
**AL ALAMIYA FOR COOPERATIVE INSURANCE
COMPANY
(A SAUDI JOINT STOCK COMPANY)**

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Financial Statements and Independent Auditors' Report
For the Year Ended 31 December 2013

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KPMG Al Fozan & Al Sadhan

Al Bassam

Certified Public Accountants & Consultants

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of Al Alamiya for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at 31 December 2013 and the related statements of comprehensive income of insurance and shareholders' operations, statement of changes in shareholders' equity, statement of cash flows of insurance and shareholders' operations for the year then ended and the notes from 1 to 28 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of Article 123 of the Regulations for Companies and the Company's By-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

UNQUALIFIED OPINION:

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

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

EMPHASIS OF MATTER:

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

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18 Rabi Al Thani 1435H
(18 February 2014)




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2013 SR	2012 SR
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	6	40,462,274	57,783,343
Term deposit	7	83,914,450	--
Investments	8(a)	1,923,079	1,923,079
Premiums and insurance balances receivable	10	77,173,180	73,056,437
Due from related parties		1,256,938	34,814,181
Due from shareholders' operations		49,320,644	27,656,454
Reinsurers' share of unearned premiums	11(a)	69,121,800	38,856,217
Reinsurers' share of outstanding claims	11(d)	596,366,930	84,476,906
Deferred policy acquisition costs	11(b)	6,027,808	4,689,699
Prepayments and other assets	12	5,003,694	5,147,146
Property and equipment, net	14	855,456	1,139,897
TOTAL INSURANCE OPERATIONS' ASSETS		931,426,253	329,543,359
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	9,958,892	30,878,826
Term deposits	7	115,627,202	90,742,725
Investments	8(b)	27,404,625	27,185,887
Other assets	12	424,835	430,127
Due from insurance operations-current account		--	4,433,778
Statutory deposit	13	20,000,000	20,000,000
TOTAL SHAREHOLDERS' ASSETS		173,415,554	173,671,343
TOTAL ASSETS		1,104,841,807	503,214,702



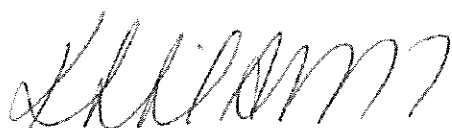

The accompanying notes 1 to 28 form an integral part of these financial statements.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December

	Notes	2013 SR	2012 SR
INSURANCE OPERATIONS' LIABILITIES			
Gross outstanding claims	11(d)	663,503,315	134,635,266
Accounts payable		3,769,281	8,249,679
Reinsurance balances payable		75,912,509	35,851,618
Due to shareholders' operations-current account		--	4,433,778
Due to related parties		3,153,965	5,435,811
Accrued expenses and other liabilities	15	27,775,624	20,279,877
Surplus distribution payable		488,001	488,001
Unearned reinsurance commission	11(c)	8,880,200	7,839,134
Gross unearned premiums	11(a)	138,747,983	103,792,000
End of service benefits		9,195,375	8,538,195
TOTAL INSURANCE OPERATIONS' LIABILITIES		931,426,253	329,543,359
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Due to insurance operations		49,320,644	27,656,454
Due to a related party		1,058,354	1,057,010
Accrued expenses and other liabilities	15	9,929,652	7,541,193
TOTAL SHAREHOLDERS' LIABILITIES		60,308,650	36,254,657
SHAREHOLDERS' EQUITY			
Share capital	18	200,000,000	200,000,000
Unrealised gain on available for sale investments		208,689	410,936
Accumulated losses		(87,101,785)	(62,994,250)
TOTAL SHAREHOLDERS' EQUITY		113,106,904	137,416,686
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		173,415,554	173,671,343
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,104,841,807	503,214,702



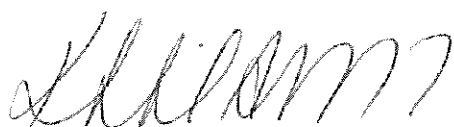

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME – INSURANCE OPERATIONS

For the year ended 31 December

	Notes	2013 SR	2012 SR
Gross written premiums	11(a)	330,882,339	248,069,711
Less: Reinsurance premium ceded	11(a)	(159,360,819)	(104,619,850)
Excess of loss premiums		(11,797,289)	(12,123,148)
NET WRITTEN PREMIUMS		159,724,231	131,326,713
Changes in unearned premiums, net	11(a)	(4,690,400)	(11,109,785)
NET PREMIUMS EARNED		155,033,831	120,216,928
Gross claims paid	11(d)	(317,748,657)	(115,096,181)
Reinsurers' share of gross claims paid		199,766,026	34,853,071
Changes in outstanding claims, net	11(d)	(16,978,025)	10,644,431
NET CLAIMS INCURRED		(134,960,656)	(69,598,679)
Policy acquisition costs	11(b)	(15,042,796)	(13,211,345)
Reinsurance commission income	11(c)	28,172,849	21,468,122
Other underwriting expenses		(1,521,154)	(1,180,667)
NET UNDERWRITING SURPLUS		31,682,074	57,694,359
General and administrative expenses	21	(53,981,819)	(53,220,093)
Investment income		501,046	347,558
Other income		134,509	58,185
INSURANCE OPERATIONS' (DEFICIT) / SURPLUS		(21,664,190)	4,880,009
Shareholders' appropriation from insurance operations' deficit / (surplus)	3(a)	21,664,190	(4,392,008)
NET SURPLUS FOR THE YEAR		--	488,001



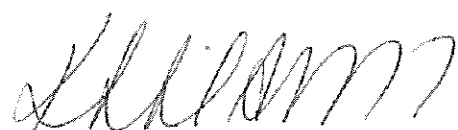

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS’ OPERATIONS

For the year ended 31 December

	<i>Notes</i>	<i>2013 SR</i>	<i>2012 SR</i>
INCOME			
Shareholders’ appropriation from insurance operations’ (deficit) / surplus	3(a)	(21,664,190)	4,392,008
Investment income		1,566,453	1,290,860
		(20,097,737)	5,682,868
General and administrative expenses		(1,817,189)	(1,920,037)
NET (LOSS) / INCOME FOR THE YEAR		(21,914,926)	3,762,831
OTHER COMPREHENSIVE INCOME			
Change in fair value of available for sale investments		(202,247)	410,936
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(22,117,173)	4,173,767
BASIC AND DILUTED (LOSS) / EARNING PER SHARE FOR THE YEAR	19	(1.10)	0.19



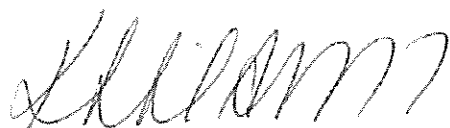

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2013 and 2012

	<i>Share Capital SR</i>	<i>Unrealized gain on available for sale investments SR</i>	<i>Accumulated losses SR</i>	<i>Total SR</i>
Balance at 1 January 2012	200,000,000	--	(63,684,438)	136,315,562
Net income for the year	--	--	3,762,831	3,762,831
<i>Other comprehensive income:</i> Net change in fair value of available for sale investments	--	410,936	--	410,936
Total comprehensive income / (loss)	--	410,936	(59,921,607)	140,489,329
Zakat and income tax	--	--	(3,072,643)	(3,072,643)
Balance as at 31 December 2012	200,000,000	410,936	(62,994,250)	137,416,686
Balance at 1 January 2013	200,000,000	410,936	(62,994,250)	137,416,686
Net loss for the year	--	--	(21,914,926)	(21,914,926)
<i>Other comprehensive income:</i> Change in fair value of available for sale investments	--	(202,247)	--	(202,247)
Total comprehensive loss	--	(202,247)	(84,909,176)	115,299,513
Zakat	--	--	(2,192,609)	(2,192,609)
Balance as at 31 December 2013	200,000,000	208,689	(87,101,785)	113,106,904



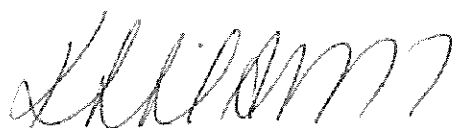

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AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASHFLOWS – INSURANCE OPERATIONS

For the year ended 31 December

	Note	2013 SR	2012 SR
OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		--	488,001
<i>Adjustments to reconcile insurance operations' surplus to net cash provided from operating activities:</i>			
Depreciation		604,878	701,006
Employees' end of service benefits		1,526,484	2,276,432
Provision for doubtful debt		(1,570,737)	--
Gain on sale of property and equipment		(12,392)	--
Operating cash inflows before changes in operating assets and liabilities		548,233	3,465,439
<i>Changes in operating assets and liabilities:</i>			
Premiums and insurance balances receivable		(2,546,006)	18,306,819
Due from related parties		33,557,243	(3,873,504)
Due from shareholders' operations		(21,664,190)	4,392,008
Reinsurers' share of outstanding claims		(511,890,024)	5,896,722
Prepayments and other assets		143,452	(2,828,637)
Reinsurers' share of unearned premiums		(30,265,583)	(2,430,328)
Deferred policy acquisition costs		(1,338,109)	1,308,010
Gross outstanding claims		528,868,049	(16,541,153)
Accounts payable		(11,572,999)	4,307,123
Reinsurance balances payable		47,153,492	(3,080,219)
Due to shareholders' operations-current account		(4,433,778)	(6,953,049)
Due to related parties		(2,281,846)	--
Accrued expenses and other liabilities		7,495,747	(3,622,953)
Unearned reinsurance commission income		1,041,066	3,294,991
Gross unearned premiums		34,955,983	13,540,113
Cash from operations		67,770,730	15,181,382
Employees' end of service benefits paid		(869,304)	(551,304)
Net cash from operating activities		66,901,426	14,630,078
INVESTING ACTIVITY			
Purchase of property and equipment		(368,045)	(853,934)
Sale proceed on disposal of property and equipment		60,000	--
Term deposit		(83,914,450)	--
Net cash used in investing activities		(84,222,495)	(853,934)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(17,321,069)	13,776,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		57,783,343	44,007,199
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	40,462,274	57,783,343



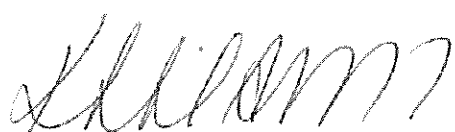

The accompanying notes 1 to 28 form an integral part of these financial statements.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS – SHAREHOLDERS’ OPERATIONS

For the year ended 31 December

	<i>Note</i>	2013 SR	2012 SR
OPERATING ACTIVITIES			
Net (loss) / income for the year		(21,914,926)	3,762,831
Operating cash outflows before changes in operating assets and liabilities			
<i>Changes in operating assets and liabilities:</i>			
Other assets		5,292	(33,328)
Due from insurance operations-current account		4,433,778	6,953,049
Due to a related party		1,344	378,327
Due to insurance operations		21,664,190	(4,392,008)
Accrued expenses and other liabilities		670,612	(136,173)
		4,860,290	6,532,698
Zakat and tax paid		(474,762)	(469,483)
Net cash from operating activities		4,385,528	6,063,215
INVESTING ACTIVITIES			
Term deposits		(24,884,477)	27,462,292
Investments		(420,985)	(27,102,352)
Net cash (used in) / from investing activities		(25,305,462)	359,940
NET(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(20,919,934)	6,423,155
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		30,878,826	24,455,671
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	9,958,892	30,878,826
<u>Non-cash transactions:</u>			
Net change in fair value of available for sale investments		202,247	410,936




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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Al Alamiya for Cooperative Insurance Company ("the Company") is a Saudi joint stock company registered on 29 Dhu-al Qu'dah, 1430H (17 November 2009) under commercial registration number 4030194978.

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 26 Dhu Al Hijjah, 1430H (13 December 2009), the Company received the license from Saudi Arabian Monetary Agency ("SAMA") to transact insurance business in the Kingdom of Saudi Arabia.

The registered office address of the Company is at Al Abdul Latief Building, Prince Mohammed bin Abdul Aziz street, P.O. Box: 6393, Riyadh 11442, Kingdom of Saudi Arabia.

2 ASSET PURCHASE AGREEMENT AND TRANSFER OF INSURANCE PORTFOLIO

The Company started its insurance operations on 13 February 2010. The Company's Board of Directors approved on 14 April 2010, to transfer the insurance portfolio and net assets of Royal & Sun Alliance Insurance (Middle East) Limited E.C. – Saudi Arabia Operations and Al Alamiya for Commerce and Services Limited, to the Company after completing the related procedures as required under the SAMA's letter addressed to the Company on 24 March 2010. The transfer of the insurance portfolio and net assets was approved by the shareholders at their General Assembly Meeting held on 17 April 2012.

The purchase price was based on a valuation study conducted in accordance with the due diligence and valuation guidelines issued by SAMA. In accordance with the SAMA's letter of 10 November 2008 ("the letter"), the value of combined goodwill was estimated at SR 64.14 million which, based on the current performance and accumulated losses, management believes will not be paid.

3 BASIS OF PREPARATION

a) *Statement of compliance*

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

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

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

b) *Basis of measurement*

The financial statements have been prepared under the historical cost basis, except for the measurement at fair value of available for sale investments, using the accrual basis of accounting and going concern concept.

c) *Functional and presentational currency*

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

3 BASIS OF PREPARATION (continued)

d) 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 revenue and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

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

(i) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the end of reporting date, for which the insured event has occurred prior to the end of reporting date. The Company uses the services of an independent actuary in the valuation of IBNR as well as premium deficiency reserves.

(ii) Impairment losses on premium and insurance balance receivables

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

(iii) Deferred policy acquisition costs

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

(iv) Impairment of available for sale financial assets

The Company determines that available-for-sale 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.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

4 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

IFRS 13 Fair Value Measurement

IFRS 13 describes how to measure fair value when fair value is required or permitted by IFRS. New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss. Adoption of this standard did not impact the Company's financial position or performance.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments have not impacted the Company's financial position or performance.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available for sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Company's financial position or performance.

Standards issued but not yet effective

In addition to the above mentioned standards, the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect from future dates.

IFRS 9 Financial Instruments

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 2011, moved the mandatory effective date to 1 January 2015. On 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9) amending IFRS 9 to include the new general hedge accounting model and move the effective date to 1 January 2017. In subsequent phases, the Board will address impairment and hedge accounting. 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

The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. The amendment is effective for annual periods beginning on or after 1 January 2014.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in preparation of these financial statements:

a) Cash and cash equivalents

For the purpose of the statements of cash flows for both insurance and shareholders' operations, cash and cash equivalents comprise cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

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.

c) Investments

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

Available for sale investments ("AFS")

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

Return on investments is recognised on an effective yield method. Profit or loss on sale of investments is recognised on at the time of sale. Dividend income is recognised when right to receive such dividend is established.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'investment valuation reserve'. When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income – shareholders operations.

Any permanent decline in value of investments is adjusted for and reported in the statement of comprehensive income – shareholders' operations, 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.

d) Revenue recognition

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premium is taken to the statement of income - insurance operations in the same order that revenue is recognised over the period of risk.

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

- Last three months of the period-end, in respect of marine cargo
- Actual number of days for other lines of business

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) *Claims*

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

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

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

f) *Liability adequacy test*

At each end of reporting period, a liability adequacy test is performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of income - insurance operations initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy test ("premium deficiency reserve"). The Company estimates premium deficiency reserves based on an independent actuarial valuation.

g) *Receivables*

Premium and insurance receivables balance are recognized as receivable when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income - insurance operation. Premium and insurance balance receivables are derecognized when the de-recognition criteria for financial assets have been met.

h) *Unearned commission*

Commission receivable on outwards reinsurance contracts is deferred and amortised over the terms of the insurance contracts to which it relates. Amortisation is recorded in the statement of income - insurance operations.

i) *Property and equipment*

Property and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful life as follows:

	Years
Furniture, fixtures and office equipment	3
Motor vehicles	3

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 or losses arising from disposal of property and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the related property and equipment and are recognised in the statement of income - insurance operations when the related property and equipment is disposed.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Reinsurance

The Company cedes insurance risk in the normal course of business for a portion of its businesses. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' 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 income - insurance operations. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

k) Deferred policy acquisition costs (DPAC)

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

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. Amortisation is recorded in the statement of income - insurance operations.

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

l) Zakat and income tax

The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis at the year end and is charged to statement of changes in shareholders' equity. The zakat charge is computed on the Saudi shareholder's share of the zakat base. Income tax is computed on the foreign shareholder's share of adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

m) Provisions

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

n) Foreign currencies

Transactions in foreign currencies are initially recorded at the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate at the reporting date. All differences arising on non-trading activities are taken to the statement of income - insurance operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

As the Company's foreign currency transactions are primarily in US dollar, which is pegged against Saudi Riyals so foreign exchange gains and losses are not significant and have not been disclosed separately.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment of financial assets

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

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income of insurance or shareholders' operations;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

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 reorganisation;
- 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.

p) 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.

q) 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 recognised 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).

r) Employees' end of service benefits

Employees' end of service benefits are accrued currently and are payable as a lump sum to all employees on termination of their employment contracts under the terms and conditions of Saudi Labor Regulations. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) *Segmental reporting*

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

- Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from.
- Motor insurance products which provide coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Engineering includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD.
- Medical products which provide health care cover to policyholders.
- Marine insurance for loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.
- Others include property, general accident and marine insurance.

Shareholders' operations is a non-operating segment. Income earned from investments is its only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

No inter-segment transactions occurred during the period. If any transactions were to occur, transfer prices between operating segments are set mutually agreed terms. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segment only.

t) *Offsetting*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense are not offset in the statement of comprehensive income - insurance operations or statement of comprehensive income - shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

u) *Trade date accounting*

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2013

6 CASH AND CASH EQUIVALENTS

	<u>2013</u>		<u>2012</u>	
	<i>Insurance operations</i> <i>SR</i>	<i>Shareholders' operations</i> <i>SR</i>	<i>Insurance operations</i> <i>SR</i>	<i>Shareholders' operations</i> <i>SR</i>
Cash in hand	25,293	--	42,500	--
Cash at banks - Current accounts	40,436,981	9,958,892	12,460,700	30,878,826
- Term deposit	--	--	45,280,143	--
	<u>40,462,274</u>	<u>9,958,892</u>	<u>57,783,343</u>	<u>30,878,826</u>

In 2012, there was SR 26.48 million included in term deposit associated with the portfolio transfer process and held in the name of a related party on behalf of the Company. This amount was transferred to the Company in 2013.

7 TIME DEPOSITS

Time deposits are placed with counterparties that have credit ratings equivalent to A- to A+ ratings under Standard and Poor's and Moody's ratings methodology.

Time deposits are placed with local banks with a maturity of more than three months from the date of original acquisition and earned special commission income at an average rate of 0.8% per annum (2012: 0.8% per annum).

The carrying amounts of the time deposits reasonably approximate the fair value at the statement of financial position date.

8 INVESTMENTS

a) Insurance operations – Investments

This represents investment in respect of the Company's share in the capital of Najm for Insurance Services. This investment has been carried at cost. Management is of the opinion that the fair market value of this investment is not materially different from its carrying value.

b) Shareholders' operations – Available for sale investments (AFS)

	<u>2013</u>		<u>2012</u>	
	<i>Amortised cost</i> <i>SR</i>	<i>Market value</i> <i>SR</i>	<i>Amortised cost</i> <i>SR</i>	<i>Market value</i> <i>SR</i>
Bonds				
Tourism Development Investment Company (TDIC) (100% owned by Abu Dhabi Government)	3,820,508	3,845,250	3,957,442	4,003,125
Abu Dhabi National Energy Company (TAQA) (51% owned by Abu Dhabi Government)	4,453,942	4,434,375	3,846,540	3,851,700
Sukuks				
Saudi Electricity Company	18,921,483	19,125,000	18,970,969	19,331,062
	<u>27,195,933</u>	<u>27,404,625</u>	<u>26,774,951</u>	<u>27,185,887</u>

The investment income ranges between 2.1% to 2.8% in case of bonds and 2.4% in case of sukuks.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

9 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair values of recognised financial instruments are not significantly different from the carrying values included in the financial statements. The estimated fair values of financial instruments are based on quoted market prices, when available. The fair values of these investments are disclosed below.

Determination of fair value and fair value hierarchy

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

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

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

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

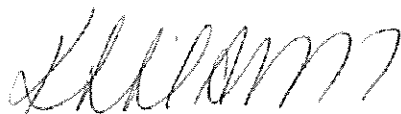
	<i>Level 1</i> <i>SR</i>	<i>Level 2</i> <i>SR</i>	<i>Level 3</i> <i>SR</i>	<i>Total</i> <i>SR</i>
2013				
Tourism Development Investment Company (TDIC) (100% owned by Abu Dhabi Government)	3,845,250	--	--	3,845,250
Abu Dhabi National Energy Company (TAQA) (51% owned by Abu Dhabi Government)	4,434,375	--	--	4,434,375
Saudi Electricity Company (Sukuks)	19,125,000	--	--	19,125,000
	<u>27,404,625</u>	--	--	<u>27,404,625</u>
2012				
Tourism Development Investment Company (TDIC) (100% owned by Abu Dhabi Government)	4,003,125	--	--	4,003,125
Abu Dhabi National Energy Company (TAQA) (51% owned by Abu Dhabi Government)	3,851,700	--	--	3,851,700
Saudi Electricity Company (Sukuks)	19,331,062	--	--	19,331,062
	<u>27,185,887</u>	--	--	<u>27,185,887</u>

The unlisted securities amounting to SR 1,923,079 were stated at cost in the absence of active markets or other means of reliably measuring their fair value.

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

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

The net change in the fair value of AFS investments amounting to SR 202,247 (2012: SR 410,936) has been recorded in the statement of comprehensive income – shareholders' operations.




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

10 PREMIUMS AND INSURANCE BALANCES RECEIVABLE, NET

	2013 SR	2012 SR
Premiums receivable	48,967,996	54,858,452
Receivables from insurance and reinsurance companies	20,501,445	6,337,343
Receivables from related parties	20,228,919	27,576,263
	89,698,360	88,772,058
Less: Allowance for doubtful debts	(12,525,180)	(15,715,621)
	77,173,180	73,056,437

Allowance for doubtful debts includes SR 2.6 million (31 December 31 2012: SR 3.8 million) against receivables from related parties. Movement in the allowance for doubtful debt was as follows:

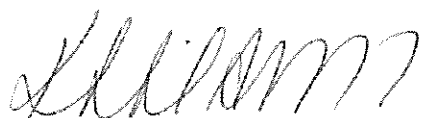
	2013 SR	2012 SR
Balance at 1 January	15,715,621	20,285,948
Reversal for the year	(1,570,737)	(4,570,327)
Write off against the provision	(1,619,704)	--
Balance at 31 December	12,525,180	15,715,621

As at 31 December 2013 and 2012, the ageing of premiums and insurance balances receivable is as follows:

	Total SR	Neither past due nor impaired SR	Past due but not impaired			Past due and impaired SR
			Less than 30 day SR	31 to 60 days SR	61 to 90 days SR	
2013	89,698,360	54,984,963	3,385,472	440,330	1,059,261	29,828,334
2012	88,772,058	41,950,380	--	--	202,451	46,619,227

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies outside Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company as at 31 December 2013 accounts for more than 16% (31 December 2012: 19%) of the premiums receivable. In addition, the five largest customers accounts for 39% (31 December 2012: 40%) of the premiums receivable as at 31 December 2013.

Unimpaired premiums and reinsurance balances receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured. The Company does not have an internal credit ratings assessment process and accordingly, amounts which are neither past due nor impaired, in respect of premiums receivable balances, are from individuals and unrated corporate.




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

11 MOVEMENT IN UNEARNED PREMIUMS, DEFERRED POLICY ACQUISITION COSTS, UNEARNED REINSURANCE COMMISSION AND OUTSTANDING CLAIMS

a) Unearned premium

	2013			2012		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>SR</i>	<i>share</i>	<i>SR</i>	<i>SR</i>	<i>share</i>	<i>SR</i>
Balance at 1 January	103,792,000	(38,856,217)	64,935,783	90,251,887	(36,425,889)	53,825,998
Premiums written during the year	330,882,339	(159,360,819)	171,521,520	248,069,711	(104,619,850)	143,449,861
Premiums earned during the year	(295,926,356)	129,095,236	(166,831,120)	(234,529,598)	102,189,522	(132,340,076)
Balance at 31 December	138,747,983	(69,121,800)	69,626,183	103,792,000	(38,856,217)	64,935,783

b) Deferred policy acquisition costs

	2013	2012
	<i>SR</i>	<i>SR</i>
Balance at 1 January	4,689,699	5,997,709
Incurred during the year	16,380,905	11,903,335
Amortised during the year	(15,042,796)	(13,211,345)
Balance at 31 December	6,027,808	4,689,699

c) Unearned reinsurance commission

	2013	2012
	<i>SR</i>	<i>SR</i>
Balance at 1 January	7,839,134	4,544,143
Commission received during the year	29,213,915	24,763,113
Commission earned during the year	(28,172,849)	(21,468,122)
Balance at 31 December	8,880,200	7,839,134




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

11 MOVEMENT IN UNEARNED PREMIUMS, DEFERRED POLICY ACQUISITION COSTS, UNEARNED REINSURANCE COMMISSION AND OUTSTANDING CLAIMS (continued)

d) Outstanding claims

	2013			2012		
	Gross SR	Reinsurers' share SR	Net SR	Gross SR	Reinsurers' share SR	Net SR
Balance at 31 December						
Outstanding claims	(617,759,315)	576,502,931	(41,256,384)	(99,532,472)	66,721,877	(32,810,595)
IBNR	(43,416,000)	19,863,999	(23,552,001)	(35,102,794)	17,755,029	(17,347,765)
	(661,175,315)	596,366,930	(64,808,385)	(134,635,266)	84,476,906	(50,158,360)
Premium deficiency and other reserves	(2,328,000)	--	(2,328,000)	--	--	--
	(663,503,315)	596,366,930	(67,136,385)	(134,635,266)	84,476,906	(50,158,360)
Claims paid during the year	(317,748,657)	199,766,026	(117,982,631)	(115,096,181)	34,853,071	(80,243,110)
Balance at 1 January						
Outstanding claims	99,532,472	(66,721,877)	32,810,595	119,266,419	(74,200,628)	45,065,791
IBNR	35,102,794	(17,755,029)	17,347,765	31,910,000	(16,173,000)	15,737,000
	134,635,266	(84,476,906)	50,158,360	151,176,419	(90,373,628)	60,802,791
Claims incurred	(846,616,706)	711,656,050	(134,960,656)	(98,555,028)	28,956,349	(69,598,679)

12 PREPAYMENTS AND OTHER ASSETS

	2013		2012	
	Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR
Prepaid rent	249,310	--	293,223	--
Employees' housing advances	899,174	--	917,513	--
Employees' prepaid insurance	689,721	--	402,579	--
Other assets	3,165,489	424,835	3,533,831	430,127
	5,003,694	424,835	5,147,146	430,127

13 STATUTORY DEPOSIT

Statutory deposit amounting to SR 20,000,000 (2012: SR 20,000,000) represents 10% of the paid up capital of the company which is maintained with a bank designated by SAMA in accordance with The Cooperative Insurance Companies Control Law for Insurance Companies. This statutory deposit cannot be withdrawn without the consent of SAMA.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

14 PROPERTY AND EQUIPMENT, NET

	<i>Furniture and fixtures SR</i>	<i>Office equipment SR</i>	<i>Motor vehicles SR</i>	<i>Total 2013 SR</i>	<i>Total 2012</i>
<i>Cost:</i>					
Balance at 1 January	3,042,311	5,126,001	384,450	8,552,762	7,698,828
Additions	281,313	86,732	--	368,045	853,934
Disposal	(114,728)	--	--	(114,728)	--
Balance at 31 December	3,208,896	5,212,733	384,450	8,806,079	8,552,762
<i>Accumulated depreciation:</i>					
Balance at 1 January	(2,775,921)	(4,268,223)	(368,721)	(7,412,865)	(6,711,859)
Charge for the year (note 20)	(130,042)	(459,149)	(15,687)	(604,878)	(701,006)
Elimination on disposal	67,120	--	--	67,120	--
Balance at 31 December	(2,838,083)	(4,727,372)	(384,408)	(7,950,630)	(7,412,865)
<i>Net book value:</i>					
At 31 December 2013	370,053	485,361	42	855,456	
At 31 December 2012	1,124,168	1,124,168	15,729		1,139,897

15 ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>Insurance operations 2013 SR</i>	<i>Shareholders' operations 2013 SR</i>	<i>Insurance operations 2012 SR</i>	<i>Shareholders' operations 2012 SR</i>
Accrued salaries and benefits	2,675,000	--	3,348,540	--
Accrued supervision fees	584,475	--	431,415	--
Board of Directors' remuneration	800,000	--	--	488,000
Provision for zakat and income tax (note 17c)	--	7,895,065	--	6,177,218
Withholding tax payable	6,301,132	--	4,033,317	--
Accrued IT related services	2,396,794	--	2,500,000	--
Accrued legal and professional fees	950,000	--	700,000	--
Outsourced service charges payable (note 24)	12,900,000	--	6,900,000	--
Other accrued expenses	1,168,223	2,034,587	2,366,605	875,975
	27,775,624	9,929,652	20,279,877	7,541,193

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

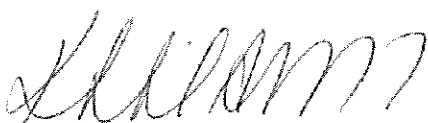
16 CLAIMS DEVELOPMENT TABLE

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.

<i>Accident Year</i>	<i>2010 & earlier</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>TOTAL</i>
Estimate of ultimate claim cost:					
At the end of accident year	132,176,627	117,988,458	66,834,065	885,124,662	1,202,123,812
One year later	147,470,332	102,030,190	57,630,088	--	307,130,610
Two years later	138,786,701	69,116,007	--	--	207,902,708
Three years later	133,076,012	--	--	--	133,076,012
Current estimate of cumulative claims	133,076,012	69,116,007	57,630,088	885,124,662	1,144,946,769
Cumulative paid claims	127,465,175	60,071,673	41,384,382	252,522,224	481,443,454
Liability recognised in statement of financial position	5,610,837	9,044,334	16,245,706	632,602,438	663,503,315




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

17 ZAKAT AND INCOME TAX

a) Zakat charge for the year

The zakat charge for the year consists of the current year's provision amounting to SR 2.19 million (2012: SR 3.02 million).

The zakat provision is based on the following:

	2013 SR	2012 SR
Share capital	200,000,000	200,000,000
Reserves and provision	(38,740,435)	(36,585,422)
Book value of long term assets	(2,766,662)	(3,629,275)
Adjusted net (loss) / profit for the year	(24,460,059)	1,386,766
Zakat base	134,032,844	161,172,069
Saudi shareholders' share of zakat base	100,477,722	120,822,642

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

b) Income tax charge for the year

Income tax relating to the foreign shareholders is nil (2012: SR 0.05 million).

c) Movement in the provision for zakat and income tax during the year

The movement in the provision for zakat and income tax for the year is as follows:

	2013 SR	2012 SR
At the beginning of the year	6,177,218	3,574,058
Provided during the year	2,192,609	3,072,643
Payments during the year	(474,762)	(469,483)
At the end of the year	7,895,065	6,177,218

d) Status of zakat and tax assessments

The Company has submitted its zakat and income tax returns up to the year ended 31 December 2012, obtained the required certificates and official receipts but the final assessments have not been raised.

e) Status of appeal

The Company has filed an appeal against the DZIT's initial assessment for the period / year ended 31 December 2010, 2011 and 2012 which are pending as at 31 December 2013.

18 SHARE CAPITAL

The authorised, issued and paid up share capital of the Company is SR 200 million divided into 20 million shares with a nominal value SR 10 each. The founding shareholders of the Company have subscribed and paid for 14 million shares which represents 70% of the shares of the Company's capital and the remaining 6 million shares have been subscribed by the public.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

19 BASIC AND DILUTED EARNING (LOSS) PER SHARE FOR THE YEAR

Basic and diluted earnings / (loss) per share for the year has been calculated by dividing the net income / (loss) for the year by 20 million outstanding shares at the reporting date.

20 STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution. No appropriation has been made because the Company has accumulated losses at the end of the year.

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2013		2012	
	Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR
Salaries and benefits	35,932,262	325,000	34,576,330	350,000
End of service benefits	1,526,484	--	2,276,432	--
Remuneration of the Board of Directors (note 24)	--	465,000	--	488,000
Outsourced service charges (note 24)	6,000,000	--	6,900,000	--
Rent	1,559,880	--	1,745,431	--
(Reversal)/provision for doubtful debts	(1,570,737)	--	(4,570,327)	--
Depreciation	604,878	--	701,068	--
Legal and professional fees	1,843,144	--	723,926	639,493
Business travel and transport	2,024,755	--	3,967,410	--
IT related services	3,080,791	--	4,008,958	--
Utilities	1,036,853	--	1,348,583	--
Stationery	424,724	--	401,682	--
Repair and maintenance	726,444	--	413,417	--
Promotion and advertising	128,925	--	108,899	--
Others	663,416	1,027,189	618,284	442,544
	<u>53,981,819</u>	<u>1,817,189</u>	<u>53,220,093</u>	<u>1,920,037</u>

22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets and liabilities include cash and cash equivalents, time deposits, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of unquoted financial instruments which are carried at cost.

23 CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

24 RELATED PARTY TRANSACTIONS AND BALANCES

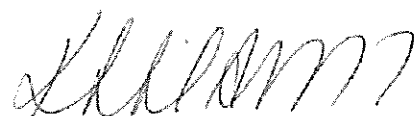
Related parties represent major shareholders and key management personnel of the Company. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms which are approved by the management. The following are the details of major related party transactions for insurance and shareholders' operations during the period and the balances at the end of the period / year:

Related party	Nature of transaction	Transactions for the year ended		Balance as at	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
		SR	SR	SR	SR
Shareholders / Companies under common management	Gross written Premiums	113,197,103	93,582,190	20,228,919	27,576,263
	Gross claims paid	79,821,348	62,271,678	--	--
	Reinsurance premiums ceded	53,091,341	44,330,161	--	--
	Reinsurers' share of gross claims paid	51,047,521	9,219,084	--	--
	Reinsurance commission income	14,261,850	12,856,578	--	--
	Outsourced service charges	6,000,000	6,900,000	(12,900,000)	(6,900,000)
	Brand fee	30,100	30,100	(112,875)	(90,300)
	Reinsurers' share of gross outstanding Claims	--	--	161,896,613	24,272,489
	Gross outstanding claims	--	--	25,958,244	(55,339,134)
Board of Directors	Remuneration and meeting fee	465,000	488,000	(495,500)	(488,000)

Key management personnel's remuneration

The remuneration of key management personnel during the period is as follows:

	2013 SR	2012 SR
Short term benefits	5,869,296	6,189,071
End of service benefits	149,020	152,692




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

25 SEGMENTAL INFORMATION

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

Segment results do not include general and administration expenses and other income.

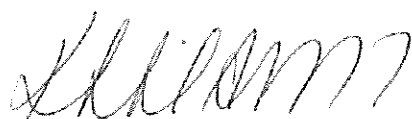
Segment assets do not include (in respect of insurance operations) property and equipment, due from shareholders' operations, bank balances and cash, prepaid expenses and other assets, premiums and reinsurance balances receivable, net. Accordingly, these are included in unallocated assets and are managed and reported to the chief operating decision maker on a centralised basis.

Segment liabilities do not include (in respect of insurance operations) employees' end of service benefits, reinsurance balances payable, accrued expenses and other liabilities. Accordingly, these are included in unallocated liabilities and are managed and reported to the chief operating decision maker on a centralised basis.

All of the Company's operating assets (except certain reinsurance balances) and principal activities are located in the Kingdom of Saudi Arabia.

Shareholders' operations is a non-operating segment. Certain direct operating expenses, other overhead expenses and loss or surplus from the insurance operations are allocated to this segment on an appropriate basis.

	For the year ended 31 December 2013						
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
Insurance operations							
Gross written premiums	100,431,996	118,542,815	19,154,808	20,807,792	39,031,610	32,913,318	330,882,339
Reinsurance premiums ceded	(94,017,550)	--	(15,768,842)	(10,952,290)	(22,534,375)	(16,087,762)	(159,360,819)
Excess of loss premiums	(3,280,497)	(3,019,900)	(2,050,179)	(365,498)	(2,268,612)	(812,603)	(11,797,289)
Net written premiums	3,133,949	115,522,915	1,335,787	9,490,004	14,228,623	16,012,953	159,724,231
Change in unearned premiums, net	156,999	(5,142,948)	375,596	284,996	92,782	(457,825)	(4,690,400)
Net premiums earned	3,290,948	110,379,967	1,711,383	9,775,000	14,321,405	15,555,128	155,033,831
Gross claims paid	(177,138,229)	(96,572,034)	(2,416,976)	(12,528,875)	(18,928,811)	(10,163,732)	(317,748,657)
Reinsurers' share of gross claims paid	174,318,557	--	1,571,184	4,986,950	12,053,379	6,835,956	199,766,026
Change in outstanding claims, net	(4,654,353)	(16,276,806)	622,793	1,068,990	745,092	1,516,259	(16,978,025)
Net claims incurred	(7,474,025)	(112,848,840)	(222,999)	(6,472,935)	(6,130,340)	(1,811,517)	(134,960,656)
Policy acquisition costs	(3,432,878)	(4,960,391)	(2,600,058)	(1,001,578)	(2,343,977)	(703,914)	(15,042,796)
Reinsurance commission income	14,533,546	--	4,860,318	--	7,231,215	1,547,770	28,172,849
	6,917,591	(7,429,264)	3,748,644	2,300,487	13,078,303	14,587,467	33,203,228
Other underwriting expenses	--	--	--	--	--	--	(1,521,154)
Net underwriting result							31,682,074
General and administrative Expenses							(53,981,819)
Investment income							501,046
Other income, net							134,509
Insurance operations' deficit							(21,664,190)




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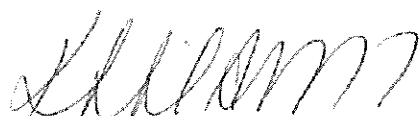
NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

25 SEGMENTAL INFORMATION (continued)

<i>For the year ended 31 December 2012</i>							
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
Insurance operations							
Gross written premiums	52,372,476	95,454,235	22,203,778	10,295,897	35,282,647	32,460,678	248,069,711
Reinsurance premiums ceded	(46,307,601)	--	(18,177,318)	(2,391,976)	(21,863,681)	(15,879,274)	(104,619,850)
Excess of loss premiums	(2,424,306)	(4,351,521)	(2,447,123)	(350,236)	(1,823,287)	(726,675)	(12,123,148)
Net written premiums	3,640,569	91,102,714	1,579,337	7,553,685	11,595,679	15,854,729	131,326,713
Change in unearned premiums, net	(1,304,770)	(10,040,900)	802,548	652,994	309,444	(1,529,101)	(11,109,785)
Net premiums earned	2,335,799	81,061,814	2,381,885	8,206,679	11,905,123	14,325,628	120,216,928
Gross claims paid	(11,468,885)	(70,474,283)	(5,120,949)	(9,800,902)	(11,688,883)	(6,542,279)	(115,096,181)
Reinsurers' share of gross claims paid	10,880,299	3,500,000	3,629,364	4,755,952	6,769,322	5,318,134	34,853,071
Change in outstanding claims, net	(35,100)	12,715,873	4,301	(293,998)	(1,462,984)	(283,661)	10,644,431
Net claims incurred	(623,686)	(54,258,410)	(1,487,284)	(5,338,948)	(6,382,545)	(1,507,806)	(69,598,679)
Policy acquisition costs	(2,065,321)	(5,613,868)	(2,564,987)	(331,612)	(1,940,016)	(695,541)	(13,211,345)
Reinsurance commission income	7,589,258	--	4,861,448	--	7,175,218	1,842,198	21,468,122
	7,236,050	21,189,536	3,191,062	2,536,119	10,757,780	13,964,479	58,875,026
Other underwriting expenses	--	--	--	--	--	--	(1,180,667)
Net underwriting surplus							57,694,359
General and administrative Expenses							(53,220,093)
Investment income							347,558
Other income, net							58,185
Insurance operations' surplus							4,880,009

<i>As at 31 December 2013</i>							
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
Insurance operations' assets							
Reinsurers' share of unearned Premiums	45,818,542	--	8,385,516	4,762,952	4,171,958	5,982,832	69,121,800
Reinsurers' share of outstanding claims	562,154,778	2,000	10,076,399	3,416,966	10,935,295	9,781,492	596,366,930
Deferred policy acquisition Costs	1,304,261	2,542,985	820,072	452,110	667,993	240,387	6,027,808
Unallocated assets							259,909,715
							931,426,253
Insurance operations' liabilities							
Unearned reinsurance commission Income	5,650,025	--	1,526,638	--	1,217,988	485,549	8,880,200
Gross unearned premiums	48,067,519	52,185,478	9,554,904	8,744,913	8,264,917	11,930,252	138,747,983
Gross outstanding claims	570,882,291	40,337,566	16,776,832	4,315,957	16,517,839	14,672,830	663,503,315
Unallocated liabilities							120,294,755
							931,426,253




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

25 SEGMENTAL INFORMATION (continued)

	As at 31 December 2012						
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
Insurance operations' assets							
Reinsurers' share of unearned premiums	16,801,832	--	8,814,912	2,096,979	4,920,168	6,222,326	38,856,217
Reinsurers' share of outstanding claims	46,971,330	290,997	12,039,580	2,264,977	15,044,150	7,865,872	84,476,906
Deferred policy acquisition costs	1,017,176	1,731,434	891,155	334,699	469,995	245,240	4,689,699
Unallocated assets							201,520,537
							329,543,359
Insurance operations' liabilities							
Unearned reinsurance commission income	4,068,786	--	1,760,940	--	1,487,985	521,423	7,839,134
Gross unearned premiums	19,207,808	47,042,530	10,359,896	6,363,936	9,105,909	11,711,921	103,792,000
Gross outstanding claims	51,044,490	24,349,757	19,362,806	4,232,958	21,371,786	14,273,469	134,635,266
Unallocated liabilities							83,276,959
							329,543,359

26 RISK MANAGEMENT

Risk Governance

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

Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Department

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

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

a) *Insurance risk*

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

26 RISK MANAGEMENT (continued)

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, casualty, medical and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Property

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

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

Engineering

The engineering business includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this line of business. These are adequately covered under the Engineering proportional and non-proportional treaties.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 0.7 million (31 December 2012: SR 0.7 million)

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim to SR 1.5 million (2012: SR 1.5 million).

Marine

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim, to SR 1.75 million (2012: SR 1.75 million)

Concentration of insurance risk

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

Since the Company does not have any foreign operations, hence, all the insurance risks relate to policies written in Saudi Arabia.

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

26 RISK MANAGEMENT (continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date 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. A hypothetical 10% change in the claims ratio would impact income by approximately SR 13.1 million (31 December 2012: SR 6.9 million) annually in aggregate.

b) Reinsurance risk

In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Reinsurance program is effected under treaty, facultative and excess of loss reinsurance contracts.

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

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure in this connection is SR 596.4 million (2012: SR 84.5 million).

c) Regulatory framework risk

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

d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the management in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

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(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

26 RISK MANAGEMENT (continued)

d) Credit risk (continued)

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

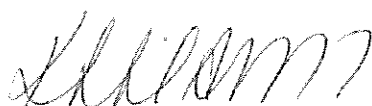
	2013 SR		2012 SR	
	<i>Insurance' Operations</i>	<i>Shareholders' operations</i>	<i>Insurance' operations</i>	<i>Shareholders' operations</i>
Assets				
Cash and cash equivalents	40,436,981	9,958,892	57,783,343	30,878,826
Time deposits	83,914,451	115,627,202	--	90,742,725
Investments	1,923,079	27,404,625	2,473,079	27,185,887
Premiums and insurance balances receivable	89,698,360	--	88,772,058	--
Reinsurers' share of outstanding claims	596,366,930	--	84,476,906	--
Due from related parties	1,256,938	--	29,378,370	--
Other assets	156,270	424,835	917,513	430,127
	<u>813,753,009</u>	<u>153,415,554</u>	<u>263,801,269</u>	<u>149,237,565</u>

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 payments are 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.




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

26 RISK MANAGEMENT (continued)

f) Liquidity risk (continued)

Maturity table

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

	2013			2012		
	<i>Less than one year SR</i>	<i>No term SR</i>	<i>Total SR</i>	<i>Less than one year SR</i>	<i>No term SR</i>	<i>Total SR</i>
INSURANCE OPERATIONS' FINANCIAL LIABILITIES						
Accounts payable	3,769,281	--	3,769,281	15,342,280	--	15,342,280
Reinsurance balances payable	75,912,509	--	75,912,509	28,759,017	--	28,759,017
Accrued expenses and other liabilities	21,478,663	--	21,478,663	15,815,145	--	15,815,145
Gross outstanding claims	663,503,315	--	663,503,315	134,635,266	--	134,635,266
	<u>764,663,768</u>	<u>--</u>	<u>764,663,768</u>	<u>194,551,708</u>	<u>--</u>	<u>194,551,708</u>
SHAREHOLDERS' FINANCIAL LIABILITIES						
Accrued expenses and other liabilities	2,034,587	--	2,034,587	1,363,975	--	1,363,975
	<u>2,034,587</u>	<u>--</u>	<u>2,034,587</u>	<u>1,363,975</u>	<u>--</u>	<u>1,363,975</u>
	<u>766,698,355</u>	<u>--</u>	<u>766,698,355</u>	<u>195,915,683</u>	<u>--</u>	<u>195,915,683</u>

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.

g) Foreign currency risk

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

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

h) Special commission rate risk

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

The Company is not exposed to special commission rate risk as commission rates are fixed.




AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31 December 2013

26 RISK MANAGEMENT (continued)

i) Market rate risk

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

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

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders comprehensive income is set out below:

	<i>Change in market price</i>	<i>Effect on statement of shareholders comprehensive operations SR</i>
2013	+5%	1,370,231
	-5%	(1,370,231)
2012	+5%	1,359,294
	-5%	(1,359,294)

j) Capital management

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

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In order to maintain or adjust the capital structure, the Company may issue right shares.

27 COMPARATIVE FIGURES

The following prior year figures have been reclassified to conform to the current year's presentation:

<i>Reclassification from</i>	<i>Reclassification to</i>	<i>Amount in SR</i>
Investment	Prepayments and other assets	500,000
Due from related parties	Due to related parties (Insurance operations)	5,435,811
Account payable	Reinsurance payable balance	7,092,601

28 APPROVAL OF THE FINANCIAL STATEMENTS

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