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METLIFE, AMERICAN INTERNATIONAL GROUP  
AND ARAB NATIONAL BANK COOPERATIVE  
INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

31 DECEMBER 2014

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
METLIFE, AMERICAN INTERNATIONAL GROUP AND ARAB NATIONAL BANK  
COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit:**

We have audited the accompanying statement of financial position of Metlife, American International Group and Arab National Bank Cooperative Insurance Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2014 and the related statements of insurance operations and shareholders' comprehensive operations, statement of changes in shareholders' equity and statements of cash flows of insurance operations and shareholders' operations for the period from 29 August 2013 to 31 December 2014 and the related notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**Unqualified opinion:**

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


- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and the results of its operations and its cash flows for the period from 29 August 2013 to 31 December 2014 in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's Bye-laws in so far as they affect the preparation and presentation of the financial statements.

**Emphasis of a matter:**

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


**Ernst & Young**

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**Bakr A. Abulkhair**  
Certified Public Accountant  
Registration No. 101



30 Rabi Al-Thani 1436H  
(19 February 2015)

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the period from 29 August 2013 to 31 December 2014

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MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION  
As at 31 December 2014

	<i>Notes</i>	<i>SR</i>
<b>INSURANCE OPERATIONS' ASSETS</b>		
Cash and cash equivalents	5	2,238,414
Premiums receivable, net	6	3,421,552
Reinsurers' commission receivable		1,016,704
Reinsurers' share of unearned premiums	14	3,374,580
Reinsurers' share of outstanding claims	7	499,799
Deferred policy acquisition costs	8	469,688
Prepaid expenses and other assets	9	2,844,286
Property and equipment, net	10	8,054,849
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>21,919,872</b>
<b>SHAREHOLDERS' ASSETS</b>		
Cash and cash equivalents	5	11,157,980
Due from insurance operations		5,028,658
Prepaid expenses and other assets	9	113,623
Time deposits	11	85,000,000
Available for sale investment	12	3,175,163
Statutory deposit	13	17,500,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>121,975,424</b>
<b>TOTAL INSURANCE OPERATIONS' AND SHAREHOLDERS' ASSETS</b>		<b>143,895,296</b>



Chief Financial Officer



Managing Director /  
Chief Executive Officer

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2014

	<i>Notes</i>	<i>SR</i>
<b>INSURANCE OPERATIONS' LIABILITIES</b>		
Gross unearned premiums	14	4,709,142
Gross outstanding claims	7	787,530
Payables, accruals and others	15	4,362,884
Reinsurance balances payable		3,944,417
Unearned reinsurance commission income	16	881,472
Due to related parties	17	1,822,887
Due to shareholders' operations		5,028,658
Employees' terminal benefits		382,882
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>21,919,872</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>		
<b>SHAREHOLDERS' LIABILITIES</b>		
Zakat	18	-
Payables, accruals and others	15	1,286,173
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>1,286,173</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	19	175,000,000
Accumulated deficit		(54,310,749)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>120,689,251</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>121,975,424</b>
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>143,895,296</b>

Chief Financial Officer

Managing Director /  
Chief Executive Officer

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF INSURANCE OPERATIONS

	Notes	For the period from 29 August 2013 to 31 December 2014 SR
Gross written premiums		5,741,138
Reinsurance premiums ceded		(4,108,005)
<b>NET WRITTEN PREMIUMS</b>		<b>1,633,133</b>
Net unearned premiums		(1,334,562)
<b>NET EARNED PREMIUMS</b>		<b>298,571</b>
Reinsurance commission earned	16	172,039
Other income, net		500
<b>UNDERWRITING REVENUE</b>		<b>471,110</b>
Gross outstanding claims	7	(787,530)
Reinsurers' share of outstanding claims	7	499,799
<b>NET CLAIMS INCURRED</b>		<b>(287,731)</b>
Policy acquisition costs	8	(136,589)
Inspection and supervisory fees		(38,449)
<b>UNDERWRITING EXPENSES</b>		<b>(462,769)</b>
<b>UNDERWRITING RESULTS</b>		<b>8,341</b>
General and administration expenses	20	(20,294,150)
<b>NET DEFICIT FOR THE PERIOD FROM INSURANCE OPERATIONS</b>		<b>(20,285,809)</b>
Shareholders' appropriation from deficit		20,285,809
<b>NET RESULT FOR THE PERIOD</b>		<b>-</b>



Chief Financial Officer



Managing Director /  
Chief Executive Officer

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

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS

		<i>For the period from 29 August 2013 to 31 December 2014</i>
	<i>Notes</i>	<i>SR</i>
Appropriation of deficit from insurance operations		(20,285,809)
Special commission income		792,878
General and administrative expenses	20	(12,842,587)
<b>LOSSES INCURRED DURING THE PERIOD</b>		<b>(32,335,518)</b>
Pre-incorporation expenses, net	21	(11,335,620)
<b>NET LOSS BEFORE ZAKAT FOR THE PERIOD</b>		<b>(43,671,138)</b>
Zakat	18	(1,242,671)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(44,913,809)</b>
<b>LOSS PER SHARE:</b>		
Basic and diluted loss per share	23	(2.50)



Chief Financial Officer



Managing Director /  
Chief Executive Officer

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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Chief Financial Officer

Managing Director/  
Chief Executive Officer

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MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

For the period from 29 August 2013 to 31 December 2014

	<i>Note</i>	<i>SR</i>
<b>OPERATING ACTIVITIES</b>		
Net result for the period		-
<i>Adjustments for:</i>		
Shareholders' appropriation from deficit		(20,285,809)
Depreciation		2,036,910
Provision for doubtful receivables		90,827
Employees' terminal benefits		382,882
		(17,775,190)
<i>Changes in operating assets and liabilities:</i>		
Premiums receivable		(3,512,379)
Reinsurers' commission receivable		(1,016,704)
Reinsurers' share of outstanding claims		(499,799)
Reinsurers' share of unearned premiums		(3,374,580)
Deferred policy acquisition costs		(469,688)
Prepaid expenses and other assets		(2,844,286)
Gross outstanding claims		787,530
Gross unearned premiums		4,709,142
Payables, accruals and others		4,362,884
Reinsurance balances payable		3,944,417
Unearned reinsurance commission income		881,472
Due to related parties		1,822,887
Due to shareholders' operations		16,551,144
Net cash from operating activities		3,566,850
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment		(1,328,436)
Net cash used in investing activities		(1,328,436)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		2,238,414
Cash and cash equivalents at the beginning of the period		-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	5	2,238,414
<i>Non-cash supplemental information:</i>		
Property and equipment transferred from shareholders' operations		(8,763,323)

  
Chief Financial Officer

  
Managing Director /  
Chief Executive Officer

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


MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

**STATEMENT OF SHAREHOLDERS' CASH FLOWS**

For the period from 29 August 2013 to 31 December 2014

	<i>Notes</i>	<i>SR</i>
<b>OPERATING ACTIVITIES</b>		
Net loss before Zakat		(43,671,138)
<i>Adjustments for:</i>		
Appropriation of deficit from insurance operations		20,285,809
Depreciation		2,978,870
Special commission income		(792,878)
		(21,199,337)
<i>Changes in operating assets and liabilities:</i>		
Statutory deposit		(17,500,000)
Due from insurance operations		(16,551,144)
Prepaid expenses and other assets		(3,993)
Payables, accruals and others		1,286,173
Due to related parties		(5,292,304)
Zakat paid		(1,242,671)
Net cash used in operating activities		(60,503,276)
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment		(11,742,193)
Time deposits		(85,000,000)
Available for sale investment		(3,175,163)
Special commission income received		683,248
Net cash used in investing activities		(99,234,108)
<b>FINANCING ACTIVITIES</b>		
Issue of share capital		175,000,000
Transaction costs on issue of share capital		(4,104,636)
Net cash from financing activities		170,895,364
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		11,157,980
Cash and cash equivalents at the beginning of the period		-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	5	11,157,980
<b><i>Non-cash supplemental information:</i></b>		
Transaction costs on initial public offer paid by shareholders	17	5,292,304
Property and equipment transferred to insurance operations		8,763,323

  
Chief Financial Officer

  
Managing Director /  
Chief Executive Officer

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

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS  
At 31 December 2014

**I ORGANISATION AND PRINCIPAL ACTIVITIES**

MetLife, American International Group and Arab National Bank Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration numbered 1010391438 dated 22 Dhul-Hijjah 1434H (corresponding to 27 October 2013).

The address of registered office of the Company is as follows:

MetLife, American International Group and Arab National Bank Cooperative Insurance Company  
P.O. Box 56437  
Riyadh 11554  
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations applicable in the Kingdom of Saudi Arabia. Its principal lines of business include individual and group life, accident and health and all classes of general insurance. The Company's shares were listed on the Saudi Arabian Stock Exchange ("Tadawul") on 23 Muharram 1435H (corresponding to 26 November 2013).

As per the Company's bye-laws, the Company's first fiscal year commences on the date of the Ministerial Resolution declaring the incorporation of the Company, which was on 22 Shawwal 1434H (corresponding to 29 August 2013) and ends on 31 December 2014. Accordingly, these are the first statutory financial statements of the Company which cover the period from 29 August 2013 to 31 December 2014 and therefore no comparative information is presented in these financial statements.

The Company completed the legal formalities for incorporation on 29 August 2013. The founding shareholders commenced the pre-incorporation activities from 18 January 2012. All related income and expenses for the period from 18 January 2012 to 28 August 2013 are classified as "pre-incorporation expenses, net" in the statement of shareholders' comprehensive operations.

The Saudi Arabian Monetary Agency ("SAMA") has provided the Company with the final approval to conduct insurance business in the Kingdom of Saudi Arabia on 25 February 2014.

The Company launched its insurance operations during April 2014 after receiving SAMA's temporary approval on some general insurance products. Accordingly, the insurance operations as set out in these financial statements relate to the period from 1 April 2014 to 31 December 2014.

**2 BASIS OF PREPARATION**

*Basis of preparation*

The financial statements have been prepared under the historical cost basis.

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is as determined by the management and Board of Directors. As per the bye-laws of the Company, the deficit arising from the Insurance Operations is allocated fully to Shareholders Operations whereas any surplus arising from the Insurance Operations is distributed as follows:

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

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**2 BASIS OF PREPARATION (continued)**

*Statement of compliance*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Accordingly these financial statements are not intended to be a presentation in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia, as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

*Functional and presentational currency*

The functional and presentation currency of the Company is Saudi Riyals.

**3 SIGNIFICANT ACCOUNTING POLICIES**

*Property and equipment*

Property and equipment are measured at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the assets. Expenditure for repair and maintenance is charged to statement of insurance operations. Improvements that increase the value or materially extend the life of the related assets are capitalised. Depreciation is charged to the statement of insurance operations 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:

Leasehold improvements	7 years
Furniture and fixtures	7 years
Office equipment	5 years
Computer hardware	5 years
Computer software	3 years
Motor vehicles	5 years

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of insurance operations.

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

*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.

*Provisions*

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses.

*Leases*

Operating lease payments are recognised as an expense in the statement of insurance operations on a straight-line basis over the lease term.

*Zakat and income tax*

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations. Zakat and income tax are accrued and charged to the statement of shareholders' comprehensive operations.

*Employees' terminal benefits*

Employees' terminal benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labour Regulations on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at reporting date. Terminal benefits payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by Saudi Arabian Labour Law.

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Cash and cash equivalents***

Cash and cash equivalents for the purposes of statement of shareholders' cash flows comprise of cash at banks and short-term deposits, if any, with an original maturity of ninety days or less from the date of acquisition.

***Revenue recognition***

***Recognition of premium and commission revenue***

Premiums and commission are taken into "statement of insurance operations" over the terms of the policies to which they relate on a pro-rata basis, so that the revenue is recognized over the period of the risk. 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", over the period of risk.

Retained premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the actual number of days for other lines of business.

The underwriting results represents premiums earned, fee and commission income earned less claims paid, other underwriting expenses and anticipated claims payable in respect of the period, net of amounts subject to reinsurance, less provision for any anticipated future losses on continuing policies.

***Special commission income***

Special commission income on short-term and time deposits is accrued on an effective yield basis.

***Insurance contract***

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

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

***Claims***

Claims consist of amounts payable to policy holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of insurance operations. Gross outstanding claims comprise gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as of the financial reporting date are made on the basis of individual case estimates. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the financial reporting date.

***Outstanding claims and other technical reserves***

The Company generally estimates its claims based on previous experience. In addition a provision based on management's judgment is maintained for the cost of settling claims "incurred but not reported" and "unallocated loss adjustment expense reserve" at the reporting date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following period is included in the underwriting account for that period. The Company acquires services of an independent actuary to determine such claims.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the end of financial reporting period, for which the insured event has occurred prior to the end of the financial reporting period.

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Deferred policy acquisition costs***

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate as premiums are earned. Amortisation is recorded in the "statement of insurance operations".

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

An impairment review is performed at each financial reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value, an impairment loss is recognised in the statement of insurance operations. Deferred policy acquisition cost is also considered in the liability adequacy test for each financial reporting period.

***Reinsurance***

The Company cedes insurance risk in the normal course of business for all of its businesses under which the Company is compensated for losses on insurance contracts issued. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

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

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

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

***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 (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in statement of insurance operations and an unexpired risk provision 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 reporting date.

***Expenses***

Expenses are recognised when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

***Foreign currencies***

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated at the rates of exchange ruling at the statement of financial position date. All differences are taken to the statement of shareholders' comprehensive operations. Foreign exchange gains or loss on available for sale investments are recognised in the statement of shareholders' comprehensive operations.

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Statutory reserve***

In accordance with its Articles of Association, the Company shall allocate 20% of its net income of each year to a statutory reserve until it has built up a reserve equal to the share capital.

***Impairment and uncollectibility of financial assets***

An assessment is made at each financial reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of shareholders' comprehensive operations. When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

Impairment is determined as follows:

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

***Offsetting***

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

***Derecognition of financial instruments***

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

***Fair values***

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the statement of financial position date. If quoted market prices are not available, reference is also made to broker or dealer price quotations.

For financial assets where there is no active market, fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets.

***Segment reporting***

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

***Going concern***

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

MetLife, American International Group and Arab National Bank  
Cooperative Insurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**4 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS**

**Judgements**

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Key estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the significant accounting policies in note 3.

**5 CASH AND CASH EQUIVALENTS**

	31 December 2014	
	Insurance operations SR	Shareholders' operations SR
Cash at banks and in hand	2,238,414	5,157,980
Short-term deposit with original maturity of three months or less	-	6,000,000
	<u>2,238,414</u>	<u>11,157,980</u>

Short-term deposit is with a local affiliate bank, a shareholder, and has an original maturity of three months. The special commission rate on the short-term deposit is 0.75% per annum.

Short-term deposit and cash at banks are placed with local commercial banks with investment grade credit ratings.

The carrying values of short-term deposit and cash at banks approximate their fair value at the reporting date.

**6 PREMIUMS RECEIVABLE, NET**

The ageing analysis of premiums receivable balances is set out below.

31 December 2014	Total SR	Past due not impaired	Past due and impaired	
		Up to 90 days SR	91 to 180 days SR	181 to 360 days SR
Premiums receivable	3,512,379	2,044,146	693,419	774,814
Provision for doubtful debts	(90,827)	-	-	(90,827)
<b>Premiums receivable, net</b>	<u>3,421,552</u>	<u>2,044,146</u>	<u>693,419</u>	<u>683,987</u>

The Company classifies balances as 'past due and impaired' on the basis of the guidelines given by SAMA. Unimpaired premiums receivable are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over premiums receivable, and vast majority of such balances are therefore unsecured.



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7 OUTSTANDING CLAIMS

	31 December 2014		
	SR		
	Gross	Reinsurers' share	Net
Outstanding reported claims	11,567	4,478	7,089
Claims incurred but not reported	762,432	495,321	267,111
Unallocated loss adjustment expense reserve	13,531	-	13,531
<b>Total outstanding claims</b>	<b>787,530</b>	<b>499,799</b>	<b>287,731</b>

8 DEFERRED POLICY ACQUISITION COSTS

	For the period from 29 August 2013 to 31 December 2014 SR
Commission incurred during the period	606,277
Commission amortized during the period	(136,589)
	<b>469,688</b>

9 PREPAID EXPENSES AND OTHER ASSETS

	31 December 2014	
	SR	
	Insurance operations	Shareholders' operations
Employee receivables	1,202,398	-
Prepaid expenses	360,883	-
Deposit against letters of guarantee	550,000	-
Security deposits	261,500	-
Advance to suppliers	236,436	-
Prepaid rent	233,069	-
Accrued interest	-	109,630
Other assets	-	3,993
	<b>2,844,286</b>	<b>113,623</b>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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10 PROPERTY AND EQUIPMENT, NET

	<i>Leasehold improvements</i>	<i>Furniture and fixtures</i>	<i>Office equipment</i>	<i>Computer hardware</i>	<i>Computer software</i>	<i>Motor vehicles</i>	<i>Total 2014</i>
	SR	SR	SR	SR	SR	SR	SR
<i>Cost:</i>							
Additions for the period	3,454,254	972,139	499,289	4,697,281	3,232,617	215,049	13,070,629
<i>Depreciation:</i>							
Charge for the period	906,570	272,808	170,003	2,131,132	1,503,591	31,676	5,015,780
<i>Net book value:</i>							
As at 31 December 2014	2,547,684	699,331	329,286	2,566,149	1,729,026	183,373	8,054,849

The depreciation charge is allocated between pre-incorporation expenses, Policyholders' and Shareholders' general and administrative expenses, as follows:

	<i>For the period from 29 August 2013 to 31 December 2014</i>
	SR
Pre-incorporation expenses (note 21)	1,636,415
General and administration expenses <i>Shareholders' operations</i> (note 20)	1,342,455
General and administration expenses <i>Insurance operations</i> (note 20)	2,036,910
	5,015,780

11 TIME DEPOSITS

Time deposits represent deposits with local commercial banks with investment grade credit ratings and have an original maturity of more than three months from date of acquisition. The average variable special commission rate on the time deposits as at 31 December 2014 is 0.85 % per annum.

The carrying values of time deposits approximate their fair value at the reporting date.

12 AVAILABLE FOR SALE INVESTMENT

This investment represents 3.85% (192,308 shares) equity holding in the unquoted share capital of "Najm Insurance Services Company". As the fair value is not readily available; this investment has been carried at cost and reviewed by management for impairment. Management is of the opinion that the fair market value of this investment is not materially different from its carrying value.

13 STATUTORY DEPOSIT

Statutory deposit amounting to SR 17,500,000 represents 10% of the paid up share capital of the Company which is maintained in accordance with the Cooperative Insurance Companies Control Law issued by the Saudi Arabian Monetary Agency ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA.

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At 31 December 2014

**14 UNEARNED PREMIUMS**

*For the period from 29 August 2013 to  
31 December 2014*

	SR		
	<i>Gross</i>	<i>Reinsurers, share</i>	<i>Net</i>
Premiums written during the period	5,741,138	4,108,005	1,633,133
Premiums earned during the period	(1,031,996)	(733,425)	(298,571)
<b>Balance at end of the period</b>	<b>4,709,142</b>	<b>3,374,580</b>	<b>1,334,562</b>

**15 PAYABLES, ACCRUALS AND OTHERS**

*31 December 2014*

	SR	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>
Accrued HR Costs	1,548,055	272,975
Accrued External service fees	1,054,157	
Accrued Occupancy Cost	1,032,576	
Accrued BOD Fees	-	1,013,197
Accrued IT expenses	165,108	
Accrued Travel expenses	80,439	
Other Accrued expenses	55,921	
Commissions payable	343,694	
Other payables	82,934	-
	<b>4,362,884</b>	<b>1,286,173</b>

**16 UNEARNED REINSURANCE COMMISSION INCOME**

*For the period from  
29 August 2013 to  
31 December 2014*  
SR

Commission received during the period	1,053,511
Commission earned during the period	(172,039)
<b>Balance at the end of the period</b>	<b>881,472</b>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**17 RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties represent major shareholders and key management personnel of the Company. Pricing policies and term of settlement with related parties are as per the commercial terms. The significant related party transactions for the period and the related balances at the end of the period are set out below:

Related party	Nature of transactions	Amount of transactions	
		For the period from 29 August 2013 to 31 December 2014 SR	Balance 31 December 2014 SR
<b>Premium receivable from a related party</b>			
Arab National Bank ("ANB") (Shareholder)	Directors and Officers (D&O) insurance premium	140,250	-
	Due premiums net of commissions on policies sold through agency agreement with ANB agency	163,280	3,022
		<u>163,280</u>	<u>3,022</u>
<b>Reinsurance balances payable</b>			
American International Group ("AIG") (Shareholder)	Reinsurance premiums net of reinsurance commission	2,096,979	2,096,979
		<u>2,096,979</u>	<u>2,096,979</u>
<b>Due to related parties</b>			
MetLife ALICO (Shareholder)	Property and equipment purchased on behalf of the Company	10,809,086	
	Pre-incorporation expenses paid on behalf of the Company and recharged to the Company	7,514,895	
	Expenses related to initial public offer paid on behalf of the Company and recharged to the Company	61,168	
	General and administrative expenses paid on behalf of the Company and recharged to the Company	5,597,470	
	Settlement of the balance due for the period from pre-incorporation to 31 December 2014	(22,578,900)	1,403,719
		<u>(22,578,900)</u>	<u>1,403,719</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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17 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Related party	Nature of transactions	Amount of transactions	
		For the period from 29 August 2013 to 31 December 2014 SR	Balance 31 December 2014 SR
Arab National Bank ("ANB") (Shareholder)	Expenses related to initial public offer paid on behalf of the Company and recharged to the Company	5,292,304	
	Pre-incorporation expenses paid on behalf of the Company and recharged to the Company	1,782,795	
	General and administrative expenses paid on behalf of the Company and recharged to the Company	266,001	
	Settlement of the balance due for the period from pre-incorporation to 31 December 2014	(7,341,100)	-
American International Group ("AIG") (Shareholder)	Pre-incorporation expenses paid on behalf of the Company and recharged to the Company	1,694,730	
	Property and equipment purchased on behalf of the Company	1,020,692	
	General and administrative expenses paid on behalf of the Company and recharged to the Company	1,064,199	
	Settlement of the balance due for the period from pre-incorporation to 31 December 2014	(3,360,453)	419,168
	<b>Total amounts due to related parties</b>		<b>1,822,887</b>
Arab National Bank ("ANB") (Shareholder)	Deposits at an average commission rate of 0.71% per annum	*429,500,000	56,000,000
	Special commission income earned from short-term deposits up to the date of incorporation.	111,441	-
	Special commission income on deposits	554,561	95,871
Key management personnel	Salaries and other benefits	8,589,057	-
Board of Directors and Executive Committees' fees		999,000	999,000

\* Transactions under short-term deposits include the sum of all new short-term deposits (including renewals) placed with ANB during the period.

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At 31 December 2014

**18 ZAKAT AND INCOME TAX**

*(a) Zakat charge for the period*

The zakat provision is based on Saudi shareholders' share of capital of 48.02%:

	<i>For the period from 29 August 2013 to 31 December 2014</i>
	<i>SR</i>
Saudi shareholders' capital (48.02%)	84,035,000
Book value of long term assets	(20,317,535)
	<u>63,717,465</u>
Adjusted net loss for the period	(18,818,376)
Saudi shareholders' share of zakat base computed at 60%	<u>44,899,089</u>

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

*b) Income tax charge for the period*

There was no income tax charge relating to the non-Saudi shareholders for the period ended 31 December 2014 due to the net adjusted loss for the period.

*c) Movement in the provision for zakat during the period*

The movement in the provision for zakat for the period comprises of:

	<i>For the period from 29 August 2013 to 31 December 2014</i>
	<i>SR</i>
Provided during the period	1,242,671
Payment made during the period	(1,242,671)
	<u>-</u>
Ending balance	<u>-</u>

*d) Status of zakat and income tax assessments*

Tax/zakat return of the company for the first 12 months ending 28 August 2014 has been filed within the stipulated deadline. The final tax/zakat certificate has been received which is valid till 28 December 2015.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**19 SHARE CAPITAL**

The issued and paid up share capital of the Company is SR 175,000,000 divided into 17,500,000 shares of SR 10 each. The share capital is distributed as follows:

<i>Shareholders</i>	<i>Percentage</i>	<i>31 December 2014 SR</i>
Founding shareholders	70%	122,500,000
General public	30%	52,500,000
Share capital		<u>175,000,000</u>

Transaction costs of SR 9,396,940 incurred on initial public offer are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the initial public offer that otherwise would have been avoided.

**20 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>For the period from 29 August 2013 to 31 December 2014 SR</i>	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>
Employee costs	8,973,632	4,676,671
Legal and professional fees	3,123,410	3,216,725
Rent	2,411,337	908,038
Depreciation (Note 10)	2,036,910	1,342,455
Information technology expenses	1,834,239	606,327
Travel and lodging expenses	885,910	683,278
Provision for doubtful debts (Note 6)	90,827	-
Board expenses	-	1,085,201
Others	937,885	323,892
	<u>20,294,150</u>	<u>12,842,587</u>

**21 PRE-INCORPORATION EXPENSES, NET**

	<i>For the period from 18 January 2012 to 28 August 2013 SR</i>
Professional services rendered by shareholders' employees	3,564,937
Depreciation (Note 10)	1,636,415
Legal and professional fees	1,463,305
Travel and lodging expenses	1,238,208
Information technology expenses	1,179,675
Rent	661,759
Employees' costs	661,644
Others	1,041,118
<b>Total pre-incorporation expenses incurred</b>	<u>11,447,061</u>
Less: Special commission income earned from short-term deposits up to the date of the Ministerial Resolution (29 August 2013)	<u>(111,441)</u>
<b>Total pre-incorporation expenses, net</b>	<u>11,335,620</u>

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**22 RISK MANAGEMENT**

*Risk governance*

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

*Risk management structure*

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

*Board of directors*

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

*Senior management*

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

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

**a) Operational/process risk**

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Company manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance.

**b) Insurance risk**

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly accident and liability, property, marine, engineering, energy, extended warranty and health insurance.

The insurance risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

*Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Company underwrites accident and liability, property, marine, engineering, energy, extended warranty and health insurance. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

*Accident and Liability*

*Public liability*

For public liability insurance, main risks are legal liabilities of the insured towards third party death, bodily injury or property damage arising out of insured premises, business operations or projects handled by the insured. This insurance policy is underwritten based on the turnover of the Company or the value of the contract, nature / occupation of the premises, nature of contracts handled. The Company has reinsurance cover to limit the losses for any individual claim.

*Marine*

Marine cargo insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. For marine cargo insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.



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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**22 RISK MANAGEMENT (continued)**

*Engineering*

For engineering insurance, the main risks are loss or damage to the construction/erection works caused by fire, explosion, natural perils like flood, earthquake, hailstorm, etc. The Company has reinsurance cover for such risks to limit losses for any individual claim.

*Health*

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

*Property*

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim.

**c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All liabilities on the Company's statement of financial position, other than employees' terminal benefits, are contractually payable on a current basis.

*Maturity profiles*

The table below summarises the maturity profile of the assets and liabilities of the Company based on expected maturities:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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22 RISK MANAGEMENT (continued)

Maturity analysis on expected maturity bases

	Current SR	Non-current SR	Total SR
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	2,238,414	-	2,238,414
Premiums receivable, net	3,421,552	-	3,421,552
Reinsurers' commission receivable	1,016,704	-	1,016,704
Reinsurers' share of unearned premiums	2,198,332	1,176,248	3,374,580
Reinsurers' share of outstanding claims	499,799	-	499,799
Deferred policy acquisition costs	343,462	126,226	469,688
Prepaid expenses and other assets	2,582,786	261,500	2,844,286
Property and equipment, net	-	8,054,849	8,054,849
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>	<b>12,301,049</b>	<b>9,618,823</b>	<b>21,919,872</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	11,157,980	-	11,157,980
Due from insurance operations	5,028,658	-	5,028,658
Prepaid expenses and other assets	113,623	-	113,623
Time deposits	85,000,000	-	85,000,000
Available for sale investment	-	3,175,163	3,175,163
Statutory deposit	-	17,500,000	17,500,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>	<b>101,300,261</b>	<b>20,675,163</b>	<b>121,975,424</b>
<b>INSURANCE OPERATIONS' LIABILITIES</b>			
Gross unearned premiums	3,408,708	1,300,434	4,709,142
Gross outstanding claims	787,530	-	787,530
Payables, accruals and others	4,362,884	-	4,362,884
Reinsurance balances payable	3,944,417	-	3,944,417
Unearned reinsurance commission income	562,819	318,653	881,472
Due to related parties	1,822,887	-	1,822,887
Due to shareholders' operations	5,028,658	-	5,028,658
Employees' terminal benefits	-	382,882	382,882
	<b>19,917,903</b>	<b>2,001,969</b>	<b>21,919,872</b>
<b>SHAREHOLDERS' LIABILITIES</b>			
Payables, accruals and others	1,286,173	-	1,286,173
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>	<b>1,286,173</b>		<b>1,286,173</b>

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**22 RISK MANAGEMENT (continued)**

The table below summarizes the maturity profile of the financial assets and financial liabilities of the Company based on remaining expected obligations, including premiums receivable. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized insurance liabilities. Unearned premiums and the reinsurance share of unearned premiums have been excluded from the analysis as they are not contractual obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

<b>31 December 2014</b>	<i>No fixed maturity SR</i>	<i>Up to 1 year SR</i>	<i>More than 5 years SR</i>	<i>Total SR</i>
<b>Insurance operations' assets</b>				
Cash and cash equivalents	-	2,238,414	-	2,238,414
Premiums receivable, net	-	3,421,552	-	3,421,552
Reinsurers' commission receivable	-	1,016,704	-	1,016,704
Reinsurers' share of outstanding claims	-	499,799	-	499,799
	-	7,176,469	-	7,176,469
<b>Shareholders' assets</b>				
Cash and cash equivalents	-	11,157,980	-	11,157,980
Due from insurance operations	-	5,028,658	-	5,028,658
Time deposits	-	85,000,000	-	85,000,000
Available for sale investment	3,175,163	-	-	3,175,163
Statutory deposit	17,500,000	-	-	17,500,000
	20,675,163	101,186,638	-	121,861,801
<b>31 December 2014</b>	<i>No fixed maturity SR</i>	<i>Up to 1 year SR</i>	<i>More than 5 years SR</i>	<i>Total SR</i>
<b>Insurance operations' liabilities</b>				
Gross outstanding claims	-	787,530	-	787,530
Payables, accruals and others	-	4,362,884	-	4,362,884
Reinsurance balance payable	-	3,944,417	-	3,944,417
Due to related parties	-	1,822,887	-	1,822,887
Due to shareholders operations	-	5,028,658	-	5,028,658
Employees' terminal benefits	382,882	-	-	382,882
	382,882	15,946,376	-	16,329,258
<b>Shareholders' liabilities</b>				
Payables, accruals and others	-	1,286,173	-	1,286,173
	-	1,286,173	-	1,286,173

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**22 RISK MANAGEMENT (continued)**

*d) Credit risk*

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

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

- To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- Premiums receivable are mainly receivable from individuals and corporate customers (unrated). The Company seeks to limit the credit risk with respect individuals and corporate customers by setting credit limits and monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company's investments mainly comprise of time deposits with local commercial banks with investment grade credit rating. The Company does not have an internal grading mechanism for investments. The Company limits its credit risk on investments by setting out a maximum exposure limit for each bank based on its credit rating.

Premiums receivable comprise a large number of receivables from individual and corporate clients. The five largest premium receivable accounts constitute 62% of premiums receivable as at 31 December 2014.

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

	31 December 2014		
	SR		
	Insurance operations	Shareholders' operations	Total
Cash and cash equivalents	2,238,414	11,157,980	13,396,394
Premiums receivable, net	3,421,552	-	3,421,552
Reinsurers' commission receivable	1,016,704	-	1,016,704
Reinsurers' share of outstanding claims	499,799	-	499,799
Employee receivables	1,202,398	-	1,202,398
Time deposits	-	85,000,000	85,000,000
Available for sale investment	-	3,175,163	3,175,163
Statutory deposit	-	17,500,000	17,500,000
	<b>8,378,867</b>	<b>116,833,143</b>	<b>125,212,010</b>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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**22 RISK MANAGEMENT (continued)**

*e) Special commission rate risk*

Special 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 has no significant exposure to special commission rate risk.

The sensitivity of the income is the effect of the assumed changes in the special commission rates, with all other variable held constant, on the Company's income for one year, based on the floating rate financial assets held at 31 December 2014. As at period end, the Company did not have any floating rate financial instruments.

*f) Currency risk*

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, as the Company's foreign currency transactions are primarily in US dollars which is pegged to the Saudi Riyal. Foreign exchange gains and losses are not significant and have not been disclosed separately.

*g) Market risk*

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

The Company's market risk exposure relates to its available for sale investments whose values will fluctuate as a result of changes in market prices

*h) Capital management*

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

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. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares.

In the opinion of the board of directors, the Company has fully complied with the externally imposed capital requirements during the reported financial period.

*i) Regulatory framework risk*

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**22 RISK MANAGEMENT (continued)**

*j) Fair values of financial instruments*

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Company include cash and cash equivalents, receivables, investment and accrued income. Its financial liabilities consist of accrued expenses, other liabilities gross outstanding claims.

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 fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value of the Company's cash and cash equivalents, time deposits and accrued expenses and other payables are not materially different from their carrying values.

**23 BASIC AND DILUTED LOSS PER SHARE**

Basic and diluted loss per share for the period has been calculated by dividing the net loss before zakat for the period by the ordinary, issued and outstanding shares at the period end of 17.5 million shares.

**24 OPERATING LEASE**

The minimum future lease payment for the use of the Company's premises aggregates to SR 1,974,864 payable during 2015.

**25 CONTINGENCIES**

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business relating to policyholders' insurance claims. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its performance and financial position.

**26 SEGMENT INFORMATION**

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities, assets and liabilities as stated below. Segment results do not include general and administration expenses and other income.

Segment assets do not include property and equipment, prepayments and other assets, premiums receivable, reinsurers' balance receivables and cash and cash equivalents. Accordingly they are included in unallocated assets.

Segment liabilities do not include due to shareholders operations, employees' terminal benefits, reinsurers' balances payable, accrued expenses and other liabilities.

All unallocated assets and liabilities are reported to chief operating decision maker as unallocated assets and liabilities and are monitored on a centralized basis.

All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

26 SEGMENT INFORMATION (continued)

a) Statement of insurance operations

	For the period from 29 August 2013 to 31 December 2014				
	Accident and liability SR	Property SR	Engineering SR	Other general insurance SR	Health insurance SR
Gross written premiums	2,343,127	719,460	316,350	1,387,934	974,267
Reinsurance premiums ceded	(2,166,408)	(716,459)	(313,977)	(895,292)	(15,869)
<b>Net written premiums</b>	<b>176,719</b>	<b>3,001</b>	<b>2,373</b>	<b>492,642</b>	<b>958,398</b>
Net changes in unearned premiums	(130,673)	(1,704)	(2,362)	(320,197)	(879,626)
<b>Net earned premiums</b>	<b>46,046</b>	<b>1,297</b>	<b>11</b>	<b>172,445</b>	<b>78,772</b>
Reinsurance commission income	123,061	47,887	439	-	652
Other income, net	-	500	-	-	-
<b>Total underwriting revenue</b>	<b>169,107</b>	<b>49,684</b>	<b>450</b>	<b>172,445</b>	<b>79,424</b>
Changes in outstanding claims	(401,523)	(140,963)	(1,142)	(181,067)	(62,835)
Reinsurers' share of outstanding claims	357,943	139,745	1,133	-	978
<b>Net claims incurred</b>	<b>(43,580)</b>	<b>(1,218)</b>	<b>(9)</b>	<b>(181,067)</b>	<b>(61,857)</b>
Policy acquisition costs	(73,841)	(28,031)	(228)	(34,489)	-
Inspection and supervisory fees	(11,716)	(3,597)	(1,582)	(6,940)	(14,614)
<b>Total underwriting expenses</b>	<b>(129,137)</b>	<b>(32,846)</b>	<b>(1,819)</b>	<b>(222,496)</b>	<b>(76,471)</b>
<b>Underwriting result</b>	<b>39,970</b>	<b>16,838</b>	<b>(1,369)</b>	<b>(50,051)</b>	<b>2,953</b>
Unallocated expenses					
<b>Net deficit for the period from insurance operations</b>					
					<b>8,341</b>
					<b>(20,294,150)</b>
					<b>(20,285,809)</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
At 31 December 2014

**b) Insurance operations' assets and liabilities**

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MetLife, American International Group and Arab National Bank  
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**27 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

***IFRS 9 Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Company, as the Company has no defined benefit plans with contributions from employees or third parties.

***Annual improvements 2010-2012 Cycle***

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

***IFRS 8 Operating Segments***

The amendment are applied retrospectively and clarifies that:

- ▶ An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- ▶ The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

***IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets***

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

***IAS 24 Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

***Annual improvements 2011-2013 Cycle***

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2014

**27 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

***IFRS 13 Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

***Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

**28 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 30 Rabi Al-Thani 1436H corresponding to (19 February 2015).