

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
AND INDEPENDENT JOINT AUDITORS' REPORT  
FOR THE PERIOD FROM 8 FEBRUARY 2012 TO 31 DECEMBER 2013**

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
FOR THE PERIOD FROM 8 FEBRUARY 2012 TO 31 DECEMBER 2013**

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

**Scope of audit**

We have audited the accompanying statement of financial position of Saudi Enaya Cooperative Insurance Company - A Saudi Joint Stock Company (the "Company") as at 31 December 2013, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the period from 8 February 2012 to 31 December 2013 and the related notes from 1 to 22 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of Article 123 of the Regulations for Companies and the Company's by-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Unqualified opinion**

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

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and the results of its operations and its cash flows for the period from 8 February 2012 to 31 December 2013 in accordance with International Financial Reporting Standards; and
- ii) comply 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 matters**

Without qualifying our opinion, we draw attention to note 2(b) to the financial statements. As stated therein, the first fiscal year will commence on the issuance date of the Ministerial Resolution declaring the incorporation of the Company, which was dated 16 Rabi Al-Awwal 1433 H (corresponding to 8 February 2012) and will end on 31 December the following year, being 31 December 2013. Accordingly, these financial statements cover the period from 8 February 2012 to 31 December 2013.

We further draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young

Ahmed I. Reda  
Certified Public Accountant  
Licence No. 356



for KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen  
Certified Public Accountant  
Licence No. 382



Jeddah, Kingdom of Saudi Arabia  
Rabi Al Thani 19, 1435H  
Corresponding to February 19, 2014

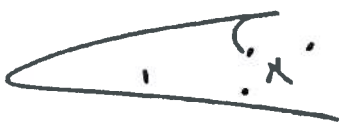



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2013

|   | <i>Notes</i> | <i>SR'000</i>  |
|---|--------------|----------------|
| <b>INSURANCE OPERATIONS' ASSETS</b>       |              |                |
| Cash and cash equivalents                 | 3            | 1,249          |
| Premiums receivable, net                  | 4            | 21,759         |
| Reinsurance receivable                    |              | 4,936          |
| Reinsurers' share of unearned premium     | 5            | 12,256         |
| Reinsurers' share of outstanding claims   | 5            | 3,680          |
| Deferred policy acquisition costs         | 5            | 2,018          |
| Prepayments and other assets              | 6            | 3,440          |
| Intangible assets                         | 7            | 14,143         |
| Furniture, fittings and office equipment  | 8            | 8,718          |
| <b>Total insurance operations' assets</b> |              | <b>72,199</b>  |
| <b>SHAREHOLDERS' ASSETS</b>               |              |                |
| Cash and cash equivalents                 | 3            | 38,390         |
| Murabaha deposits                         | 3(b)         | 135,000        |
| Investments                               | 9            | 88,342         |
| Prepayments and other assets              | 6            | 1,986          |
| Amounts due from a related party          | 17           | 83             |
| Amounts due from insurance operations     |              | 3,828          |
| Statutory deposit                         | 13           | 40,000         |
| <b>Total shareholders' assets</b>         |              | <b>307,629</b> |
| <b>TOTAL ASSETS</b>                       |              | <b>379,828</b> |

  
Chairman

  
Chief Executive Officer

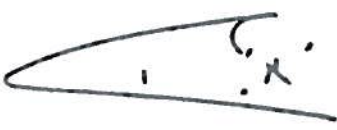
  
Chief Financial Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION (continued)**  
**As at 31 December 2013**

|   | <i>Notes</i> | <i>SR'000</i>  |
|---|--------------|----------------|
| <b>INSURANCE OPERATIONS' LIABILITIES</b>          |              |                |
| <b>Insurance operations' liabilities</b>          |              |                |
| Unearned premiums                                 | 5            | 27,889         |
| Provision for premium deficiency                  |              | 3,517          |
| Outstanding claims                                | 5            | 7,360          |
| Reinsurance balance payable                       |              | 15,344         |
| Amounts due to shareholders' operations           |              | 3,828          |
| Accrued expenses and other liabilities            | 10           | 14,261         |
| <b>Total insurance operations' liabilities</b>    |              | <b>72,199</b>  |
| <b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>       |              |                |
| <b>Shareholders' liabilities</b>                  |              |                |
| Accrued expenses and other liabilities            | 10           | 886            |
| Accrued Zakat                                     | 11           | 6,032          |
| Amounts due to related parties                    | 17           | 1,136          |
| <b>Total shareholders' liabilities</b>            |              | <b>8,054</b>   |
| <b>Shareholders' equity</b>                       |              |                |
| Share capital                                     | 12           | 400,000        |
| Accumulated losses                                |              | (100,425)      |
| <b>Total shareholders' equity</b>                 |              | <b>299,575</b> |
| <b>Total shareholders' liabilities and equity</b> |              | <b>307,629</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |              | <b>379,828</b> |

  
Chairman

  
Chief Executive Officer

  
Chief Financial Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**  
For the period from 8 February 2012 to 31 December 2013

|   | <i>Notes</i> | <i>SR'000</i> |
|---|--------------|---------------|
| <b>REVENUE</b>  |              |               |
| Gross written premiums                                    |              | 49,709        |
| Less: Reinsurance ceded                                   |              | (21,809)      |
| Net written premiums                                      |              | 27,900        |
| Movement in net unearned premiums                         |              | (15,633)      |
| Net premiums earned                                       | 5(a)         | 12,267        |
| <b>CLAIMS</b>   |              |               |
| Gross claims paid   |              | 13,877        |
| Less: claims recovered                                    |              | (6,939)       |
| Net claims paid   |              | 6,938         |
| Movement in net outstanding claims                        |              | 3,680         |
| Net claims incurred                                       | 5(b)         | 10,618        |
| Provision for premium deficiency                          |              | 3,517         |
| Net underwriting expenses                                 |              | 14,135        |
| Net underwriting result                                   |              | (1,868)       |
| Other income  |              | 9             |
| <b>EXPENSES</b>   |              |               |
| Selling and marketing                                     |              | (2,456)       |
| General and administration                                | 15           | (49,721)      |
| <b>DEFICIT FROM INSURANCE OPERATIONS</b>                  |              | (54,036)      |
| Shareholders' share of deficit from insurance operations  | 2(b)         | 54,036        |
| Policyholders' share of deficit from insurance operations |              | -             |



Chairman



Chief Financial Officer



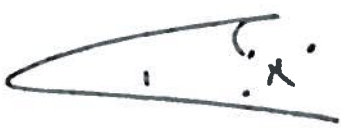
Chief Executive Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' OPERATIONS**  
For the period from 8 February 2012 to 31 December 2013

|   | <i>Notes</i> | <i>SR'000</i>          |
|---|--------------|------------------------|
| <b>LOSS</b>   |              |                        |
| Shareholders' share of deficit from insurance operations              | 2(b)         | (54,036)               |
| <b>EXPENSES</b>   |              |                        |
| General and administration  | 15           | (25,396)               |
| Pre-incorporation expenses  | 16           | (9,170)                |
|   |              | <u>(88,602)</u>        |
| Investment income   |              | <u>5,074</u>           |
| <b>NET LOSS FOR THE PERIOD</b>  |              | <u><u>(83,528)</u></u> |
| Weighted average number of ordinary shares outstanding (in thousands) |              | <u>40,000</u>          |
| Loss per share (in Saudi Arabian Riyals)                              | 21           | <u><u>(2.09)</u></u>   |

  
Chairman

  
Chief Financial Officer

  
Chief Executive Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

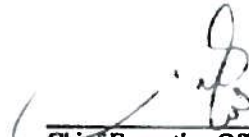
**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME**  
For the period from 8 February 2012 to 31 December 2013

|  | <i>Note</i> | <i>SR'000</i>          |
|--|-------------|------------------------|
| <b>NET LOSS FOR THE PERIOD</b>                 |             | <b>(83,528)</b>        |
| Zakat for the period                           | 11          | <b>(9,862)</b>         |
| <b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b> |             | <b><u>(93,390)</u></b> |



Chairman



Chief Executive Officer



Chief Financial Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the period from 8 February 2012 to 31 December 2013**

|  | <i>Share<br/>capital<br/>SR'000</i> | <i>Accumulated<br/>losses<br/>SR'000</i> | <i>Total<br/>SR'000</i> |
|--|-------------------------------------|--|-------------------------|
| Issue of share capital (note 12)                                 | 400,000                             | -  | 400,000                 |
| Transaction costs (note 12)                                      | -                                   | (7,035)                                  | (7,035)                 |
| Net loss for the period from 8 February 2012 to 31 December 2013 | -                                   | (83,528)                                 | (83,528)                |
| <i>Other comprehensive expenses</i>                              |                                     |  |                         |
| Zakat for the period (note 11)                                   | -                                   | (9,862)                                  | (9,862)                 |
| Total comprehensive expense for the period                       | -                                   | (93,390)                                 | 93,390                  |
| Balance at 31 December 2013                                      | 400,000                             | (100,425)                                | 299,575                 |



Chairman



Chief Financial Officer



Chief Executive Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**  
For the period from 8 February 2012 to 31 December 2013

|  | <i>Notes</i> | <i>SR'000</i>       |
|--|--------------|---------------------|
| <b>OPERATING ACTIVITIES</b>  |              |                     |
| Policyholders' share of deficit for the period   |              | -                   |
| Adjustments for:   |              |                     |
| Depreciation   | 8            | 3,668               |
| Amortization of intangible assets  | 7            | 3,360               |
| Reinsurers' share of unearned premium  |              | (12,256)            |
| Deferred policy acquisition costs  | 5            | (2,018)             |
| Unearned premiums  | 5            | 27,889              |
| Provision for premium deficiency reserve   |              | 3,517               |
| Allowance for doubtful premiums receivable   | 4            | 4,966               |
|  |              | <u>29,126</u>       |
| Changes in assets and liabilities:   |              |                     |
| Premiums receivable  |              | (26,725)            |
| Reinsurance receivable   |              | (4,936)             |
| Reinsurer's share of outstanding claims  | 5            | (3,680)             |
| Prepayments and other assets   |              | (3,166)             |
| Outstanding claims   | 5            | 7,360               |
| Reinsurance balance payable  |              | 15,344              |
| Amounts due to shareholders' operations  |              | (5,333)             |
| Accrued expenses and other liabilities   |              | 9,637               |
|  |              | <u>17,627</u>       |
| Net cash from operating activities   |              | <u>17,627</u>       |
| <b>INVESTING ACTIVITIES</b>  |              |                     |
| Purchase of furniture, fittings and office equipment   | 8            | (414)               |
| Intangible assets acquired   | 7            | (15,965)            |
|  |              | <u>(16,379)</u>     |
| Net cash used in investing activities  |              | <u>(16,379)</u>     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |              | <u>1,248</u>        |
| <b>CASH AND CASH EQUIVALENTS TRANSFERRED FROM SHAREHOLDERS' OPERATIONS</b>   | 2(b)         | <u>1</u>            |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>  | 3            | <u><u>1,249</u></u> |
| <b>Non-cash transactions:</b>  |              |                     |
| Insurance related assets and liabilities transferred from shareholders' operations excluding cash and cash equivalents | 2(b)         | <u><u>9,160</u></u> |

  
Chairman

  
Chief Financial Officer

  
Chief Executive Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' CASH FLOWS**

For the period from 8 February 2012 to 31 December 2013

|  | <i>Notes</i> | <i>SR'000</i> |
|--|--------------|---------------|
| <b>OPERATING ACTIVITIES</b>  |              |               |
| Net loss for the period before Zakat   |              | (83,528)      |
| Adjustments for:   |              |               |
| Unrealized loss on investments   | 9            | 1,357         |
| Amortisation of discount   | 9            | (240)         |
| Gain on sale of investments  | 9            | (2,768)       |
| Depreciation   | 8            | 2,360         |
| Amortization   |              | 63            |
| Employees' end of service benefits   |              | 529           |
|  |              | (82,227)      |
| Changes in assets and liabilities:   |              |               |
| Prepayments and other assets   |              | (2,260)       |
| Amounts due from a related party   |              | (83)          |
| Amounts due from insurance operations  |              | 5,333         |
| Accrued expenses and other liabilities   |              | 4,981         |
| Amounts due to related parties   |              | 1,136         |
| Cash used in operating activities  |              | (73,120)      |
| Zakat paid   | 11           | (3,830)       |
| Net cash used in operating activities  |              | (76,950)      |
| <b>INVESTING ACTIVITIES</b>  |              |               |
| Purchase of furniture, fittings and equipment  | 8            | (14,332)      |
| Intangible assets acquired   | 7            | (1,601)       |
| Murabaha deposits  | 3(b)         | (135,000)     |
| Purchase of investments  | 9            | (104,459)     |
| Proceeds from sale of investments  | 9            | 17,768        |
| Statutory deposit  | 13           | (40,000)      |
| Net cash used in investing activities  |              | (277,624)     |
| <b>FINANCING ACTIVITIES</b>  |              |               |
| Issue of share capital   | 12           | 400,000       |
| Transaction costs  | 12           | (7,035)       |
| Net cash from financing activities   |              | 392,965       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   |              | <b>38,391</b> |
| <b>CASH AND CASH EQUIVALENTS TRANSFERRED TO INSURANCE OPERATIONS</b>   | 2(b)         | <b>(1)</b>    |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>  | 3            | <b>38,390</b> |
| <b>Non-cash transactions:</b>  |              |               |
| Insurance related assets and liabilities transferred to insurance operations excluding cash and cash equivalents | 2(b)         | 9,160         |

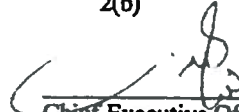
Chairman



Chief Financial Officer



Chief Executive Officer



The accompanying notes 1 to 22 form an integral part of these financial statements.

# SAUDI ENAYA COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2013

### 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Saudi Enaya Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 98/Q dated 16 Rabi Awwal 1433 H (corresponding to 8 February 2012). The Commercial Registration number of the Company is 4030223528 dated 27 Rabi Awwal 1433H (corresponding to 19 February 2012). The registered office address of the Company is:

Ahmed Ghalib Al-Esayi Building  
P.O. Box 3528  
Jeddah 21481,  
Kingdom of Saudi Arabia.

The Company is licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree No. M/49 dated 27 Rajab 1432 H (corresponding to 29 June 2011) pursuant to the Council of Ministers' Resolution No 224 dated 25 Rajab 1432 H (corresponding to 27 June 2011). As of the date of incorporation, the Company is 77% owned by the Saudi founding shareholders and the general public and 23% owned by non-Saudi founding shareholders. The Company was listed on the Saudi Stock Exchange (Tadawul) on 27 February 2012.

The objective of the Company is to engage in cooperative insurance operations and related activities, including reinsurance, agencies, representation, correspondence and brokerage, in the Kingdom of Saudi Arabia in accordance with its Articles of Association, and applicable regulations in the Kingdom of Saudi Arabia. The Company is licensed to underwrite medical insurance only. The Company commenced its commercial operations on 7 January 2013.

### 2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. STATEMENT OF COMPLIANCE

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

#### b. BASIS OF PREPARATION

As per the Company's by-laws and Articles of Association, the Company's first fiscal period commenced on the issuance date of the Ministerial Resolution declaring the formation of the Company, which was dated 16 Rabi Awwal 1433 H (corresponding to 8 February 2012), and ended on 31 December the following Gregorian year (being 31 December 2013). As these financial statements cover the first financial period of the Company from 8 February 2012 to 31 December 2013, no comparative information is presented.

The Company had however prepared financial statements covering the period from 8 February 2012 to 31 December 2012 to comply with the requirements of the Capital Market Authority.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b. BASIS OF PREPARATION (continued)**

These financial statements are prepared under the historical cost convention except for the measurement of FVIS investments at fair value. The Company presents its statements of financial position broadly in order of liquidity. All financial assets and liabilities except for statutory deposit, are expected to be recovered and settled respectively within twelve months after the reporting date.

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

Consequent to commencement of commercial operations, the shareholders' operations transferred the following insurance assets and liabilities to the insurance operations as at 1 January 2013:

|  | <i>SR '000</i> |
|--|----------------|
| Cash and cash equivalents                | 1              |
| Prepayments and other assets             | 274            |
| Furniture, fittings and office equipment | 11,972         |
| Intangible assets                        | 1,538          |
| Accrued expenses                         | (4,095)        |
| End of service benefits provision        | (529)          |
|  | <u>9,161</u>   |

In accordance with the by-laws of the Company, the surplus arising from the Insurance Operations is distributed as follows:

|               |             |
|---------------|-------------|
| Shareholders  | 90%         |
| Policyholders | 10%         |
|               | <u>100%</u> |

In case of deficit arising from the Insurance Operations, the entire deficit is allocated and transferred to Shareholders' Operations.

**c. FUNCTIONAL AND PRESENTATION CURRENCY**

The financial statements are presented in Saudi Arabian Riyals (SR), which is the functional currency of the Company. All financial information presented in SR has been rounded off to the nearest thousand, unless otherwise indicated.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by the Company for preparing these financial statements are set out below:

**Financial instruments – initial recognition and subsequent measurement**

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents, Murabaha deposits, premiums receivable, reinsurance receivable, other receivables, investments, amount due from a related party and amount due from insurance operations. Financial liabilities consist of outstanding claims, reinsurance balance payable, amount due to shareholders' operations, amounts due to related parties and certain other liabilities.

*Date of recognition*

All financial assets and financial liabilities are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument.

*Initial measurement of financial instruments*

All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through statement of income, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances and Murabaha deposits that have original maturity period not exceeding three months.

**Murabaha deposits**

Murabaha deposits, with original maturity of more than three months, are initially recognized in the statement of financial position at fair value and are subsequently measured at amortised cost using the effective yield method, less any impairment in value.

**Investments**

All investments are initially recognised at cost, being the fair value consideration given including acquisition charges associated with the investment. Financial assets are initially recognised at fair values plus, in the case of all financial assets not carried at fair value through income statement, transaction costs that are directly attributable to their acquisition.

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



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*FVIS Investments*

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investments classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of shareholders' operations.

*Held to maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates are classified as held to maturity investments, when the Company has the positive intent and ability to hold to maturity.

Held to maturity investments are recorded at cost, adjusted by the amount of amortization of premium or accretion of discount using the effective commission rate method.

Any permanent decline in value of investments is adjusted for and reported in the statement of shareholders' operations as impairment.

**Premiums receivable**

Premiums receivable are non derivative financial assets with fixed or determined payments.

Premiums receivable are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. An allowance for impairment is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**Deferred policy acquisition costs**

Commission paid to internal sales staff and intermediaries and incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are capitalised as an intangible asset. The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned.

**Intangible assets**

Intangible assets are non-monetary assets which have no physical existence but are independently identifiable and capable of supply of future economic benefits and the Company has earned the right due to events which have occurred in the past. They are acquired for cash and measured at the purchase price and all other directly attributable costs. Intangible assets are stated at cost less accumulated amortization and impairment loss, if any.

Amortization is recognized in the statement of insurance operations on a straight line basis over the estimated period of economic benefits associated with intangible assets, from the date that they are available for use. Similarly, impairment losses, if any, are recognised in the statement of insurance operations.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Intangible assets (continued)**

The estimated period of benefits associated with intangible assets are as follows:

|          | <u>Years</u> |
|----------|--------------|
| Software | 4            |
| Licenses | 4            |

**Furniture, fittings and equipment**

Furniture, fittings and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

|  | <u>Years</u> |
|--|--------------|
| Leasehold improvements                   | 3            |
| Computer equipment                       | 4            |
| Motor vehicles                           | 5            |
| Furniture, fittings and office equipment | 4 – 10       |

Residual values, useful lives and the method of the depreciation are reviewed and adjusted if appropriate at the end of each financial period. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the period is recognised in the statement of insurance operations on an actual basis. Similarly, impairment losses, if any, are recognised in the statement of insurance operations.

Expenditure for repair and maintenance is charged to the statement of insurance operations. Improvements that increase the value or materially extend the life of the related assets are capitalised.

**Liability adequacy test**

At each reporting date, 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 accumulated surplus and an unexpired risk provision (disclosed as premium deficiency reserve) is created.

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Provisions**

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

**Employees' end of service benefits**

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employee's length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the statement of financial position date.

**Statutory reserve**

As required by Saudi Arabian Insurance Regulations, twenty percent of the shareholders' income shall be set aside as a statutory reserve until this reserve amounts to one hundred percent of the paid up share capital. As the Company has an accumulated loss at the reporting date, no transfer has been made.

**Zakat and income tax**

Zakat and income tax are provided for in accordance with the Saudi Arabian fiscal regulations. Zakat is debited to the Saudi founding shareholders and general public equity accounts while income tax is debited to the non-Saudi founding shareholders' equity account. Additional amounts, if any, that may become due on finalisation of an assessment are recorded in the year in which the assessment is finalised.

As all Zakat and income tax charges will be recovered from the shareholders, no adjustments are made in the financial statements to account for the effects of deferred income taxes.

**Impairment of financial assets**

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and 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 (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Impairment of financial assets (continued)**

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing a significant financial difficulty, default or delinquency in repayments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairment is determined as follows:

- (a) for assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (b) for assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

**Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU), fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of shareholders' operations in expense categories consistent with the function of the impaired asset, except for a property previously revalued and where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Impairment of non-financial assets (continued)**

An assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of shareholders' operations unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

**Derecognition**

*Financial asset*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liability*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Revenue recognition**

*Premiums earned*

The Company only issues insurance contracts for providing health care services ('medical insurance') in the Kingdom of Saudi Arabia. Premiums are taken to income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premiums is taken to the statement of insurance operations and accumulated surplus in order that revenue is recognised over the period of risk.

*Investment income*

Investment income or loss comprises of unrealised and realised gains and losses on investments. Commission income on Murabaha deposits is recognised using the effective yield method.

**Reinsurance premiums**

Reinsurance premiums ceded are recognised as an expense when payable.

Reinsurance premiums are charged to income over the terms of the policies to which they relate on a pro-rata basis.

**Claims**

Claims, comprising amounts payable to contract holders and third parties, net of volume rebates and other recoveries, are charged to the statement of insurance operations and accumulated surplus as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those incurred but not reported ("IBNR") at the statement of financial position date.

The Company scientifically estimates its claims based on previous experience. In addition a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year. The outstanding claims are shown on a gross basis and the related share of reinsurers is shown separately.

**Reinsurance contracts held**

In common with 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. All of the reinsurance is effected under treaty contracts.

Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "Reinsurers' share of outstanding claims" in the statement of financial position until the claim is agreed and paid by the Company. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to amounts due from / to reinsurers.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Reinsurance contracts held (continued)**

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of 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.

**Expenses**

Selling and marketing expenses are those which relate to sales promotion, advertisement, salesmen and commission. All other expenses are classified as general and administration expenses.

**Segmental reporting**

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

**Operating leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of insurance operations and accumulated surplus on a straight-line basis over the lease term.

**Pre-incorporation expenses**

Pre-incorporation expenses that are not of economic benefit beyond the current period are charged to the statement of shareholders' operations.

**Transaction costs**

Transaction costs to raise capital are incremental costs that are directly attributable to the issue of share capital and are accounted for as a deduction from equity.

**Foreign currencies**

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of shareholders' operations.

**Offsetting**

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



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

*Provision for outstanding claims*

Judgement by management is required in the estimation of amounts due to policyholders and third parties arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by an independent actuary.

*Allowance for doubtful receivable*

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

*Deferred acquisition costs*

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

*Provision for premium deficiency reserve*

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

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

*Useful lives of furniture, fittings and equipment*

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

*Useful lives of intangible assets*

The Company's management determines the estimated useful lives of its intangible assets for calculating amortization. These estimates are determined after considering the expected usage of the assets. Management reviews the residual value and useful lives annually and future amortization charges would be adjusted where the management believes the useful lives differ from previous estimates.

*Classification of investments*

The management designates at the time of acquisition of investment securities whether these should be classified as FVIF or held to maturity or available for sale securities. In judging whether investment in securities are classified as at fair value or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS.

*Fair values of financial instruments*

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

*Going concern*

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

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**f. NEW IFRS, IFRIC AND AMENDMENTS THEREOF, ISSUED BUT NOT YET EFFECTIVE**

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

| <u>Standard</u>           | <u>Description</u>  | <u>Effective from periods beginning on or after the following date</u> |
|---------------------------|---|--|
| IFRS 9                    | Financial Instruments – Classification and Measurement                        | To be announced  |
| IFRS 10, IFRS 12 & IAS 27 | Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities                 | 1 January 2014   |
| IAS 19                    | Defined Benefit Plans – Employee Contributions                                | 1 July 2014  |
| IAS 32                    | Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities  | 1 January 2014   |
| IAS 36                    | Amendment to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets | 1 January 2014   |
| IAS 39                    | Financial instruments, Recognition and Measurement                            | 1 January 2014   |
| IFRIC 21                  | Levies  | 1 January 2014   |

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

**3. CASH AND CASH EQUIVALENTS**

|  | <b>2013<br/>SR'000</b> |
|--|------------------------|
| <b><i>Insurance Operations</i></b>     |                        |
| Cash in banks                          | 1,245                  |
| Cash in hand                           | 4                      |
|  | <b>1,249</b>           |
| <b><i>Shareholders' Operations</i></b> |                        |
| Cash in banks                          | 8,334                  |
| Murabaha deposits (see note (a) below) | 30,056                 |
|  | <b>38,390</b>          |

- a) The Murabaha deposits are held with commercial banks in the Kingdom of Saudi Arabia. These Murabaha deposits are denominated in Saudi Arabian Riyals and have an original maturity of not more than three months.



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**3. CASH AND CASH EQUIVALENTS (continued)**

- b) Murabaha deposits having original maturity of more than three months, amounting to SR 135 million, which are held in Saudi Arabian Riyals in the Kingdom of Saudi Arabia, are presented in the statement of financial position of the shareholders separately.

**4. PREMIUMS RECEIVABLE, NET**

|  | <i>2013<br/>SR'000</i> |
|--|------------------------|
| Gross premiums receivable                  | 26,725                 |
| Allowance for doubtful premiums receivable | (4,966)                |
| Premiums receivable, net                   | <u>21,759</u>          |

Movement in the allowance for doubtful premiums receivable during the period was as follows:

|                                      | <i>For the period from<br/>8 February 2012 to<br/>31 December<br/>2013</i> |
|--------------------------------------|--|
| Provided during the period (note 15) | 5,015  |
| Write-offs during the period         | (49)   |
| Balance at the end of the period     | <u>4,966</u>   |

The ageing of unimpaired premium receivables arising from insurance contracts is as follows:

|                         | <i>Up to three<br/>months<br/>SR'000</i> | <i>Above<br/>three and<br/>up to six<br/>months<br/>SR'000</i> | <i>Above six<br/>and up to<br/>twelve<br/>months<br/>SR'000</i> | <i>Total<br/>SR'000</i> |
|-------------------------|--|--|---|-------------------------|
| <b>31 December 2013</b> | <u>5,808</u>                             | <u>2,240</u>   | <u>13,711</u>   | <u>21,759</u>           |

Balances up to three months are considered neither past due nor impaired. Unimpaired receivables are expected, on the basis of experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

In respect of premium receivables, five major customers account for 78% of the balance as at 31 December 2013.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**5. NET MOVEMENT IN UNEARNED PREMIUMS, OUTSTANDING CLAIMS,  
DEFERRED POLICY ACQUISITION COSTS**

**a) Unearned premiums**

|  | <i>2013</i><br><i>SR'000</i> |
|--|------------------------------|
| Net premiums written                     | 27,900                       |
| Net premiums earned                      | (12,267)                     |
|  | <u>15,633</u>                |
| Add: Reinsurer share of unearned premium | 12,256                       |
|  | <u>27,889</u>                |
| Unearned premiums - gross                | <u><u>27,889</u></u>         |

**b) Outstanding claims**

|  | <i>2013</i><br><i>SR'000</i> |
|--|------------------------------|
| Claims incurred, net                         | 10,618                       |
| Claims paid, net                             | (6,938)                      |
|  | <u>3,680</u>                 |
| Add: Reinsurer's share of outstanding claims | 3,680                        |
|  | <u>7,360</u>                 |
| Outstanding claims - gross                   | <u><u>7,360</u></u>          |

**c) Deferred policy acquisition costs**

|                               | <i>2013</i><br><i>SR'000</i> |
|-------------------------------|------------------------------|
| Capitalised during the period | 3,678                        |
| Amortised during the period   | (1,660)                      |
|                               | <u>2,018</u>                 |
| At 31 December                | <u><u>2,018</u></u>          |

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**6. PREPAYMENTS AND OTHER ASSETS**

|                                 | <b>2013<br/>SR'000</b> |
|---------------------------------|------------------------|
| <i>Insurance Operations</i>     |                        |
| Prepayments                     | 2,703                  |
| Others                          | 737                    |
|                                 | <u>3,440</u>           |
|                                 | <b>2013<br/>SR'000</b> |
| <i>Shareholders' Operations</i> |                        |
| Accrued income                  | 1,745                  |
| Other receivables               | 241                    |
|                                 | <u>1,986</u>           |

**7. INTANGIBLE ASSETS**

|  | <b>2013<br/>SR'000</b> |
|--|------------------------|
| <i>Insurance Operations</i>                                  |                        |
| <b>Cost:</b>   |                        |
| Additions during the period and balance at end of the period | 17,566                 |
| <b>Amortization:</b>   |                        |
| Charge for the period and balance at end of the period       | 3,423                  |
| <b>Net book value as at 31 December 2013</b>                 | <u><u>14,143</u></u>   |

Intangible assets consist mainly of computer software which is used for the benefit of insurance operations.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**8. FURNITURE, FIXTURES AND OFFICE EQUIPMENT**

*Insurance Operations*

|  | <i>Leasehold<br/>improvements<br/>SR'000</i> | <i>Computer<br/>equipment<br/>SR'000</i> | <i>Motor<br/>vehicles<br/>SR'000</i> | <i>Furniture<br/>fittings and<br/>office<br/>equipment<br/>SR'000</i> | <i>Total<br/>SR'000</i> |
|--|--|--|--------------------------------------|---|-------------------------|
| <b>Cost:</b>   |  |  |                                      |   |                         |
| Additions during the period and balance at end of the period | 3,722  | 8,417                                    | 294                                  | 2,313   | 14,746                  |
| <b>Accumulated depreciation:</b>                             |  |  |                                      |   |                         |
| Charge for the period and balance at end of the period       | 1,983  | 3,482                                    | 115                                  | 448   | 6,028                   |
| <b>Net book value as at 31 December 2013</b>                 | <b>1,739</b>                                 | <b>4,935</b>                             | <b>179</b>                           | <b>1,865</b>  | <b>8,718</b>            |

**9. INVESTMENTS**

**2013  
SR'000**

*Shareholders' Operations*

|                              |               |
|------------------------------|---------------|
| Investments held to maturity | 74,699        |
| FVIS investments             | 13,643        |
|                              | <b>88,342</b> |

**Investments held to maturity**

Movement in investments classified as held to maturity (HTM) is as follows:

|                                     |   |
|-------------------------------------|---|
|                                     | <i>For the period<br/>from 8 February<br/>2012 to 31<br/>December<br/>2013<br/>SR'000</i> |
| Purchases during the period         | 74,459  |
| Amortization during the period      | 240   |
| <b>Balance at end of the period</b> | <b>74,699</b>   |

During the period from 8 February 2012 to 31 December 2013, the Company invested SR 74.46 million in fixed and floating rate bonds maturing during March 2014 and October 2015 respectively.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**9. INVESTMENTS (continued)**

**FVIS investments**

Movement in investments classified as fair value through income statement ("FVIS") is as follows:

|  | <i>For the period from<br/>8 February 2012 to<br/>31 December<br/>2013<br/>SR'000</i> |
|--|---|
| Purchases during the period                      | 30,000  |
| Disposals during the period (see note (a) below) | (15,000)  |
| Changes in fair value during the period          | (1,357)   |
|  | <hr/>   |
| Balance at the end of the period                 | 13,643  |
|  | <hr/>   |

- (a) During the period from 8 February 2012 to 31 December 2013, the Company invested SR 15 million each in Saudi Fransi Emerging Markets Fixed Income Fund (SFEM) and Saudi Istithmar Equity Fund (SIEF). SIEF was subsequently disposed during the period ended 31 December 2013 at a total price of SR 17.77 million. The fair value of SFEM investment amounted to SR 13.64 million as at 31 December 2013.

**10. ACCRUED EXPENSES AND OTHER LIABILITIES**

|                                       | <i>2013<br/>SR'000</i> |
|---------------------------------------|------------------------|
| <b>Insurance Operations</b>           |                        |
| Payable to medical services providers | 8,279                  |
| Employee related accruals             | 3,026                  |
| End of service benefits               | 1,083                  |
| Other liabilities                     | 1,873                  |
|                                       | <hr/>                  |
|                                       | 14,261                 |
|                                       | <hr/>                  |

|                                 | <i>2013<br/>SR'000</i> |
|---------------------------------|------------------------|
| <b>Shareholders' Operations</b> |                        |
| Board remuneration              | 196                    |
| General assembly expenses       | 450                    |
| Other payables                  | 240                    |
|                                 | <hr/>                  |
|                                 | 886                    |
|                                 | <hr/>                  |

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**11. ZAKAT AND INCOME TAX**

The Zakat and income tax payable by the Company has been calculated based on the best estimate of the management in accordance with the Zakat regulations in Saudi Arabia.

**Charge for the period**

*For the period  
from  
8 February 2012  
to 31 December  
2013  
SR'000*

Current period

**9,862**

The Zakat charge for the period ended December 31 has been calculated on Zakat base, the components of which are as follows:

*For the period  
from  
8 February 2012  
to 31 December  
2013  
SR'000*

Non-current assets  
Share capital  
Statutory deposit  
Net loss before Zakat

**22,861**  
**400,000**  
**40,000**  
**83,528**

Some of the amounts have been adjusted in arriving at the Zakat charge of SR 9.862 million for the period.

Movement in the Zakat payable is as follows:

*For the period from  
8 February 2012  
to 31 December  
2013  
SR'000*

Charge for the period  
Payments made during the period  
  
Balance at the end of the period

**9,862**  
**(3,830)**  
  
**6,032**

**Income tax**

As the Company has incurred losses during the period from 8 February 2012 to 31 December 2013, no provision has been established in respect of income tax in these financial statements.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**11. ZAKAT AND INCOME TAX (continued)**

**Status of assessments**

The Company has filed its Zakat and tax return for the first twelve month period ended December 31, 2012 with the Department of Zakat and Income Tax ("DZIT"). Assessment for the twelve month period has not yet been raised by the DZIT.

During 2012, the Company has received a letter from the DZIT, claiming a Zakat amount of SR 9.72 million for the period from 6 June 2010 to 5 June 2012. Furthermore the DZIT has issued another letter dated 23 July 2013 indicating additional Zakat liability of SR 0.5 million. The Company has submitted a reply to the DZIT and is confident of a favourable outcome. Accordingly, no additional provision has been established in this regard in these financial statements.

**12. SHARE CAPITAL**

The share capital of the Company is SR 400 million, divided into 40 million shares of SR 10 each, and subscribed by the following:

|                       | <i>Percentage<br/>holding</i> | <i>SR'000</i>  |
|-----------------------|-------------------------------|----------------|
| Founding shareholders | 60%                           | 240,000        |
| General public        | 40%                           | 160,000        |
|                       | <u>100%</u>                   | <u>400,000</u> |

The Company incurred a sum of SR 7.04 million as transaction costs to raise capital of SR 160 million through an IPO (see above) and this amount has been deducted from equity as part of accumulated losses. An amount of SR 3.91 million, included in SR 7.04 million mentioned above, was paid on behalf of the Company by a founding shareholder (note 17).

**13. STATUTORY DEPOSIT**

As required by the Saudi Arabian Insurance Regulations, the Company deposited an amount equivalent to 10% of its paid up share capital, amounting to SR 40 million, in a bank designated by the Saudi Arabian Monetary Agency ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA, and commission accruing on this deposit is payable to SAMA.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**14. COMMITMENTS AND CONTINGENCIES**

*Insurance Operations*

**a) Operating lease commitments:**

Future minimum rentals payable under non-cancellable operating lease as at 31 December are as follows:

|  | <b>2013<br/>SR'000</b> |
|--|------------------------|
| Within one year                            | 1,790                  |
| After one year but no more than five years | 3,581                  |
|  | <u>5,371</u>           |

b) There were no capital commitments outstanding as at 31 December 2013.

c) As at 31 December 2013, a performance guarantee amounting to SR 500 thousand was issued to the medical service providers on behalf of the Company. The Company placed an advance equivalent to the amount of performance guarantee with a bank as security for issuing such a guarantee. The other assets disclosed in note 6 are inclusive of above-mentioned amount.

**15. GENERAL AND ADMINISTRATION EXPENSES**

|   | <b>For the period<br/>from<br/>8 February 2012<br/>to 31 December<br/>2013<br/>SR'000</b> |
|---|---|
| <i>Insurance Operations</i>                         |   |
| Employee costs                                      | 27,498  |
| Allowance for doubtful premiums receivable (note 4) | 5,015   |
| Depreciation and amortization                       | 7,028   |
| Rent expenses                                       | 2,027   |
| Legal and professional fees                         | 421   |
| Repair and maintenance costs                        | 3,161   |
| Other expenses                                      | 4,571   |
|   | <u>49,721</u>   |



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**15. GENERAL AND ADMINISTRATION EXPENSES (continued)**

|                                 | <i>For the period<br/>from<br/>8 February 2012<br/>to 31 December<br/>2013<br/>SR'000</i> |
|---------------------------------|---|
| <b>Shareholders' Operations</b> |   |
| Employee costs                  | 14,929  |
| Repairs and maintenance costs   | 1,745   |
| Rent expenses                   | 1,610   |
| Communication expenses          | 688   |
| Traveling expenses              | 226   |
| Statutory expenses              | 407   |
| Legal and professional fees     | 905   |
| General assembly expenses       | 400   |
| Board expenses (note 15.1)      | 123   |
| Depreciation                    | 2,360   |
| Amortization                    | 63  |
| Others                          | 1,940   |
|                                 | <u>25,396</u>   |

General and administration expenses of shareholders' operations mainly represent employee costs and other expenses incurred by the Company before the commencement of commercial operations. Subsequently, these expenses are charged to the statement of insurance operations.

**15.1 BOARD EXPENSES**

|  | <i>For the period<br/>from 8 February<br/>2012 to 31<br/>December<br/>2013<br/>SR'000</i> |
|--|---|
| Board attendance fees                  | 90  |
| Other board and sub-committee expenses | 33  |
|  | <u>123</u>  |

- a) During the period ended 31 December 2013, the Board of Directors resolved to waive their remuneration until the Company becomes profitable.
- b) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.
- c) Other board and sub-committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**16. PRE-INCORPORATION EXPENSES**

|  | <i>For the period<br/>from 8 February<br/>2012 to 31<br/>December<br/>2013<br/>SR'000</i> |
|--|---|
| Employee costs                                   | 4,171   |
| Legal and professional fees (see note (b) below) | 2,768   |
| Office rent                                      | 1,800   |
| Others   | 431   |
|  | <u>9,170</u>  |

- a) Pre-incorporation expenses represent costs incurred by a founding shareholder on behalf of the Company, and subsequently recharged to the Company, for the period up to 8 February 2012, being the date of the issuance of the Ministerial Resolution declaring the incorporation of the Company (note 17).
- b) Legal and professional fees include an amount of SR 2.3 million paid to a founding shareholder (note 17).
- c) Office rent include an amount of SR 0.76 million, paid to a founding shareholder (note 17).

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**17. TRANSACTIONS WITH RELATED PARTIES**

- a) In addition to details disclosed in notes 12, 15 and 16, following are the details of related party transactions from the period from 8 February 2012 to 31 December 2013 and the balances thereof:

| <u>Related party</u>            | <u>Nature of transaction</u>  | <i>For the period<br/>from 8<br/>February 2012<br/>to 31<br/>December<br/>2013<br/>SR'000</i> |
|---------------------------------|---|---|
| <b>Founding shareholders</b>    | Transaction costs paid on behalf of the Company and recharged to the Company                            | 3,908   |
|                                 | Pre-incorporation expenses paid on behalf of the Company and recharged to the Company                   | 9,170   |
|                                 | Furniture, fittings and office equipment acquired on behalf of the Company and recharged to the Company | 16,800  |
|                                 | General and administration expenses incurred on behalf of the Company and recharged to the Company      | 6,560   |
|                                 | Office rent   | 31  |
|                                 | Service charges   | 84  |
|                                 | Premiums written  | 281   |
|                                 | Claims paid   | 40  |
| <b>Others</b>                   | Purchase of computer equipment, licenses and other services   | 11,566  |
|                                 | Premiums written  | 2,796   |
|                                 | Claims paid   | 154   |
|                                 | Commission paid   | 505   |
|                                 | Purchase of computer software   | 17,355  |
| <b>Key management personnel</b> | Short-term benefits   | 6,403   |
|                                 | Long-term benefits  | 282   |

- b) Amount due from / to related parties are disclosed in the statement of financial position.
- c) Short-term benefits include salaries, allowances, commissions, bonuses and incentives whilst long-term benefits include employees' end of service benefits.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**18. RISK MANAGEMENT**

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's growth and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through its strategic planning process.

**Risk management structure**

*Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

*Audit committee*

The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

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

**Insurance risk**

Insurance risk is the risk that actual claims payable to policyholders exceed the carrying amount of insurance liabilities. The objective of the Insurance Operations is to ensure that sufficient reserves are available to cover these liabilities. The Insurance Operations manages this risk by ensuring that adequate reinsurance cover is taken to restrict the maximum loss payable for any individual claim. The Company only issues short term contracts in connection with medical risks.

*Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Company only underwrites medical risks. Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers and a large population is covered under the policy. Claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

*Geographical concentration of risks*

The Company's insurance risk exposure relating to contract holders is concentrated in Saudi Arabia.

*Independent actuarial review of claims and claims reserves*

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

*Key assumptions*

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

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**18. RISK MANAGEMENT (continued)**

*Sensitivities*

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and insurance operations and accumulated surplus.

|  | Change in<br>assumptions | Impact on net<br>liabilities<br>SR' 000 | Impact on<br>insurance<br>operations and<br>accumulated<br>surplus<br>SR' 000 |
|--|--------------------------|---|---|
| Ultimate loss ratio – Insurance Operations<br>for the period from 8 February 2012 to 31<br>December 2013 | ± 5%                     | 184                                     | 184   |

**Reinsurance risk**

In common with other insurance companies, in order to minimise financial exposure arising from a high volume of claims or large claims, the Insurance Operations, 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.

Furthermore, to minimise its exposure to significant losses from reinsurance managers' insolvencies, the Insurance Operations evaluates the financial condition of its reinsurance managers. The Insurance Operations has a modified quota-share reinsurance arrangement with an international reinsurance company based in Malta, with Standard & Poors "AA-" rating. This Reinsurance arrangement covers all individual and group contracts issued by the Insurance Operations in the Kingdom of Saudi Arabia. Under the arrangement, the Insurance Operations retains 50% of the insurance cover per life ranging between SR 250 thousand to SR 1,000 thousand.

The credit risk exposure in respect of reinsurer's share of outstanding claims is SR 3,680 thousand and in respect of reinsurance balances receivable is SR 4,936 thousand.

**Regulatory framework risk**

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

**Capital management (solvency) risk**

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

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities.

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**18. RISK MANAGEMENT (continued)**

**Capital management (solvency) risk (continued)**

The following information summarizes the minimum regulatory capital of the Company:

|                            | <b>2013<br/>SR'000</b> |
|----------------------------|------------------------|
| Minimum regulatory capital | <b>100,000</b>         |

**Financial risk**

The Company's principal financial instruments are cash and cash equivalents, Murabaha deposits, premiums receivable, reinsurance receivable, other receivables, investments, amount due from a related party, amount due from insurance operations, outstanding claims, reinsurance balances payable, amount due to shareholders' operations, amounts due to related parties and certain other liabilities.

The Company does not enter into derivative transactions.

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

**Market price risk**

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Shareholders' Operations are exposed to market risk with respect to their FVIS investments. A 5% change in the net asset value of the funds, with all other variables held constant, would impact the Shareholders' Operations by SR 682 thousand.

**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 Murabaha deposits.

The Company places Murabaha deposits which are realisable within three months and more than three months, with the exception of restricted deposits which are required to be maintained in accordance with regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk by monitoring changes in commission rates in the currencies in which its deposits are denominated.

Details of maturities of the major classes of commission bearing securities as at 31 December are as follows:

| <b>Shareholder's Operations</b> | <b>SR '000</b>            |                           |                          | <b>Total</b> |
|---------------------------------|---------------------------|---------------------------|--------------------------|--------------|
|                                 | <b>Less than 3 months</b> | <b>3 months to 1 year</b> | <b>No fixed maturity</b> |              |
| Murabaha deposits               | 30,056                    | 135,000                   | -                        | 165,056      |

**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**18. RISK MANAGEMENT (continued)**

*Commission rate risk (continued)*

The insurance operations did not have any commission bearing assets as at 31 December 2013.

The maturities of deposits have been determined on the basis of the remaining period, at the statement of financial position date, to the contractual maturity date.

The effective commission rates for the commission bearing financial instruments, at 31 December, were as follows:

2013

*Shareholder's Operations*

Saudi Arabian Riyal denominated Murabaha deposits

1.75%

The Company had no deposits in currencies other than Saudi Arabian Riyals.

The following information demonstrates the sensitivity statement of shareholders' operations to possible changes in commission rates, with all other variables held constant.

2013  
SR'000

*Shareholder's Operations*

*Saudi Arabian Riyals:*

Increase in commission rates by 100 basis points

1,651

Decrease in commission rates by 100 basis points

(1,651)

*Foreign currency risk*

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

Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Company primarily deals in Saudi Arabian Riyals and in United States Dollars which is pegged to the Saudi Arabian Riyals.

*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 seeks to limit its credit risk with respect to customers by following the Company's credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts.

For all classes of financial instruments held by the Company, the maximum credit risk exposure is the carrying value as disclosed in the statement of financial position. The Company's credit risk exposure is primarily concentrated in Saudi Arabia. The Company maintains the exposures within limits. These limits have been set on the basis of the types of exposures and the credit rating or financial standing of the counter party. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks. The Company enters into reinsurance contracts with recognised, creditworthy parties (rated A or above).



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**18. RISK MANAGEMENT (continued)**

*Credit risk (continued)*

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

|   | <b>2013<br/>SR'000</b> |
|---|------------------------|
| <b><i>Insurance Operations</i></b>      |                        |
| Cash at banks                           | 1,245                  |
| Premium receivable, net                 | 21,759                 |
| Reinsurance receivable                  | 4,936                  |
| Reinsurer's share of outstanding claims | 3,680                  |
| Other receivables                       | 98                     |
|   | <b>31,718</b>          |
|   |                        |
|   | <b>2013<br/>SR'000</b> |
| <b><i>Shareholders' Operations</i></b>  |                        |
| Cash and cash equivalents               | 38,390                 |
| Murabaha deposits                       | 135,000                |
| Investments held to maturity            | 74,699                 |
| Amounts due from insurance operations   | 3,828                  |
| Amounts due from a related party        | 83                     |
| Statutory deposit                       | 40,000                 |
| Other receivables                       | 1,986                  |
|   | <b>293,986</b>         |

***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All assets of the Company are current, except for furniture, fittings and office equipment, intangible assets and statutory deposit, which are non-current in nature.

The Company's financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to shareholders' operations, amount due to related parties and certain other liabilities. All financial liabilities are non-commission rate bearing and are expected to be settled within 12 months from the date of statement of financial position, except end of service benefits, which are non-current in nature.

**19. SEGMENT INFORMATION**

The Company only issues insurance contracts for providing health care services ('medical insurance'). All the insurance operations of the Company are carried out in the Kingdom of Saudi Arabia. Since this is the first period of commercial operations of the Company, the operations are not yet monitored in different categories.



**SAUDI ENAYA COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

At 31 December 2013

**20. FAIR VALUE OF FINANCIAL INSTRUMENTS**

- a) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
  - In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The Company's financial assets include cash and cash equivalents, Murabaha deposits, premium receivable, reinsurance receivables, other receivables, investments, amount due from a related party and amount due from insurance operations. The Company's financial liabilities consist of outstanding claims, reinsurance balance payables, amount due to shareholders' operations, amounts due to related parties and certain other liabilities. The fair values of financial instruments are not materially different from their carrying values. At 31 December 2013, apart from the investments which are carried at fair value, there were no other financial instruments held by the Company that were measured at fair value.

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

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

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

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

As at 31 December 2013, all financial instruments, which are fair valued, are Level 2 instruments. There were no transfers between levels during the period ended 31 December 2013.

**21. LOSS PER SHARE**

The loss per share has been calculated by dividing the net loss for the period by the weighted average number of ordinary shares issued and outstanding at the period end. Diluted earnings per share are not applicable for the Company.

**22. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were authorized for issue by the Board of Directors on Rabi Al Thani 19, 1435H, corresponding to February 19, 2014.