AXA COOPERATIVE INSURANCE COMPANY
(A Saudi joint stock company)

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

AXA COOPERATIVE INSURANCE COMPANY
(A Saudi joint stock company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

INDEPENDENT AUDITORS' REPORT

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

Scope of audit

We have audited the accompanying statement of financial position of AXA Cooperative Insurance Company (a Saudi joint stock company) (the "Company") as at December 31, 2014 and the related statements of insurance operations and accumulated surplus, shareholders' income, shareholders' comprehensive income, changes in shareholders' equity, insurance operations cash flows and shareholders' cash flows for the year then ended, and the notes from 1 to 26, which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards (IFRS) and the provisions of Article 123 of the Regulations for Companies and presented to us together with all information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Unqualified opinion

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

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

Emphasis of matter

We draw attention to Note 2 to the accompanying financial statements. These financial statements are prepared in accordance with IFRS and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

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February 19, 2015

برايس وترهاوس كوبرز
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ترخيص رقم ٢/٢٥/١١/٣٢٣
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LIC. NO. 2/25/11/323

الغانم للمحاسبة
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AL-GHANEM
CERTIFIED PUBLIC ACCOUNTANTS

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

	Notes	As at December 31, 2014	2013
Insurance operations' assets			
Cash and cash equivalents	4	188,876	171,605
Short-term deposits	5	168,299	26,541
Premiums and insurance balances receivable		162,042	148,812
Less: Provision for doubtful debts		(21,980)	(18,230)
Premiums and insurance balances receivable - net	6, 14	140,062	130,582
Receivable from related parties	14	236	8,392
Reinsurers' share of unearned premiums	9	35,073	27,188
Reinsurers' share of outstanding claims	8, 9	141,529	62,804
Deferred policy acquisition costs	9	17,475	16,707
Other assets		6,445	7,610
Available-for-sale investments	7	74,454	86,942
Long-term deposit	5	7,500	7,500
Held-to-maturity investments	7	75,000	75,000
Due from shareholders		51,472	14,302
Furniture, fixtures and equipment	11	4,464	4,433
Intangibles - computer software		3,004	3,711
Total insurance operations' assets		913,889	643,317
Shareholders' assets			
Cash and cash equivalents	4	10,636	891
Short-term deposits	5	20,000	-
Other assets		4,234	1,208
Available-for-sale investments	7	95,069	74,314
Long-term deposits	5	56,250	56,250
Held-to-maturity investments	7	60,000	60,000
Statutory deposit	10	20,000	20,000
Total shareholders' assets		266,189	212,663
Total assets		1,180,078	855,980

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

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

	Notes	As at December 31, 2014	2013
Insurance operations' liabilities and accumulated surplus			
Reinsurers' balances payable		42,723	39,165
Unearned premiums	9	279,550	210,840
Outstanding claims		258,938	154,587
Claims incurred but not reported and other reserve		220,668	158,195
	9	479,606	312,782
Advance premiums		-	7,517
Deferred reinsurance commission	9	4,831	5,097
Accrued and other liabilities	12	85,733	50,834
Employee termination benefits	13	17,380	16,495
Total insurance operations' liabilities		909,823	642,730
Accumulated surplus from insurance operations		2,926	1,658
Fair value reserve on available-for-sale investments	7	1,140	(1,071)
Total insurance operations accumulated surplus		4,066	587
Total insurance operations' liabilities and accumulated surplus		913,889	643,317
Shareholders' liabilities and equity			
Shareholders' liabilities			
Accrued zakat and income tax	16	4,839	5,445
Accrued and other liabilities	12	2,734	1,541
Due to insurance operations		51,472	14,302
Total shareholders' liabilities		59,045	21,288
Shareholders' equity			
Share capital	17	200,000	200,000
Statutory reserve	18	921	-
Fair value reserve		2,541	2,378
Accumulated surplus (deficit)		3,682	(11,003)
Total shareholders' equity		207,144	191,375
Total shareholders' liabilities and equity		266,189	212,663
Total insurance operations' liabilities and accumulated surplus and shareholders' liabilities and equity		1,180,078	855,980
Contingencies	23		

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

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

		Year ended December 31,	
	Notes	**2014**	**2013**
Revenues			
Gross premiums written	9, 14	1,040,111	775,596
Less: Reinsurance premiums ceded	9, 14	(128,619)	(104,451)
Net premiums written		911,492	671,145
Changes in unearned premiums		(60,825)	(27,093)
Net premiums earned	9	850,667	644,052
Reinsurance commissions	9, 14	17,120	13,873
Investment income, net	19	7,574	4,805
Total revenues		875,361	662,730
Costs and expenses			
Gross claims paid	9	703,635	509,346
Less: Reinsurers' share	9	(78,204)	(97,775)
Net claims paid	9, 14	625,431	411,571
Changes in outstanding claims		88,099	126,854
Net claims incurred	9	713,530	538,425
Policy acquisition costs	9	51,664	34,729
General and administrative expenses	20	97,481	78,565
Total costs and expenses		862,675	651,719
Net surplus from insurance operations		12,686	11,011
Shareholders' appropriation of surplus		(11,418)	(9,910)
Net result from insurance operations after appropriation of surplus	15	1,268	1,101
Accumulated surplus, beginning of the year		1,658	557
Accumulated surplus, end of the year	15	2,926	1,658

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

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

		Year ended December 31,	
	Notes	**2014**	**2013**
Net surplus transferred from insurance operations	15	**11,418**	9,910
Investment income, net	19	**8,050**	6,596
General and administrative expenses	20	**(1,421)**	(1,759)
Shareholders' net income for the year		**18,047**	14,747
Weighted average number of outstanding shares	17	**20 million**	20 million
Basic and diluted earnings per share (Saudi Riyals)	22	**0.902**	0.740

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

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

	Notes	Year ended December 31, 2014	2013
Shareholders' net income for the year		18,047	14,747
Provision for zakat and income tax	16	(2,441)	(1,805)
		15,606	12,942
Items that may subsequently be reclassified to statement of shareholders' income			
Changes in fair value reserve on available-for-sale investments, net	7	163	(1,919)
Total comprehensive income for the year		15,769	11,023

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

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

	Share capital	Statutory reserve	Fair value reserve	Accumulated surplus (deficit)	Total
Balance at January 1, 2013	200,000	-	4,297	(23,945)	180,352
Net income for the year	-	-	-	14,747	14,747
Provision for zakat and income tax	-	-	-	(1,805)	(1,805)
Changes in fair value reserve on available-for-sale investments, net	-	-	(1,919)	-	(1,919)
Balance at December 31, 2013	200,000	-	2,378	(11,003)	191,375
Balance at January 1, 2014	200,000	-	2,378	(11,003)	191,375
Net income for the year	-	-	-	18,047	18,047
Provision for zakat and income tax	-	-	-	(2,441)	(2,441)
Transfer to statutory reserve	-	921	-	(921)	-
Changes in fair value reserve on available-for-sale investments, net	-	-	163	-	163
Balance at December 31, 2014	**200,000**	**921**	**2,541**	**3,682**	**207,144**

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

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

	Notes	Year ended December 31, 2014	2013
Cash flow from operating activities			
Net results from insurance operations		1,268	1,101
Adjustments to reconcile net results from insurance operations to net cash from operating activities:			
Shareholders' appropriation of surplus from insurance operations	15	11,418	9,910
Accretion of premium on available-for-sale investments	7	169	258
Amortization of discount on available-for-sale investments	7	(9)	(5)
Depreciation	11	1,561	2,006
Amortization of intangibles – computer software		2,056	1,382
		16,463	14,652
Changes in operating assets and liabilities:			
Premium and insurance balances receivable - net		(9,480)	(24,291)
Reinsurers' share of unearned premiums		(7,885)	(3,163)
Reinsurers' share of outstanding claims		(78,725)	29,910
Deferred policy acquisition costs		(768)	(1,816)
Other assets		1,165	(3,847)
Receivable from related parties		8,156	13,704
Reinsurers' balances payable		3,558	2,617
Unearned premiums		68,710	30,256
Advance premiums		(7,517)	3,861
Outstanding claims		104,351	(17,205)
Claims incurred but not reported and other reserve		62,473	114,149
Deferred reinsurance commission		(266)	(166)
Accrued and other liabilities		34,899	15,316
Payable to a related party		-	(49,730)
Employee termination benefits		885	620
Due from shareholders		(48,588)	49,682
Net cash provided by operating activities		147,431	174,549
Cash flow from investing activities			
Purchase of furniture, fixtures and equipment	11	(1,607)	(1,658)
Proceeds from disposal of furniture, fixtures and equipment	11	15	-
Purchase of computer software		(1,349)	(1,007)
Short-term deposits		(141,758)	34,601
Purchase of available-for-sale investments	7	(9,410)	(34,651)
Proceeds from disposal of available-for-sale investments	7	23,949	653
Purchase of held-to-maturity investments	7	-	(75,000)
Net cash used in investing activities		(130,160)	(77,062)
Net increase in cash and cash equivalents		17,271	97,487
Cash and cash equivalents, beginning of the year		171,605	74,118
Cash and cash equivalents, end of the year		188,876	171,605
Supplemental cash flow information			
Non-cash investing activities			
Changes in fair value of available-for-sale investments	7	2,211	(1,317)
Short-term deposits transferred from shareholders' operations against due from shareholders' operations		-	59,541

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

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

	Notes	Year ended December 31, 2014	2013
Cash flow from operating activities			
Shareholders' net income for the year		18,047	14,747
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Accretion of premium on available-for-sale investments	7	108	116
Amortization of discount on available-for-sale investments	7	(8)	(4)
Impairment of available-for-sale investments	7	238	-
Appropriation of surplus from insurance operations	15	(11,418)	(9,910)
		6,967	4,949
Changes in operating assets and liabilities:			
Other assets		(3,026)	1,879
Zakat and income tax paid		(3,047)	(2,302)
Accrued and other liabilities		1,193	163
Due to insurance operations		48,588	(49,682)
Net cash provided by (used in) operating activities		50,675	(44,993)
Cash flow from investing activities			
Short-term deposits		(20,000)	138,819
Purchase of available-for-sale investments	7	(26,032)	(20,059)
Proceeds from sale of available-for-sale investments	7	5,102	6,799
Long-term deposits		-	(20,000)
Purchase of held-to-maturity investments	7	-	(60,000)
Net cash (used in) provided by investing activities		(40,930)	45,559
Net increase in cash and cash equivalents		9,745	566
Cash and cash equivalents, beginning of the year		891	325
Cash and cash equivalents, end of the year		10,636	891
Supplemental cash flow information			
Non-cash operating activity -			
Zakat and income tax charged to shareholders' comprehensive income	16	(2,441)	(1,805)
Non-cash investing activity:			
Changes in fair value of available-for-sale investments	7	163	(1,919)

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

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

a. General information

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

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

b. Portfolio transfer

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

On 15 Dhul-Qadah 1433H (corresponding to October 1, 2013), SAMA approved the transfer, with effect from January 1, 2009, at a maximum consideration of Saudi Riyals 106.57 million. Consequent to SAMA's approval, the Company had formally entered into a purchase agreement with the shareholders' of the Seller to effect the transfer. Also, the shareholders of the Company had approved the portfolio transfer at their Extra Ordinary General Assembly Meeting held on December 10, 2012. The effects of the transfer have been reflected in the financial statements for the period from June 3, 2009 to December 31, 2010 and the year ended December 31, 2011. Also see note 22.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

2.1 Basis of preparation

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

The accounting policies used in the preparation of these financial statements are consistently applied for all years presented, except for the adoption of certain amendments and revisions to existing standards as mentioned below, which are effective for periods beginning on or after January 1, 2014 but had no significant financial impact on the financial statements of the Company:

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

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

- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures for non-financial assets, effective January 1, 2014. This amendment restricts the requirements to disclose the recoverable amount of an asset or Cash Generating Unit (CGU) to the period in which an impairment loss has been recognised or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.

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

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

b) Standards, interpretations and amendments to published standards that will be effective for the periods commencing after January 1, 2014 and have not been early adopted by the Company

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

- Amendments to IAS 19, 'Employee benefits' on defined benefit plans, effective July 1, 2014. This amendment clarifies the application of IAS 19, 'Employee benefits' (2011) - referred to as 'IAS 19R', to plans that require employees or third parties to contribute towards the cost of benefits. The amendment does not affect the accounting for voluntary contributions.

- IFRS 15, 'Revenue from contracts with customers', effective January 1, 2017. It has established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction contracts and the related interpretations.

- IFRS 14, 'Regulatory deferral accounts', effective January 1, 2016. This is an interim standard on the accounting for certain balances that arise from rate regulated activities ('regulatory deferral accounts'). It is only applicable to those entities that apply IFRS 1 as first-time adopters of IFRS.

- IFRS 9, 'Financial instruments', effective January 1, 2018. This replaces IAS 39, 'financial instruments: Recognition and measurement'.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

b) Standards, interpretations and amendments to published standards that will be effective for the periods commencing after January 1, 2014 have not been early adopted by the Company (continued)

- Amendments to IFRS 9, 'Financial instruments' on hedge accounting, effective January 1, 2018.

- Annual improvements 2012 and 2013, effective July 1, 2014. These annual improvements include changes to:

  - IFRS 2, 'Share based payments',
  - IFRS 3, 'Business combinations',
  - IFRS 8, 'Operating segments',
  - IAS 16, 'Property, plant and equipment',
  - IAS 38, 'Intangible assets',
  - IAS 24, 'Related party disclosures',
  - IFRS 13, 'Fair value measurement', and
  - IAS 40, 'Investment property'.

2.2 Use of estimates in the preparation of financial statements

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

2.3 Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which are subject to risk and rewards that are different from those of other segments.

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

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

- Segment liabilities and surplus do not include reinsurers' balances payable, advance premiums, payable to a related party, accrued and other liabilities, employee termination benefits and fair value reserve on available-for-sale investments; and

- Operating segments do not include shareholders' operations.

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

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

No inter-segment transactions occurred during the year.

2. Summary of significant accounting policies (continued)

2.4 Functional and presentation currency

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

2.5 Financial assets

2.5.1 Classification

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

a) Loans and receivables

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

b) Available-for-sale investments

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

c) Held-to-maturity investments

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

2.5.2 Recognition, measurement and de-recognition

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Loans and receivable and investments held-to-maturity are carried at amortized costs using effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of shareholders' income when the investment is derecognized or impaired. Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive income and financial position for insurance operations.

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

2. Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

2.5.3 Determination of fair values

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

2.5.4 Impairment of financial assets

(a) Financial assets carried at amortised cost

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

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

(b) Available-for-sale investments

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

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

2.6 Cash and cash equivalents

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

2.7 Short-term and long-term deposits

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

2.8 Insurance receivables

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

2. Summary of significant accounting policies (continued)

2.9 Insurance contracts

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

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

2.10 Deferred policy acquisition costs

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

2.11 Claims

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

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

2.12 Salvage and subrogation reimbursement

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

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

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

2.13 Reinsurance

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

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

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

2. Summary of significant accounting policies (continued)

2.14 Liability adequacy test

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

2.15 Furniture, fixtures and equipment

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

	Number of years
Furniture and fixtures	5
Equipment	3 – 4

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

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

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

2.16 Intangible assets

Intangible assets mainly include computer software whether acquired or internally developed is capitalised on the basis of cost incurred to acquire and bring to use or develop the specific software. These costs are amortised over their estimated useful lives of four years using the straight line method. Impairment losses, if any, are deducted from the carrying amount of the intangible assets.

Amortisation on additions to intangibles is charged from the month in which an asset is available for use, while no amortisation is charged for the month in which the asset is disposed of. Cost associated with maintaining computer software programmes are recognised as an expense when incurred.

The assets' residual values, useful lives and method for amortisation are reviewed at each financial year end and adjusted if impact on amortisation is significant.

2.17 Accrued and other liabilities

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

2.18 Payables

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

2.19 Employee termination benefits

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

2. Summary of significant accounting policies (continued)

2.20 De-recognition of financial instruments

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

2.21 Off-setting

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

2.22 Zakat and income taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of shareholders' comprehensive operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. Zakat is computed on the Saudi shareholders' share of equity and / or net income using the basis defined under the regulations of DZIT. Income tax is computed on the foreign shareholders' share of net income for the year. Zakat and income tax are charged to retained earnings as these are liabilities of the shareholders. Zakat and income tax are charged in full to the retained earnings. Income tax charged to the retained earnings, in excess to the proportion of the Saudi shareholders' zakat per share, is recovered from the foreign shareholders and credited to retained earnings.

Deferred income tax on all major temporary differences between financial income and taxable income are recognized during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax are determined using tax rates which have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

2.23 Revenue recognition

(a) Recognition of premium and reinsurance commission revenue

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

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

(b) Commission income

Commission income from short-term deposits, long-term deposits, bonds available-for-sale and investments held-to-maturity is recognized on a time proportion basis using the effective commission rate method.

(c) Dividend income

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

2.24 Surplus from insurance operations

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

2. Summary of significant accounting policies (continued)

2.25 Trade date accounting

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

2.26 Seasonality of operations

There are no seasonal changes that affect insurance operations.

3. Critical accounting estimates

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

The ultimate liability arise from claims under insurance contracts

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported "IBNR" at the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

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

Premium deficiency reserve

At each balance sheet date, liability adequacy tests are performed separately for each class of business to ensure the adequacy of the unearned premium liability for that class. It is performed by comparing the expected future liability, after reinsurance, from claims and other expenses, including reinsurance expense, commissions and other underwriting expenses, expected to be incurred after balance sheet date in respect of policies in force at balance sheet date with the carrying amount of unearned premium liability. Any deficiency is recognised by establishing a provision (premium deficiency reserve) to meet the deficit.

The expected future liability is estimated with reference to the experience during the expired period of the contracts, adjusted for significant individual losses which are not expected to recur during the remaining period of the policies, and expectations of future events that are believed to be reasonable.

The movement in the premium deficiency reserve is recognised as an expense or income in the statement of insurance operations for the year.

Impairment of premiums and insurance balances receivable

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

Impairment of available-for-sale investments

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

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

4. Cash and cash equivalents

	2014	2013
Insurance operations:		
Cash at banks and in hand	**98,538**	41,316
Time deposits	**90,338**	130,289
	188,876	171,605
Shareholders' operations:		
Cash at banks and in hand	**10,000**	604
Time deposits	**636**	287
	10,636	891

Time deposits are placed with local and foreign banks with an original maturity of less than three months from the date of acquisition and earn commission income at a rate of 0.40% to 1.15% (2013: 0.08% to 2.7%) per annum.

5. Short-term and long-term deposits

The rate of return on short-term deposits with various banks, for insurance operations and shareholders' operations, ranges from 0.75% to 2.55% per annum (2013: 0.80% to 2.70%) depending on tenor. These short term deposits have maturities up to March 30, 2015.

Long-term deposits for Insurance operations and shareholders' operations represent deposits in various banks. The rate of return on long-term deposit ranges from 2.00% to 3.01% per annum (2013: 0.80% to 3.00%).

6. Premiums and insurance balances receivable

	2014	2013
Receivable from policy holders (Note 14)	**61,834**	58,847
Receivable from insurance intermediaries	**79,086**	61,922
Receivable from reinsurers (Note 14)	**21,122**	28,043
	162,042	148,812
Provision for doubtful debts (Note 14)	**(21,980)**	(18,230)
Total	**140,062**	130,582

Movement in provision for doubtful debts is as follows:

	2014	2013
Balance, January 1	**18,230**	18,230
Charged during the year	**3,750**	-
Balance, December 31	**21,980**	18,230

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

	Total	Neither past due nor impaired	Past due but not impaired		
			91 to 180 days	181 to 360 days	More than 360 days
December 31, 2014	**140,062**	**84,277**	**39,839**	**5,337**	**10,609**
December 31, 2013	130,582	100,654	25,052	4,876	-

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

6. Premiums and insurance balances receivable (continued)

Receivables comprise a large number of customers, intermediaries and insurance companies mainly within the Kingdom of Saudi Arabia and reinsurance companies in the Kingdom of Saudi Arabia, GCC and Europe. Premiums and reinsurance balances receivable at December 31, 2014 include Saudi Riyal 20,290 (2013: Saudi Riyal 23,669) due in foreign currencies, mainly US dollars. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company accounts for more than 11% of the premiums receivable as at December 31, 2014 (2013: 8%). In addition, the five largest customers account for 37% of the premiums receivable as at December 31, 2014 (2013: 22%).

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

7. Investments

Available-for-sale investments

Available-for-sale investments include the following:

2014	**Insurance operations**	**Shareholders' operations**
Government bonds	**42,402**	**41,159**
Other bonds	**16,868**	**33,663**
Mutual funds	**15,184**	**-**
Equities	**-**	**20,247**
	74,454	**95,069**

2013	**Insurance operations**	**Shareholders' operations**
Government bonds	59,018	32,298
Other bonds	16,471	23,684
Mutual funds	11,453	-
Equities	-	18,332
	86,942	74,314

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

2014	**Insurance operations**	**Shareholders' operations**
Balance, January 1	**86,942**	**74,314**
Purchases	**9,410**	**26,032**
Disposals	**(23,949)**	**(5,102)**
Accretion of premium on available-for-sale investments	**(169)**	**(108)**
Amortization of the discount on available-for-sale investments	**9**	**8**
Impairment	**-**	**(238)**
Changes in fair value, net	**2,211**	**163**
Balance, December 31	**74,454**	**95,069**

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

7. Investments (continued)

Available-for-sale investments (continued)

2013	**Insurance operations**	**Shareholders' operations**
Balance, January 1	54,514	63,085
Purchases	34,651	20,059
Disposals	(653)	(6,799)
Accretion of premium on available-for-sale investments	(258)	(116)
Amortization of the discount on available-for-sale investments	5	4
Changes in fair value, net	(1,317)	(1,919)
Balance, December 31	86,942	74,314

Available-for-sale investments at December 31, 2014 include 1,923,078 shares (2013: 1,923,078) in Najam for Insurance Services, and are held by the Company at Nil value.

Movement in fair value reserve on Available-for-sale investments is as follows:

2014	**Insurance operations**	**Shareholders' operations**
Balance, January 1	**(1,071)**	**2,378**
Unrealised gains	**1,894**	**1,557**
Realised losses / (gains) on disposals	**317**	**(1,394)**
Balance, December 31	**1,140**	**2,541**

2013	**Insurance operations**	**Shareholders' operations**
Balance, January 1	246	4,297
Unrealised losses	(1,317)	(1,002)
Realised gains on disposal	-	(917)
Balance, December 31	(1,071)	2,378

The fair value reserve on Available-for-sale investments comprises of:

2014	**Insurance operations**	**Shareholders' operations**
Unrealised gains	**1,305**	**3,482**
Unrealised losses	**(165)**	**(941)**
	1,140	**2,541**

2013	**Insurance operations**	**Shareholders' operations**
Unrealised gains	615	2,566
Unrealised losses	(1,686)	(188)
	(1,071)	2,378

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

7. Investments (continued)

Held-to-maturity investments

Insurance operations:

Type of security	Issuer	Maturity period	Profit margin	Book value net of amortization	
				2014	2013
Sukuks	Saudi government	10 years	3.21%	**60,000**	60,000
Sukuks	Saudi company	10 years	3.47%	**15,000**	15,000
				75,000	75,000

Shareholders' operations:

Type of security	Issuer	Maturity period	Profit margin	Book value net of amortization	
				2014	2013
Sukuks	Saudi government	10 years	3.21%	**60,000**	60,000

8. Reinsurers' share of outstanding claims

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

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

a. Deferred policy acquisition costs

	2014	2013
Balance, January 1	**16,707**	14,891
Incurred during the year	**52,432**	36,545
Amortized during the year	**(51,664)**	(34,729)
Balance, December 31	**17,475**	16,707

b. Deferred reinsurance commission

	2014	2013
Balance, January 1	**5,097**	5,263
Commission received during the year	**16,854**	13,707
Commission earned during the year	**(17,120)**	(13,873)
Balance, December 31	**4,831**	5,097

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

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

c. Unearned premiums

	2014			2013		
	Gross	Reinsurers' Share	Net	Gross	Reinsurers' Share	Net
Unearned premiums	**279,550**	**(35,073)**	**244,477**	210,840	(27,188)	183,652

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

	2014			2013		
	Gross	Reinsurers' Share	Net	Gross	Reinsurers' Share	Net
At January 1	**210,840**	**(27,188)**	**183,652**	180,584	(24,025)	156,559
Premiums written	**1,040,111**	**(128,619)**	**911,492**	775,596	(104,451)	671,145
Premiums earned	**(971,401)**	**120,734**	**(850,667)**	(745,340)	101,288	(644,052)
At December 31	**279,550**	**(35,073)**	**244,477**	210,840	(27,188)	183,652

d. Outstanding claims

	2014			2013		
	Gross	Reinsurers' Share	Net	Gross	Reinsurers' Share	Net
At January 1						
Claims outstanding	**154,587**	**(60,413)**	**94,174**	171,792	(88,440)	83,352
Claims incurred but not reported	**158,195**	**(2,391)**	**155,804**	44,046	(4,274)	39,772
	312,782	**(62,804)**	**249,978**	215,838	(92,714)	123,124
Claims paid during the year	**(703,635)**	**78,204**	**(625,431)**	(509,346)	97,775	(411,571)
Claims incurred during the year	**870,459**	**(156,929)**	**713,530**	606,290	(67,865)	538,425
At December 31	**479,606**	**(141,529)**	**338,077**	312,782	(62,804)	249,978
At December 31						
Claims outstanding	**258,938**	**(138,280)**	**120,658**	154,587	(60,413)	94,174
Claims incurred but not reported	**220,668**	**(3,249)**	**217,419**	158,195	(2,391)	155,804
Total claims	**479,606**	**(141,529)**	**338,077**	312,782	(62,804)	249,978

10. Statutory deposit

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

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

11. Furniture, fixtures and equipment

	Furniture and fixtures	Equipment	Total
2014			
Cost			
January 1, 2014	5,168	6,022	**11,190**
Additions	792	815	**1,607**
Disposals	(15)	-	**(15)**
December 31, 2014	5,945	6,837	**12,782**
Accumulated depreciation			
January 1, 2014	(3,102)	(3,655)	**(6,757)**
Charge during the year	(899)	(677)	**(1,576)**
Disposals	15	-	**15**
December 31, 2014	(3,986)	(4,332)	**(8,318)**
Net book value			
December 31, 2014	**1,959**	**2,505**	**4,464**

	Furniture and fixtures	Equipment	Total
2013			
Cost			
January 1, 2013	4,065	5,467	9,532
Additions	1,103	555	1,658
December 31, 2013	5,168	6,022	11,190
Accumulated depreciation			
January 1, 2013	(2,145)	(2,606)	(4,751)
Charge during the year	(957)	(1,049)	(2,006)
December 31, 2013	(3,102)	(3,655)	(6,757)
Net book value			
December 31, 2013	2,066	2,367	4,433

12. Accrued and other liabilities

	2014	2013
Insurance operations:		
Accrued salaries	**14,731**	11,814
Commission payable	**22,494**	8,616
Regulators’ fee	**4,943**	3,913
Unclaimed cheques	**11,064**	12,951
Payable to vendors	**31,296**	7,148
Other	**1,205**	6,392
	85,733	50,834
Shareholders’ operations:		
Directors’ fees	**1,020**	1,020
Other	**1,714**	521
	2,734	1,541

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

13. Employee termination benefits

	2014	2013
Balance, January 1	**16,495**	15,875
Payments	**(1,753)**	(1,530)
Charge for the year	**2,638**	2,150
Balance, December 31	**17,380**	16,495

14. Related party transactions and balances

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

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

a) Related party transactions

	2014	2013
Gross premiums written	**24,467**	23,323
Net claims paid	**8,382**	8,945
Reinsurance ceded	**73,540**	52,648
Reinsurers' share of gross claims paid	**45,666**	29,653
Reinsurance commissions	**8,007**	5,622
Expenses charged by related parties	**1,991**	2,071
Contributions to pension fund	**640**	728

b) Compensation of key management personnel

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

	2014	2013
Key management personnel	**6,142**	5,681
Directors	**1,217**	1,127
	7,359	6,808

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

c) Related party balances

i) Premiums and reinsurance balances receivable

	2014	2013
Receivable from policy holders	**1,482**	1,954
Receivable from reinsurers	**5,076**	2,511
	6,558	4,465
Provision for doubtful debts	**(313)**	(972)
Total	**6,245**	3,493

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

14. Related party transactions and balances (continued)

c) Related party balances (continued)

i) Premiums and reinsurance balances receivable (continued)

Movement in provision for doubtful debts is as follows:

	2014	2013
Balance, beginning of the year	**972**	815
(Reversals) charged during the year	**(659)**	157
Balance, end of the year	**313**	972

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

	Total	Neither past due nor impaired	Past due but not impaired 91 to 180 days	Past due but not impaired 181 to 360 days	Past due but not impaired More than 360 days
December 31, 2014	**6,245**	**2,884**	**1,799**	**-**	**1,562**
December 31, 2013	3,493	1,834	1,052	607	-

ii) Receivable from related parties

Receivable from related parties at December 31, 2014 and December 31, 2013 mainly include amount receivable from the Seller. Also see Note 1.

15. Insurance operations' accumulated surplus

In accordance with the Regulations issued by SAMA, 90% of the insurance operations' surplus for each year is required to be transferred to the shareholders' income.

16. Zakat and income tax matters

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

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

16.1 Components of zakat base

	Note	2014	2013
Shareholders' equity at beginning of year		**191,375**	180,352
Provisions at beginning of year		**34,725**	34,105
Adjusted net income	15.3	**28,755**	24,597
Investments		**(135,000)**	(6,145)
Deposits		**(83,750)**	-
Other		**886**	592
Approximate zakat base		**36,991**	233,501

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

16. Zakat and income tax matters (continued)

16.2 Movement in provision for zakat and income tax as at December 31, 2014 and 2013 is as follows:

2014	**Zakat**	**Income tax**	**Total**
Balance, January 1	4,021	1,424	**5,445**
Payments	(1,623)	(1,424)	**(3,047)**
Provision for the year	485	1,956	**2,441**
Balance, December 31	**2,883**	**1,956**	**4,839**

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

Deferred income taxes arising out of the temporary differences were not significant and, accordingly, were not recorded as of December 31, 2014 and 2013.

16.3 Status of zakat and income tax assessment

The Company has filed revised zakat and tax returns for the years from 2009 to 2012 to reflect the effect of portfolio transfer and has received provisional zakat certificates from the year 2009 to 2013. During the year ended December 31, 2014, the Department of Zakat and Income Tax ("DZIT") had issued assessments for the years from 2009 to 2012 amounting to Saudi Riyals 11.6 million, which was subsequently reduced to Saudi Riyals 8.5 million. The Company has filed an appeal against the assessment of DZIT for additional demand arising out of various disallowances from years 2009 to 2012.

17. Share capital

	2014	**2013**
Authorized		
20,000,000 shares of Saudi Riyals 10 each	**200,000**	200,000
Allotted, issued and fully paid		
20,000,000 shares of Saudi Riyals 10 each	**200,000**	200,000

The shares of the Company are owned as follows:

Shareholder	**Shareholding percentage**	
	2014	**2013**
Held by public	50	50
AXA Mediterranean	18	18
AXA Insurance (Gulf) B.S.C. (c)	32	32
	100	100

The Board of Directors in their meeting held on June 27, 2012 (corresponding to 7 Sha'ban 1433H) proposed to increase the share capital by Saudi Riyals 250 million. On April 23, 2014 (corresponding to 23 Jumada II 1435H), the Company has received an approval from SAMA for increasing its share capital by way of issuance of right shares to its existing shareholders. The Company is currently in the process of obtaining approval from the Capital Market Authority (CMA) subject to completion of certain regulatory requirements including submission of certain specified information and documents required by CMA.

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

18. Statutory Reserve

In accordance with the law, the Company is required to transfer not less than 20% of its annual net income, after deducting accumulated losses, to a statutory reserve until such reserve amounts to 100% of the paid up share capital of the Company. This reserve is not available for distribution to the shareholders until the liquidation of the Company.

19. Investment income

	2014	2013
Insurance operations:		
Commission income	**7,719**	4,877
Dividends	**335**	180
Realized losses	**(317)**	-
Other	**(163)**	(252)
	7,574	4,805
Shareholders' operations:		
Commission income	**6,343**	5,362
Dividends	**650**	428
Realized gains	**1,394**	917
Impairment	**(238)**	-
Other	**(99)**	(111)
	8,050	6,596

20. General and administrative expenses

	2014	2013
Insurance operations:		
Staff costs	**55,528**	55,771
Legal and professional fees	**5,861**	5,911
Information technology	**8,044**	3,877
Withholding tax	**5,759**	3,210
Business travel	**2,479**	1,464
Printing and stationary	**622**	753
Provision for doubtful debts	**3,750**	-
Regulators' fees	**8,686**	6,643
Other	**6,752**	936
	97,481	78,565
Shareholders' operations:		
Directors' fees and other expenses	**1,217**	1,127
Other	**204**	632
	1,421	1,759

21. Risk management

21.1 Risk governance

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

Risk management structure

Board of Directors

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

Audit Committee and Internal Audit Department

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

Risk Management Committee

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

Senior management

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

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

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

21.2 Insurance risk management

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

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

21. Risk management (continued)

21.3 Accident, liability and motor

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

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

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

21.4 Property

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

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

21.5 Marine

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

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

21.6 Engineering

Engineering covers two principal types as summarized below:

(i) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs; and

(ii) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery.

The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

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

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

21. Risk management (continued)

21.7 Health and protection

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

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

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

21.8 Reinsurance risk

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

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

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

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

21.9 Frequency and severity of claims

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

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

	2014				2013			
	Gross outstanding claims	Net outstanding claims	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims	Gross unearned premiums	Net unearned premiums
Accident and Liability	**1%**	**1%**	**5%**	**4%**	2%	2%	4%	3%
Motor	**34%**	**49%**	**16%**	**18%**	37%	47%	11%	13%
Property	**25%**	**8%**	**10%**	**3%**	23%	8%	12%	4%
Marine	**11%**	**3%**	**3%**	**2%**	4%	2%	3%	2%
Engineering	**4%**	**4%**	**6%**	**4%**	6%	7%	4%	3%
Other general insurance	**-**	**-**	**-**	**-**	-	-	-	-
Health	**22%**	**31%**	**58%**	**66%**	26%	32%	63%	73%
Protection	**3%**	**4%**	**2%**	**3%**	2%	2%	3%	2%
	100%	**100%**	**100%**	**100%**	100%	100%	100%	100%

21. Risk management (continued)

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.

21.10 Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims (including IBNR) are given under notes 3 and 9 (d).

21.11 Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

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

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

21. Risk management (continued)

21.12 Sensitivity analysis

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

	Shareholders' net income		Shareholders' equity	
	2014	**2013**	**2014**	**2013**
Impact of change in claim liabilities by +10				
Accident and Liability	**(444)**	(542)	**(377)**	(485)
Motor	**(16,544)**	(11,675)	**(14,049)**	(10,455)
Property	**(2,790)**	(2,062)	**(2,369)**	(1,847)
Marine	**(1,111)**	(490)	**(943)**	(439)
Engineering	**(1,406)**	(1,729)	**(1,194)**	(1,548)
Other general insurance	**(22)**	(74)	**(19)**	(66)
Health	**(10,614)**	(7,945)	**(9,013)**	(7,115)
Protection	**(877)**	(480)	**(745)**	(430)
	(33,808)	(24,997)	**(28,709)**	(22,385)

	Shareholders' net income		Shareholders' equity	
	2014	**2013**	**2014**	**2013**
Impact of change in claim liabilities by -10				
Accident and Liability	**444**	542	**377**	485
Motor	**16,544**	11,675	**14,049**	10,455
Property	**2,790**	2,062	**2,369**	1,847
Marine	**1,111**	490	**943**	439
Engineering	**1,406**	1,729	**1,194**	1,548
Other general insurance	**22**	74	**19**	66
Health	**10,614**	7,945	**9,013**	7,115
Protection	**877**	480	**745**	430
	33,808	24,997	**28,709**	22,385

21.13 Claims development

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

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

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

21. Risk management (continued)

21.13 Claims development (continued)

Accident year	2010	2011	2012	2013	2014	Total
At end of reporting year	**284,052**	**346,807**	**340,536**	**485,490**	**668,693**	**2,125,578**
One year later	**308,263**	**350,942**	**357,461**	**625,419**	**-**	**1,642,085**
Two years later	**315,189**	**349,900**	**353,323**	**-**	**-**	**1,018,412**
Three years later	**315,776**	**350,021**	**-**	**-**	**-**	**665,797**
Four years later	**316,449**	**-**	**-**	**-**	**-**	**316,449**
Five years later	**-**	**-**	**-**	**-**	**-**	**-**
Current estimate of cumulative claims	**316,449**	**350,021**	**353,323**	**625,419**	**668,693**	**2,313,905**
Cumulative payment to date	**(313,686)**	**(349,681)**	**(349,955)**	**(606,743)**	**(438,348)**	**(2,058,413)**
Liability recognized till date	**2,764**	**340**	**3,368**	**18,676**	**230,345**	**255,493**
Reserve with respect to 2009						**3,445**
Claim incurred but not reported						**220,668**
Total reserve						**479,606**

21.14 Regulatory framework risk

The operations of the Company are subject to regulatory requirements in Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management's opinion, the Company has substantially complied with such regulatory requirements.

21.15 Financial risk

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

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

21.15.1 Commission rate risk

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

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

21. Risk management (continued)

21.15 Financial risk (continued)

21.15.1 Commission rate risk (continued)

Effective commission rates of the Company's investments and their maturities as at December 31, 2014 and 2013 are as follows:

2014	**Commission bearing**					
	Less than 1 year	**1 to 5 years**	**More than 5 years**	**Effective rate of commission**	**Non-commission bearing**	**Total**
Insurance operations						
Cash and cash equivalents	**188,876**	**-**	**-**	**0.87%**	-	**188,876**
Short term deposits	**168,299**	**-**	**-**	**1.52%**	-	**168,299**
Available-for-sale investments	**74,454**	**-**	**-**	**3.45%**	-	**74,454**
Held-to-maturity investments			**75,000**	**3.34%**	-	**75,000**
Long-term deposit	**-**	**7,500**	**-**	**2.00%**	-	**7,500**
December 31, 2014	**431,629**	**7,500**	**75,000**		-	**514,129**
Shareholders' operations						
Cash and cash equivalents	**10,636**	**-**	**-**	**0.40%**	**-**	**10,636**
Short-term deposits	**20,000**	**-**	**-**	**1.95%**	**-**	**20,000**
Available-for-sale investments	**95,069**	**-**	**-**	**3.70%**	**-**	**95,069**
Held-to-maturity investments	**-**	**-**	**60,000**	**3.21%**	**-**	**60,000**
Long-term deposits	**-**	**56,250**	**-**	**2.41%**	**-**	**56,250**
Statutory deposit	**20,000**	**-**	**-**	**0.75%**	**-**	**20,000**
December 31, 2014	**145,705**	**56,250**	**60,000**		**-**	**261,955**

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

21. Risk management (continued)

21.15 Financial risk (continued)

21.15.1 Commission rate risk (continued)

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

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

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

Currency	Change in variable	Impact on net income 2014	Impact on net income 2013
Saudi Riyals	+50 basis points	**3,880**	2,895
Saudi Riyals	- 50 basis points	**(3,880)**	(2,895)

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

21.15.2 Credit risk

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

The Company only enters into insurance and reinsurance contracts with recognised and credit worthy parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an on-going basis in order to reduce the Company's exposure to bad debts. The Company limits its credit risk with regard to time deposits by dealing with reputed banks only.

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables. There are no significant concentrations of credit risk within the Company.

The Company maintains its bank balances, short term and long term investments with banks which have investment grade credit ratings.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets at December 31, 2014 is Saudi Riyals 1,069 million (December 31, 2013: Saudi Riyals 790 million).

The table below shows the components of the statement of financial position of the Company at December 31, 2014 and 2013 exposed to credit risk:

	2014	**2013**
Insurance operations' assets		
Cash and cash equivalents	**188,876**	171,605
Short-term deposits	**168,299**	26,541
Premiums and insurance balances receivable - net	**140,062**	130,582
Receivable from related parties	**236**	8,392
Reinsurers' share of outstanding claims	**141,529**	62,804
Other assets	**6,445**	4,545
Available-for-sale investments	**74,454**	86,942
Held-to-maturity investments	**75,000**	75,000
Long-term deposit	**7,500**	7,500
	802,401	573,911
Shareholders' assets		
Cash and cash equivalents	**10,636**	891
Short-term deposits	**20,000**	-
Other assets	**4,234**	1,208
Available-for-sale investments	**95,069**	74,314
Long-term deposits	**56,250**	56,250
Held-to-maturity investments	**60,000**	60,000
Statutory deposit	**20,000**	20,000
	266,189	212,663
Total	**1,068,590**	786,574

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

21. Risk management (continued)

21.15.2 Credit risk (continued)

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

Insurance operations' financial assets as at December 31, 2014

		Non-Investment grade		
	Investment grade	Satisfactory	Past due but not impaired	Total
Cash and cash equivalents	**188,876**	**-**	**-**	**188,876**
Short-term deposits	**168,299**	**-**	**-**	**168,299**
Premiums and reinsurance balance receivable – net	**-**	**84,277**	**55,785**	**140,062**
Receivable from related parties	**-**	**236**	**-**	**236**
Reinsurers' share of outstanding claims	**-**	**141,529**	**-**	**141,529**
Other assets	**-**	**6,445**	**-**	**6,445**
Available-for-sale investments	**74,454**	**-**	**-**	**74,454**
Held-to-maturity investments	**75,000**	**-**	**-**	**75,000**
Long-term deposit	**7,500**	**-**	**-**	**7,500**
	514,129	**232,487**	**55,785**	**802,401**

Insurance operations' financial assets as at December 31, 2013

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

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

21. Risk management (continued)

21.15.2 Credit risk (continued)

Shareholders' financial assets as at December 31, 2014

		Non-investment grade		
	Investment grade	Satisfactory	Past due but not impaired	Total
Cash and cash equivalents	**10,636**	**-**	-	**10,636**
Short-term deposits	**20,000**	**-**	-	**20,000**
Other assets	**-**	**4,234**	-	**4,234**
Available-for-sale investments	**95,069**	**-**	-	**95,069**
Held-to-maturity investments	**60,000**	**-**	-	**60,000**
Long-term deposits	**56,250**	**-**	-	**56,250**
Statutory deposit	**20,000**	**-**	-	**20,000**
	261,955	**4,234**	**-**	**266,189**

Shareholders' financial assets as at December 31, 2013

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

21.15.3 Liquidity risk

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

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

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

21. Risk management (continued)

21.15.3 Liquidity risk (continued)

The table below summarizes the maturities of the Company's undiscounted contractual obligations at December 31, 2014 and 2013. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

	Less than 12 months		More than 12 months		Total	Total
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Insurance operations' liabilities						
Reinsurers' balances payable	**42,723**	39,165	-	-	**42,723**	39,165
Outstanding claims	**479,606**	312,782	-	-	**479,606**	312,782
Accrued and other liabilities	**85,733**	50,834	-	-	**85,733**	50,834
Employee termination benefits	**-**	-	**17,380**	16,495	**17,380**	16,495
	608,062	402,781	**17,380**	16,495	**625,442**	419,276
Shareholders' liabilities						
Accrued and other liabilities	**2,734**	1,541	-	-	**2,734**	1,541
	610,796	404,322	**17,380**	16,495	**628,176**	420,817

21.15.4 Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company's financial instruments are not exposed to market risk. Market risk is limited by investing in companies with good credit rating. In addition the key factors that affect market are monitored, including operational and financial performance of the Company.

21.16 Currency risk

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

21.17 Price risk

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

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

The Company's equity investments amounting to SR 35,430 million are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its equity investment portfolio and by actively monitoring the developments in equity and money markets.

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

21. Risk management (continued)

21.17 Price risk (continued)

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

	Fair value	Price change	Estimated fair value	Effect on shareholders' equity
December 31, 2014	**35,431**	**10% increase**	**38,974**	**3,543**
		10% decrease	**31,888**	**(3,543)**
December 31, 2013	29,786	10% increase	32,765	2,979
		10% decrease	26,807	(2,979)

21.18 Capital risk management

The Company's objectives when managing capital are:

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

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

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

The Company's solvency margin at December 31, 2014 is 75% (2013: 77%) of the required margin of solvency.

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

21. Risk management (continued)

21.19 Fair value of financial assets and liabilities

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

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

Determination of fair value and fair value hierarchy

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

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

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

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

The table below presents the financial instruments which are fair valued as at December 31, 2014 and 2013 based on the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
2014				
Available-for-sale investments:				
Insurance operations	**74,454**	**-**	**-**	**74,454**
Shareholders' operations	**95,069**	**-**	**-**	**95,069**
2013				
Available-for-sale investments:				
Insurance operations	86,942	-	-	86,942
Shareholders' operations	74,314	-	-	74,314

22. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2014 and 2013 has been computed by dividing the shareholders' net income for such years by the weighted average number of shares outstanding during such year.

23. Contingencies

Contingent consideration payable to the Seller

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

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

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

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

24. Segment reporting

Insurance operations for the year ended December 31, 2014:

	General and medical									
2014	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	30,762	461,902	75,754	52,504	33,591	2,954	355,934	1,013,401	26,710	1,040,111
Less: reinsurance premiums ceded	(5,914)	(1,524)	(65,614)	(25,720)	(18,741)	(220)	(4,371)	(122,104)	(6,515)	(128,619)
Net premiums written	24,848	460,378	10,140	26,784	14,850	2,734	351,563	891,297	20,195	911,492
Changes in unearned premiums	(4,513)	(21,191)	(1,440)	(880)	(3,219)	(95)	(27,728)	(59,066)	(1,759)	(60,825)
Net premiums earned	20,335	439,187	8,700	25,904	11,631	2,639	323,835	832,231	18,436	850,667
Reinsurance commissions	808	17	6,617	6,090	814	-	1,626	15,972	1,148	17,120
Total revenue	21,143	439,204	15,317	31,994	12,445	2,639	325,461	848,203	19,584	867,787
Gross claims paid	3,560	339,353	80,718	12,699	6,888	604	246,053	689,875	13,760	703,635
Less: reinsurers' share	(3)	(12)	(63,474)	(4,464)	(2,116)	-	(4,835)	(74,904)	(3,300)	(78,204)
Net claims paid	3,557	339,341	17,244	8,235	4,772	604	241,218	614,971	10,460	625,431
Changes in outstanding claims	(977)	48,678	7,273	6,220	(3,231)	(522)	26,689	84,130	3,969	88,099
Net claims incurred	2,580	388,019	24,517	14,455	1,541	82	267,907	699,101	14,429	713,530
Policy acquisition costs	2,632	10,352	8,297	3,877	2,409	143	21,948	49,658	2,006	51,664
Operating and administrative salaries	1,693	26,885	4,274	3,122	1,651	104	20,022	57,751	1,509	59,260
Other general and administrative expenses	1,092	17,340	2,757	2,013	1,065	67	12,914	37,248	973	38,221
Total costs and expenses	7,997	442,596	39,845	23,467	6,666	396	322,791	843,758	18,917	862,675
Net underwriting result	13,146	(3,392)	(24,528)	8,527	5,779	2,243	2,670	4,445	667	5,112
Commission Income										7,574
Net surplus from Insurance operations										12,686
Shareholders' appropriation of surplus from insurance operations										(11,418)
Net result from insurance operations' after appropriation of surplus										1,268

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

24. Segment reporting (continued)

Insurance operations for the year ended December 31, 2013:

	General and medical									
2013	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	22,350	317,588	66,222	40,914	25,879	2,278	282,629	757,860	17,736	775,596
Less: reinsurance ceded	(6,584)	(747)	(51,662)	(21,554)	(16,304)	(232)	(3,810)	(100,893)	(3,558)	(104,451)
Net premiums written	15,766	316,841	14,560	19,360	9,575	2,046	278,819	656,967	14,178	671,145
Changes in unearned premiums	1,709	(7,519)	(1,154)	254	1,967	91	(22,161)	(26,813)	(280)	(27,093)
Net premiums earned	17,475	309,322	13,406	19,614	11,542	2,137	256,658	630,154	13,898	644,052
Reinsurance commissions	913	-	6,376	4,619	1,007	-	586	13,501	372	13,873
Total revenue	18,388	309,322	19,782	24,233	12,549	2,137	257,244	643,655	14,270	657,925
Gross claims paid	2,953	189,298	82,851	21,922	4,281	119	194,679	496,103	13,243	509,346
Less: reinsurers' share	(104)	(16)	(73,664)	(13,389)	(1,618)	-	(3,870)	(92,661)	(5,114)	(97,775)
Net claims paid	2,849	189,282	9,187	8,533	2,663	119	190,809	403,442	8,129	411,571
Changes in outstanding claims	1,983	82,393	3,163	(1,460)	5,566	451	31,754	123,850	3,004	126,854
Net claims incurred	4,832	271,675	12,350	7,073	8,229	570	222,563	527,292	11,133	538,425
Policy acquisition costs	2,087	4,189	5,808	3,258	3,024	206	13,792	32,364	2,365	34,729
Operating and administrative salaries	1,766	21,688	4,298	2,871	2,006	88	18,217	50,934	1,197	52,131
Other general and administrative expenses	896	11,000	2,180	1,456	1,017	44	9,240	25,833	601	26,434
Total costs and expenses	9,581	308,552	24,636	14,658	14,276	908	263,812	636,423	15,296	651,719
Net underwriting result	8,807	770	(4,854)	9,575	(1,727)	1,229	(6,568)	7,232	(1,026)	6,206
Commission income										4,805
Net surplus from insurance operations										11,011
Insurance operations' surplus transferred to shareholders' operations										(9,910)
Net results from insurance operation after appropriation of surplus										1,101

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

24. Segment reporting (continued)

Insurance operations' financial position as of December 31, 2014:

	General and medical									
2014	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	**Grand Total**
Insurance operations' assets										
Reinsurers' share of unearned premiums	2,387	21	22,000	3,189	6,747	-	-	34,344	729	35,073
Reinsurers' share of outstanding claims	467	4	91,715	42,367	4,938	(210)	1,708	140,989	540	141,529
Deferred policy acquisition costs	1,018	3,623	2,371	471	1,372	22	7,563	16,440	1,035	17,475
Unallocated assets										719,812
Total insurance operations' assets										913,889
Insurance operations' liabilities										
Unearned premiums	12,641	44,864	29,270	7,338	17,204	442	161,267	273,026	6,524	279,550
Outstanding claims	4,907	165,446	119,611	53,475	18,998	10	107,848	470,295	9,311	479,606
Deferred reinsurance commission	332	-	2,680	864	679	(24)	-	4,531	300	4,831
Unallocated liabilities										149,902
Total insurance operations' liabilities										913,889

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

24. Segment reporting (continued)

Insurance operations’ financial position as of December 31, 2013:

	General and medical									
2013	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	**Grand Total**
Insurance operations’ assets										
Reinsurers' share of unearned premiums	2,734	15	18,289	2,734	2,887	-	-	26,659	529	27,188
Reinsurers' share of outstanding claims	244	(236)	50,983	7,456	2,792	(210)	1,775	62,804	-	62,804
Deferred policy acquisition costs	658	1,801	3,132	378	729	22	9,987	16,707	-	16,707
Unallocated assets										536,618
Total insurance operations’ assets										643,317
Insurance operations’ liabilities										
Unearned premiums	8,477	23,664	25,391	6,003	8,854	348	133,538	206,275	4,565	210,840
Outstanding claims	5,663	116,516	71,607	12,358	20,082	529	81,224	307,979	4,803	312,782
Deferred reinsurance commission	363	-	2,510	773	234	-	909	4,789	308	5,097
Unallocated liabilities										114,598
Total insurance operations’ liabilities										643,317

25. Comparative figures

Certain of the comparative year amounts have been reclassified to conform to the presentation in the current year, the effects of which are not material.

26. Date of approval

These financial statements were approved by the Company’s Board of Directors on February 19, 2015.