

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

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

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

q) Property and equipment

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

	Years
Buildings	33
Furniture and fixtures	10
Computer equipment	4
Vehicles	4

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Property and equipment (Continued)

The assets' residual values and useful lives are reviewed at each financial position date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

r) Investment property

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

s) Impairment of non-financial assets

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

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

t) Employees' end-of-service benefits

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

u) Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Zakat

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

w) Cash and cash equivalents

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

x) Foreign currencies

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

y) Operating segments

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

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

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

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

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

z) Seasonality of operations

There are no seasonal changes that affect insurance operations.

4. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Furniture and fixtures	Computer equipment	Vehicles	Capital Work in progress	**Total 2013**	Total 2012
				SR'000				
Cost:								
January 1	90,192	16,304	60,659	74,391	886	105,413	**347,845**	280,414
Additions	-	50,847	3,078	3,209	85	35,195	**92,414**	73,162
Disposals / transfers	-	-	-	-	(390)	(50,885)	**(51,275)**	(5,731)
December 31	90,192	67,151	63,737	77,600	581	89,723	**388,984**	347,845
Accumulated Depreciation:								
January 1	-	1,968	51,608	57,711	771	-	**112,058**	103,597
Charge for the year	-	1,127	2,934	7,405	34	-	**11,500**	14,132
Eliminated on disposals	-	-	-	-	(390)	-	**(390)**	(5,671)
December 31	-	3,095	54,542	65,116	415	-	**123,168**	112,058
Net book value								
December 31, 2013	**90,192**	**64,056**	**9,195**	**12,484**	**166**	**89,723**	**265,816**	-
December 31, 2012	90,192	14,336	9,051	16,680	115	105,413	-	235,787

5. INVESTMENTS IN ASSOCIATES

i) Insurance Operations:

	2013	2012
	SR'000	
Balance, January 1	**105,487**	103,317
Share of profit, net (note 21)	**5,966**	10,581
Dividends received	**(9,000)**	(9,000)
Unrealized gain on investments	**5,082**	589
Sale of associate	**(102,158)**	-
Balance, December 31	**5,377**	105,487

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

a. Sale of associate

During the year, the Company sold its interest in Cooperate Real Estate and Investment Company (previously an associate) to Public Pension Agency and General Organization for Social Insurance at a price of SR 173 million which resulted in a gain of SR.71 million.

b) Najm Insurance Services

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit/ (Loss)	% Interest Held
				SR'000		
September 30, 2013	**Saudi Arabia**	**103,814**	**40,486**	**103,508**	**19,774**	8%
September 30, 2012	Saudi Arabia	66,967	29,023	29,266	4,759	**8%**

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

5. INVESTMENTS IN ASSOCIATES (Continued)

ii) Shareholders:

	2013	2012
	SR'000	
Balance, January 1	**53,790**	52,619
Share of profit, net (note 21)	**14,605**	12,276
Dividends received	**(7,452)**	(11,183)
Unrealized gain on investments	**3,105**	78
Balance, December 31	**64,048**	53,790

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

a) United Insurance Company

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SR'000		
November 30, 2013	Bahrain	**178,578**	**75,395**	**56,924**	**19,199**	50%
November 30, 2012	Bahrain	160,095	66,495	48,714	17,885	50%

b) Waseel Application Services Provider

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SR'000		
November 30, 2013	Saudi Arabia	**28,585**	**3,943**	**25,289**	**12,161**	45%
November 30, 2012	Saudi Arabia	15,989	2,892	12,788	7,039	45%

6. AVAILABLE FOR SALE INVESTMENTS

i) Insurance operations:

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

	2013	2012
	SR'000	
Local / Regional Money Market and Fixed Income Investments	**1,729,639**	1,409,674
Local / Regional Equity and Equity Funds	**148,421**	220,249
Foreign Equity and Equity Funds	**90,064**	72,646
Total	**1,968,124**	1,702,569

Movements in available for sale investments are as follows:

	Quoted securities	Unquoted securities	Total
		SR'000	
As at January 1, 2012	1,873,449	26,038	1,899,487
Purchases / transfers	622,487	26,137	648,624
Disposals	(817,364)	(52,175)	(869,539)
Impairment charge on investments	(3,541)	-	(3,541)
Changes in fair value of investments	27,538	-	27,538
As at December 31, 2012	1,702,569	-	1,702,569
As of January 1, 2013	**1,702,569**	-	**1,702,569**
Purchases	**1,522,669**	-	**1,522,669**
Disposals	**(1,269,048)**	-	**(1,269,048)**
Changes in fair value of investments	**11,934**	-	**11,934**
As at December 31, 2013	**1,968,124**	-	**1,968,124**

The above available for sale investments include impaired investments of SR 54 million (2012: SR 50.65 million).

6. AVAILABLE FOR SALE INVESTMENTS (Continued)

ii) Shareholders:

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

	2013	2012
	SR'000	
Local / Regional Money Market and Fixed Income Investments	**853,503**	884,256
Local / Regional Equity and Equity Funds	**263,220**	213,008
Foreign Money Market and Fixed Income Investments	**296,321**	329,116
Foreign Equity and Equity Funds	**453,866**	517,687
Total	**1,866,910**	1,944,067

Movements in available for sale investments are as follows:

	Quoted securities	Unquoted securities	Total
		SR'000	
As at January 1, 2012	1,576,575	237,726	1,814,301
Purchases / transfers	1,154,572	14,770	1,169,342
Disposals	(1,012,379)	(62,312)	(1,074,691)
Impairment charges on investments	(3,144)	-	(3,144)
Changes in fair value of investments	21,386	16,873	38,259
As at December 31, 2012	1,737,010	207,057	1,944,067
As at January 1, 2013	**1,737,010**	**207,057**	**1,944,067**
Purchases / transfers	**435,649**	**13,237**	**448,886**
Disposals	**(534,552)**	**(81,256)**	**(615,808)**
Changes in fair value of investments	**78,382**	**11,383**	**89,765**
As at December 31, 2013	**1,716,489**	**150,421**	**1,866,910**

The above available for sale investments include impaired investments of SR 213 million (2012: SR 160.76 million).

7. PREPAID EXPENSES AND OTHER ASSETS

Insurance operations	2013	2012
	SR'000	
Prepaid expenses	50,139	67,470
Other assets	265,089	217,064
Total prepaid expenses and other assets	315,228	284,534

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

a) Deferred policy acquisition costs

	2013	2012
	SR'000	
Balance, January 1	179,493	163,461
Capitalised during the year	389,316	376,067
Amortized during the year	(405,129)	(360,035)
Balance, December 31	163,680	179,493

b) Unearned commission income

	2013	2012
	SR'000	
Balance, January 1	68,751	72,802
Commission received during the year	109,586	237,374
Commission earned during the year	(127,640)	(241,425)
Balance, December 31	50,697	68,751

c) Unearned premiums

	2013	2012
	SR'000	
Balance, net January 1	2,444,934	1,895,123
Net premiums written	4,641,476	4,501,000
Net premiums earned	(4,728,349)	(3,951,189)
Balance, net December 31	2,358,061	2,444,934
Add: Reinsurer share of unearned premium	489,328	524,777
Unearned premiums – gross	2,847,389	2,969,711

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

d) Outstanding claims and reserves

	2013			2012		
	Gross	Due from reinsurers	Net	Gross	Due from reinsurers	Net
		SR'000			SR'000	
Outstanding claims	982,033	(598,050)	383,983	1,143,777	(739,421)	404,356
Salvage and subrogation	(164,857)	-	(164,857)	(82,923)	-	(82,923)
Incurred but not reported	344,106	-	344,106	167,738	-	167,738
Balance, January 1	1,161,282	(598,050)	563,232	1,228,592	(739,421)	489,171
Claims paid	(4,759,087)	707,304	(4,051,783)	(3,661,876)	504,228	(3,157,648)
Claims incurred	6,691,932	(1,809,140)	4,882,792	3,594,566	(362,857)	3,231,709
Balance, December 31	3,094,127	(1,699,886)	1,394,241	1,161,282	(598,050)	563,232
Outstanding claims	2,118,797	(1,699,886)	418,911	982,033	(598,050)	383,983
Salvage and subrogation	(77,995)	-	(77,995)	(164,857)	-	(164,857)
Incurred but not reported	779,359	-	779,359	344,106	-	344,106
Premium deficiency reserve	273,966	-	273,966	-	-	-
Total	3,094,127	(1,699,886)	1,394,241	1,161,282	(598,050)	563,232

During the year, the Company has created a provision in respect of premium deficiency for its medical business. The Company created this provision based on the assumption that the unearned premiums for medical business will not be sufficient to provide for the expected claims and other attributable expenses related to the unexpired periods of the policies in force at the balance sheet date.

9. REINSURERS' SHARE OF OUTSTANDING CLAIMS, NET

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

	2013	2012
	SR'000	
Reinsurers' share of insurance liabilities	1,701,036	599,231
Impairment provision	(1,150)	(1,181)
	1,699,886	598,050

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

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

10. RECEIVABLES, NET

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

	2013	2012
	SR'000	
Policyholders	1,130,339	1,579,286
Agents	198,855	275,178
Related party (Note 25)	13,542	2,258
	1,342,736	1,856,722
Reinsurers' balance receivable	271,787	85,597
Administrative service plan	23,007	24,184
	1,637,530	1,966,503
Provision for doubtful debts	(106,061)	(103,227)
Total	1,531,469	1,863,276

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

	2013	2012
	SR'000	
Balance, January 1	103,227	136,153
Charge / (reversal) for the year	2,834	(32,926)
Balance, December 31	106,061	103,227

As at December 31, 2013, the ageing of unimpaired receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	30 - 60 days	60 - 90 days	Above 90 days	Past due and Impaired
			SR'000				
2013	1,637,530	858,403	206,594	109,551	35,898	41,805	385,279
2012	1,966,503	827,682	259,776	368,599	79,663	214,333	216,450

Receivables comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia as well as insurance companies and reinsurance companies mainly in Europe. Receivables include an amount of SR 113.6 million (2012: SR 235 million) due in foreign currencies, mainly in US dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period.

With the exception of balances amounting to SR 296 million (2012: SR 663 million) due from companies wholly or significantly owned by the Government and one major reinsurer of SR 12.2 million (2012: SR 16.5 million), no individual or company balances constitute more than 10% (2012: 11%) of the receivables as at December 31, 2013. In addition, the five largest non-Government customers account for 22% (2012: 20%) of outstanding accounts receivable as at December 31, 2013.

11. STATUTORY DEPOSIT

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

12. CASH AND CASH EQUIVALENTS

i) Insurance operations:

	2013	2012
	SR'000	
Cash in hand and at banks	**387,078**	309,869
Call and time deposits	**405,000**	163,370
	792,078	473,239

ii) Shareholders:

	2013	2012
	SR'000	
Cash in hand and at banks	**20,766**	5,368
Call and time deposits	**178,000**	117,413
	198,766	122,781

Call and time deposits are maintained with financial institutions. The deposits for insurance operations are maturing on January 8, 2014 and those for shareholders operations are maturing on February 3, 2014. These earn commission at an average rate of 1.7% as at 31 December 2013 (3.8% - December 2012).

13. INSURANCE OPERATIONS' SURPLUS AND DIVIDENDS DECLARED

Insurance Operations' surplus

The insurance operations' invests its surplus funds as disclosed in Note 5 and 6. All of these investments are classified as available for sale and measured at market value except for investments in associates. Changes in the fair value of these investments at December 31, 2013 are not considered as part of the net surplus available for distribution to policyholders. At the time such investments are sold or gains and losses are realized, they will be included in the statement of income - insurance operations and accumulated surplus.

Shareholders – bonus / dividends

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

Shareholders approved a bonus issue of one share for every three shares held in their general assembly meeting held on April 22, 2013 for the year ended 31 December 2012. Dividends were however paid in 2012 for the year ended 2011amounting to SR 262.5 million (SR 3.5 per share).

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Insurance Operations	2013	2012
	SR'000	
Payables to policyholders	**801,310**	775,735
Payable - department of zakat & income tax	**204,123**	202,143
Marketing representative commissions	**81,156**	49,486
Employee end of service benefits	**73,288**	70,825
Accrued expenses	**70,895**	86,898
Savings plan	**12,032**	8,979
Provision for leave encashment	**11,038**	11,878
Other liabilities	**35,001**	35,227
	1,288,843	1,241,171

15. RESERVE FOR DISCONTINUED OPERATIONS

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

	2013	2012
	SR'000	
Outstanding claims	**3,013**	3,326
Reserve for losses	**8,397**	8,076
Total	**11,410**	11,402

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

	2013	2012
	SR'000	
Balance, January 1	**4,799**	2,224
Net claims reported during the year	**3,277**	2,629
Addition from reserve for losses	**321**	3,223
Balance, December 31	**8,397**	8,076

The results of the discontinued operations are as follows:

	2013	2012
	SR'000	
Revenue	-	-
Cost and expenses		
Net claims incurred	**(321)**	(2,629)
Total costs and expenses	**(321)**	(2,629)
Recovery from discontinued operations	**321**	2,629

16. CLAIMS DEVELOPMENT TABLE

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

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

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

2013

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

16. CLAIMS DEVELOPMENT TABLE (Continued)

2012

Accident year	2007 & Earlier	2008	2009	2010	2011	2012	Total
				SR '000			
Estimate of ultimate claims cost:							
At the end of accident year	9,530,515	1,739,199	1,899,676	2,369,636	2,521,919	2,971,986	
One year later	9,960,797	1,865,536	2,072,169	2,527,355	2,914,308		
Two years later	9,885,027	1,792,399	2,047,818	2,488,796			
Three years later	9,742,529	1,787,189	2,096,026				
Four years later	9,835,250	1,755,782					
Five years later	9,491,156						
Current estimate of cumulative claims	9,491,156	1,755,782	2,096,026	2,488,796	2,914,308	2,971,986	21,718,054
Cumulative payments to date	(9,253,699)	(1,729,148)	(1,876,961)	(2,434,476)	(2,698,584)	(2,743,153)	(20,736,020)
Liability recognized in the statement of financial position	237,457	26,634	219,065	54,320	215,724	228,834	982,033
Salvage and Subrogation							(164,857)
Incurred but not reported claims							344,106
Premium Deficiency reserve							-
Outstanding claims and reserves							**1,161,282**

17. ZAKAT

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

	2013	2012
	SR'000	
Share capital	**1,000,000**	750,000
Reserves, opening provisions and other adjustments	**1,362,671**	1,176,450
Book value of long term assets	**(743,261)**	(1,010,642)
	1,619,410	915,808
Zakatable income for the year	**(550,954)**	354,173
Zakat base	**1,068,456**	1,269,981

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

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

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

	2013	2012
	SR'000	
Balance, January 1	**91,607**	78,250
Provided during the year	**26,711**	31,750
Payments during the year	**(19,919)**	(18,393)
Balance, December 31	**98,399**	91,607

Status of Assessment

The Company has filed Zakat returns with the Department of Zakat and Income tax (DZIT) for the years from 2005 to 2012 but the final assessments have not been raised yet.

Status of Appeal

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

18. SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SR 1 billion at December 31, 2013 (2012: SR 750 million) consisting of 100 million shares (2012: 75 million shares) of SR 10 each.

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

	2012		
	Authorized and issued		Paid up
	No. of Shares	SR'000	
Held by the public	40,027,805	400,278	400,278
Public Pension Agency	17,842,611	178,426	178,426
General Organization for Social Insurance	17,129,584	171,296	171,296
	75,000,000	750,000	750,000

A bonus issue of one share for every three shares held was approved by the shareholders in their general assembly meeting held on April 22, 2013. The bonus shares have been issued to the shareholders effective from April 22, 2013. As a result of bonus issue, the share capital of the Company has increased to SR 1 billion comprising of 100 million issued and paid up shares.

19. LEGAL RESERVE

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

20. GROSS PREMIUMS AND HOLD-HARMLESS AGREEMENTS

The Company receives premiums from certain clients whereby substantial risk is ceded to re-insurers by the clients' brokers. The Company maintains hold-harmless agreements with these clients, whereby the Company is released from any responsibilities, liabilities or obligations that could result from these risks. In addition, these agreements hold the Company harmless against re-insurer insolvency and errors and omissions for the brokers' share of the cover. The amounts ceded under these agreements for the year ended December 31, 2013 totalled SR 243 million (2012: SR 222 million).

21. INVESTMENT INCOME, NET

	2013	2012
Insurance Operations	**SR'000**	
Available for sale:		
- Dividend income	**7,144**	13,891
- Commission income	**18,930**	21,824
- Foreign currency exchange	**-**	(3)
- Realized gain on sale (Note 30)	**53,335**	13,737
- Investment fees	**(736)**	(2,492)
Profit on sale of associate (Note 5(i))	**70,584**	-
Share of profit from investments in associates, net	**5,966**	10,581
Total investment income	**155,223**	57,538

	2013	2012
Shareholders		
Available for sale:		
- Dividend income	**5,784**	8,293
- Commission income	**26,674**	23,185
- Foreign currency exchange	**5,695**	1,083
- Realized gain on sale (Note 30)	**44,810**	70,010
- Investment fees	**(4,345)**	(4,344)
Share of profit from investments in associates, net	**14,605**	12,276
Total investment income	**93,223**	110,503

22. GENERAL, ADMINISTRATIVE AND SELLING AND MARKETING EXPENSES

a) Operating and selling expenses are comprised of the following for the years ended December 31:

	2013	2012
	SR'000	
Salaries and benefits	**176,720**	173,642
Advertising	**11,341**	18,044
Rent	**7,152**	6,181
Depreciation	**3,620**	3,201
Insurance, utilities and maintenance	**6,548**	3,982
Training and education	**2,590**	3,543
Communications	**3,731**	3,038
Office supplies and printing	**1,407**	2,006
Charge / (reversal) of provision for doubtful receivables	**2,834**	(32,926)
Others	**12,892**	7,054
	228,835	187,765

b) Other general and administrative expenses are comprised of the following for the years ended December 31:

	2013	2012
	SR'000	
Depreciation	**7,617**	10,058
Rent	**2,205**	4,883
Training and education	**2,050**	6,943
Insurance, utilities and maintenance	**6,449**	6,211
Professional fees	**4,310**	8,764
Communications	**4,774**	1,396
Office supplies and printing	**3,174**	3,604
Others	**8,556**	7,799
	39,135	49,658

23. EARNINGS PER SHARE

Earnings per share has been calculated by dividing the net income / (loss) for the year ended December 31, 2013 and 2012 by 100 million shares to give retroactive effect of change in share capital as a result of bonus share issue.

24. REINSURANCE ASSETS

The reinsurers' share of insurance liabilities includes reinsurers' share of unearned premium and outstanding claims amounting to SR 2,189 million (2012: SR 1,123 million). The Company's accounting policies prohibit recognition of reinsurance gains on purchase of retroactive reinsurance contracts and require the recognition of the gain on a systematic and rational basis consistent with the development of the underlying reinsured liabilities. At year end, SR 272 million has been recognized (2012: SR 86 million) in the reinsurance balance. There are no assets arising from life reinsurance contracts held by the Company, as there has been no single event that has led to losses that qualify for reimbursement under the reinsurance covers. Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in other receivables.

25. RELATED PARTY TRANSACTIONS AND BALANCES

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

	Amount of transactions for the year ended SR'000		Balance receivable / (payable) as at SR'000	
	2013	2012	**2013**	2012
Major shareholders				
Amount of claims to hospitals	**64,340**	54,829	**-**	(2,497)
Medical insurance premiums	**33,864**	30,295	**1,376**	2,015
Rent expenses	**3,828**	6,709	**-**	(855)
Stationery	**1,024**	977	**-**	-
Associates				
Insurance premiums	**88,648**	446	**90**	243
Rent expenses	**10,582**	9,362	**12,076**	-

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

25. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Remuneration and compensation of BOD Members and Top Executives

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and five top executives for the year ended December 31, 2013 and 2012.

2013	**BOD members (Executives)**	**BOD members (Non-Executive) (SR'000)**	**Top Executives including the CEO and COO**
Salaries and compensation	**-**	**-**	**5,850**
Allowances	**60**	**540**	**1,623**
Annual remuneration	**200**	**1,000**	**1,791**
Total	**260**	**1,540**	**9,264**

2012	BOD members (Executives)	BOD members (Non-Executive) (SR'000)	Top Executives including the CEO and COO
Salaries and compensation	-	-	5,512
Allowances	72	351	1,758
Annual remuneration	330	2,370	3,186
Total	402	2,721	10,456

26. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables and accrued expenses.

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

The fair value of derivatives held by the Company as of December 31, 2013 and 2012 are immaterial to the Company's financial statements.

Determination of fair value and fair value hierarchy

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

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

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

26. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

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

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

(SR'000)

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale financial assets				
- Policyholders	**1,602,500**	-	**365,624**	**1,968,124**
- Shareholders	**1,621,489**	-	**245,421**	**1,866,910**
Total	**3,223,989**	-	**611,045**	**3,835,034**
2012				
Available for sale financial assets				
- Policyholders	1,361,944	-	340,625	1,702,569
- Shareholders	1,662,012	-	282,055	1,944,067
Total	3,023,956	-	622,680	3,646,636

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

Level 3 investments comprise investment in private equity funds and debt instruments. The fair value of Private Equity Funds computed is based on the funds latest reported net assets as at the financial position date. Further, the Debt Instruments are carried at an amount which as per the management is the best estimate of the exit price i.e. fair value.

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

(SR'000)

				Total gain or loss		
December 31, 2013	**Balance January 1**	**Purchases**	**Sales**	**in profit or loss**	**in other comprehensive income**	**Balance December 31**
Insurance operations	**340,625**	**200,000**	**(175,001)**	-	-	**365,624**
Shareholders	**282,055**	**33,237**	**(81,256)**	**6,334**	**5,051**	**245,421**
Total	**622,680**	**233,237**	**(256,257)**	**6,334**	**5,051**	**611,045**
December 31, 2012						
Insurance operations	375,300	66,000	(107,715)	7,715	(675)	340,625
Shareholders	287,726	89,770	(118,251)	5,937	16,873	282,055
Total	663,026	155,770	(225,966)	13,652	16,198	622,680

27. OPERATING SEGMENTS

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

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

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

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

27. OPERATING SEGMENTS (Continued)

	For the year ended December 31, 2012 (Audited)			
Operating Segments	Medical	Motor	Property & casualty	Total
		SR' 000		
Gross premiums written				
- Compulsory	2,806,465	-	-	-
- Non - Compulsory	713,522	-	-	-
Total Gross premiums written	3,519,987	1,167,739	946,912	5,634,638
Net premiums written	3,266,251	1,090,213	144,536	4,501,000
Net premiums earned	2,715,130	1,080,301	155,758	3,951,189
Reinsurance commissions	112,836	19,329	109,260	241,425
Net claims incurred	(2,447,109)	(732,063)	(52,537)	(3,231,709)
Policy acquisition costs	(145,858)	(163,387)	(50,790)	(360,035)
Excess of loss expenses	(37,209)	(14,440)	(18,575)	(70,224)
Changes in reserve for Takaful activities	1,313	-	-	1,313
Other underwriting expenses	(65,442)	(9,781)	(7,269)	(82,492)
General, administrative, selling and marketing expenses	(97,976)	(75,989)	(63,458)	(237,423)
Profit from Insurance Operations	35,685	103,970	72,389	212,044
Investment income, net				53,997
Other income, net				5,973
Surplus from Insurance Operations				272,014

27. OPERATING SEGMENTS (Continued)

	As at December 31, 2013			
	Medical	Motor	Property & casualty	Total
Assets - Insurance operations	SR '000			
Reinsurers' share of unearned premium	34,749	12,754	441,825	489,328
Reinsurers' share of outstanding claims, net	3,061	30,449	1,666,376	1,699,886
Deferred policy acquisition costs	69,777	74,019	19,884	163,680
Investments				1,983,362
Receivables, net				1,531,469
Unallocated assets				1,862,747
Total assets				7,730,472
Liabilities and surplus - Insurance operations				
Unearned premium income	1,823,072	461,310	563,007	2,847,389
Outstanding claims	1,062,244	223,232	1,808,651	3,094,127
Unearned commission income	7,000	2,993	40,704	50,697
Reserve for Takaful activities	13,642	-	-	13,642
Unallocated liabilities and surplus				1,724,617
Total liabilities and surplus				7,730,472

	As at December 31, 2012			
	Medical	Motor	Property & casualty	Total
Assets - Insurance operations	SR '000			
Reinsurers' share of unearned premium	132,158	37,475	355,144	524,777
Reinsurers' share of outstanding claims, net	10,671	13,237	574,142	598,050
Deferred policy acquisition cost	71,560	83,984	23,949	179,493
Investments				1,817,917
Receivables, net				1,863,276
Unallocated assets				993,560
Total assets				5,977,073
Liabilities and surplus - Insurance operations				
Unearned premium income	1,947,081	560,458	462,172	2,969,711
Outstanding claims	471,118	19,795	670,369	1,161,282
Unearned commission income	8,602	10,939	49,210	68,751
Reserve for Takaful activities	13,730	-	-	13,730
Unallocated liabilities and surplus				1,763,599
Total liabilities and surplus				5,977,073

28. RISK MANAGEMENT

(a) Insurance risk

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

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

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

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

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

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

(b) Reinsurance risk

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

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

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

28. RISK MANAGEMENT (Continued)

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

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

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

Except as described in Note 20, reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. As shown in Note 8, the Company has reduced its claims payable by the expected recoveries from reinsurers as at December 31, 2013 to SR 1.7 billion (2012: SR 0.6 billion). No single reinsurer accounts for more than 27.45% of these expected recoveries at December 31, 2013 (2012: 42.4%).

The Company has in place stop loss arrangement with the reinsurer in order to cover the loss above Company's risk appetite. Estimation of stop loss recovery is sensitive to the underlying loss ratios used for the calculation of recovery. The details of estimation of stop loss recovery are given under note 2(e) and 3(e).

Frequency and severity of claims

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

Concentration of insurance risk

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

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

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

28. RISK MANAGEMENT (Continued)

Sources of uncertainty in estimation of future claim payments

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

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

Process used to decide on assumptions

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

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

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

Sensitivity analysis

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

28. RISK MANAGEMENT (Continued)

	Income from operations before zakat		Shareholders' equity	
Impact of change in claim reserves by + / - 10%	**2013**	2012	**2013**	2012
Medical	**105,918**	46,045	**103,271**	44,894
Motor	**19,278**	656	**18,796**	639
Property and casualty	**14,228**	9,623	**13,872**	9,382
	139,424	56,324	**135,939**	54,915

(c) Market Risk and Asset Liability Management

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

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

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

Currency Risk

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

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

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

Insurance Operations	**2013**	2012
	SR'000	
Local / Regional	**1,878,060**	1,629,923
United States of America	**58,118**	46,879
Europe	**22,219**	17,920
Far East	**6,755**	5,451
Rest of the world	**2,972**	2,396
	1,968,124	1,702,569

28. RISK MANAGEMENT (Continued)

Shareholders Operations	2013	2012
	SR'000	
Local / Regional	**1,111,577**	1,097,264
United States of America	**283,718**	241,792
Europe	**357,279**	514,693
Far East	**78,563**	62,296
Rest of the world	**35,773**	28,022
	1,866,910	1,944,067

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

Commission Rate Risk

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

An increase of 100 basis points in interest yields would result in a change in the loss for the year of SR 10.56 million (2012: loss of SR 45.30 million).

A decrease of 100 basis points in interest yields would result in a change in the gain for the year of SR 10.56 million (2012: gain of SR 45.30 million).

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

	Less than 1 year	1 to 5 years	Over 5 years	Non- commission bearing	Total
Insurance Operations			SR'000		
2013	**132,937**	**215,624**	**50,000**	**1,569,563**	**1,968,124**
2012	25,000	550,699	50,000	1,076,870	1,702,569
Shareholders					
2013	**82,562**	**210,918**	**578,709**	**994,721**	**1,866,910**
2012	30,870	427,161	363,354	1,122,682	1,944,067

28. RISK MANAGEMENT (Continued)

Other Price Risk

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

The Company's investments amounting to SR 2.6 billion (2012: SR 2.2 billion) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

	Fair value	Price change	Effect on income from operations before zakat	Effect on shareholders' equity
31 December 2013	**+ / - 10%**	**256,428**	**-**	**250,018**
31 December 2012	+ / - 10%	219,955	-	214,456

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2013. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

(d) Credit Risk

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

Approximately 99% (2012: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia.

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

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

28. RISK MANAGEMENT (Continued)

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

	2013	2012
	SR'000	
ASSETS - INSURANCE OPERATIONS		
Bank / call and time deposits	**791,490**	472,982
Receivables, net	**1,531,469**	1,863,276
Investments Available for Sale	**398,561**	625,699
Reinsurers' share of outstanding claims, net	**1,699,886**	598,050
Other assets	**265,089**	231,201
Assets exposed to credit risk	**4,686,495**	3,777,071
Assets not exposed to credit risk	**3,043,977**	2,185,865
Total assets	**7,730,472**	5,977,073

	2013	2012
	SR'000	
ASSETS - SHAREHOLDERS		
Bank / call and time deposits	**198,766**	122,781
Investments Available for Sale	**601,884**	863,438
Accrued investment income	**5,146**	9,536
Statutory deposit	**100,000**	75,000
Assets exposed to credit risk	**905,796**	1,070,755
Assets not exposed to credit risk	**1,329,074**	1,170,016
Total assets	**2,234,870**	2,240,771

Concentration of credit risk

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

(e) Liquidity Risk

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

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

28. RISK MANAGEMENT (Continued)

Maturity Profile	2013 SR '000			2012 SR '000		
LIABILITIES INSURANCE OPERATIONS	**Less than one year**	**No term**	**Total**	Less than one year	No term	Total
Reinsurers' balances payable	**345,793**	**-**	**345,793**	381,591	-	381,591
Outstanding claims	**3,094,127**	**-**	**3,094,127**	1,161,282	-	1,161,282
Reserve for discontinued operations	**11,410**	**-**	**11,410**	11,402	-	11,402
Reserve for Takaful activities	**13,642**	**-**	**13,642**	13,730	-	13,730
Accrued expenses and other liabilities	**1,011,432**	**73,288**	**1,084,720**	968,203	70,825	1,039,028
Surplus distribution payable	**-**	**-**	**-**	27,201	-	27,201
Financial liabilities – Insurance operations	**4,476,404**	**73,288**	**4,549,692**	2,563,409	70,825	2,634,234
Non-financial liabilities – Insurance operations	**3,102,209**	**-**	**3,102,209**	3,276,202	-	3,276,202
Total liabilities – Insurance operations	**7,578,613**	**73,288**	**7,651,901**	5,839,611	70,825	5,910,436

	2013 SR '000			2012 SR '000		
LIABILITIES SHAREHOLDERS	**Less than one year**	**No term**	**Total**	Less than one year	No term	Total
Dividends payable	**5,151**	**-**	**5,151**	5,368	-	5,368
Accrued expenses and other liabilities	**1,127**	**-**	**1,127**	858	-	858
Financial liabilities – Shareholders	**6,278**	**-**	**6,278**	6,226	-	6,226
Non-financial liabilities – Shareholders	**588,024**	**-**	**588,024**	91,607	-	91,607
Total liabilities – Shareholders	**594,302**	**-**	**594,302**	97,833	-	97,833

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

(f) Operational Risk

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

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

28. RISK MANAGEMENT (Continued)

(f) Operational Risk (Continued)

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

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

29. CAPITAL MANAGEMENT

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

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

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

30. REALIZED GAIN ON FINANCIAL ASSETS, NET

	2013	2012
INSURANCE OPERATIONS	**SR'000**	
Realized gains on financial assets - available for sale		
- Equity securities	**53,326**	13,325
- Debt Securities	**9**	412
Total net realized gain on financial assets	**53,335**	13,737
SHAREHOLDERS		
Realized gains on financial assets - available for sale		
- Equity securities	**31,630**	64,560
- Debt securities	**20,920**	7,706
Realized losses on financial assets - available for sale equity securities	**(7,740)**	(2,256)
Total net realized gain on financial assets	**44,810**	70,010

31. CREDIT QUALITY OF INVESTMENTS

INSURANCE OPERATIONS

Investments	**2013 SR'000**	Rating	2012 **SR'000**	Rating
Local / Regional Money Market Investments	**1,520,531**	**NA**	923,555	NA
Local / Regional Fixed Income Investments	**209,108**	**A**	486,119	A+
Local / Regional Equity Investments	**148,421**	**NA**	220,249	NA
International / Global Equity Investments	**90,064**	**NA**	72,646	NA
Total	**1,968,124**		1,702,569	

SHAREHOLDERS

Investments	**2013 SR'000**	Rating	2012 SR'000	Rating
Local / Regional Money Market Investments	**547,940**	**NA**	349,934	NA
Local / Regional Fixed Income Investments	**305,563**	**A**	534,322	A+
Local / Regional Equity Investments	**263,220**	**NA**	213,008	NA
International / Global Fixed Income Investments	**296,321**	**AA**	329,116	AA
International / Global Equity Investments	**453,866**	**NA**	517,687	NA
Total	**1,866,910**		1,944,067	

32. CONTINGENT LIABILITIES

Contingent Liabilities

a) As at December 31, 2013, the Company was contingently liable for letters of credit and guarantees amounting to SR 141 million (December 31, 2012 - SR 144 million) occurring in the normal course of business.

b) The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

33. RECLASSIFICATION

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

34. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

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

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2012, moved the mandatory effective date to 1 January 2015. The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized. However, application of IFRS 9 is permitted. The Company will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Company by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Company as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Company's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 5th Rabi II, 1435H corresponding to February 5, 2014.