The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

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KPMG Al Fozan & Al Sadhan

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AUDIT REPORT
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

SCOPE OF AUDIT

We have audited the accompanying statement of financial position of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (the "Company") as at December 31, 2013 and the related statements of insurance operations and accumulated surplus, shareholders' operations, comprehensive income, changes in shareholders' equity, insurance operations' and shareholders' cash flows for the year then ended and notes 1 to 32 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 from 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:

- present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and

- comply with the requirements of the Regulation for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

EMPHASIS OF MATTER

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

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20 Rabi Al Thani 1435H
20 February 2014

KPMG Al Fozan & Al Sadhan Certified Public Accountants C.R. 46

PRICEWATERHOUSECOOPERS CERTIFIED PUBLIC ACCOUNTANTS LICENSE NO. 25

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
As At 31 December 2013
(Amounts in SR)

	Notes	*2013*	*2012*
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	7	**686,594,970**	282,656,404
Time deposits	8	**129,639,726**	138,003,620
Premiums and reinsurance balances receivable	9	**1,240,053,958**	1,295,634,353
Investments	13 (a)	**90,875,000**	110,373,947
Due from related parties	10	**56,758,330**	2,881,547
Due from shareholders' operations		**268,878,984**	-
Reinsurers' share of outstanding claims	11	**605,687,165**	597,359,495
Reinsurers' share of unearned premiums	15	**919,402,928**	634,044,489
Deferred policy acquisition costs	16	**174,854,095**	35,018,105
Prepayments and other assets	14	**118,096,148**	61,029,981
Property and equipment, net	17	**39,586,774**	32,224,503
TOTAL INSURANCE OPERATIONS' ASSETS		**4,330,428,078**	3,189,226,444
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	7	**322,102,719**	286,624,155
Time deposits	8	**126,149,039**	65,854,648
Due from insurance operations		-	76,369,767
Investments	13 (b)	**211,127,052**	196,858,681
Prepayments and other assets	14	**2,787,249**	2,473,583
Investment in an associate	12	**6,000,000**	14,000,000
Land		**30,000,000**	30,000,000
Statutory deposit	18	**100,000,000**	80,000,000
Goodwill	19	**480,000,000**	480,000,000
TOTAL SHAREHOLDERS' ASSETS		**1,278,166,059**	1,232,180,834
TOTAL ASSETS		**5,608,594,137**	4,421,407,278

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (Continued)
As At 31 December 2013
(Amounts in SR)

	Notes	*2013*	*2012*
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims	11	**1,451,905,914**	977,706,485
Due to shareholders' operations		**-**	76,369,767
Accounts and commission payable		**73,314,933**	46,929,555
Accrued expenses and other liabilities	20	**78,858,790**	63,818,326
Reinsurance balances payable		**294,402,083**	162,134,362
Surplus distribution payable	3	**85,595,806**	85,595,806
Unearned reinsurance commission	22	**39,772,672**	49,901,488
Gross unearned premiums	15	**2,298,631,011**	1,718,652,217
Other reserves		**6,327,378**	7,000,000
TOTAL INSURANCE OPERATIONS' LIABILITIES		**4,328,808,587**	3,188,108,006
INSURANCE OPERATIONS' SURPLUS			
Cumulative change in fair values of available for sale investments	13 (a)	**1,619,491**	1,118,438
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		**4,330,428,078**	3,189,226,444
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	20	**899,500**	225,000
Provision for zakat and income tax	25	**12,453,909**	45,800,704
Due to Insurance operation		**268,878,984**	-
TOTAL SHAREHOLDERS' LIABILITIES		**282,232,393**	46,025,704
SHAREHOLDERS' EQUITY			
Share capital	26	**1,000,000,000**	800,000,000
Statutory reserve	18	**139,374,369**	139,374,369
Retained Accumulated (deficit) / earnings		**(159,694,752)**	237,497,478
Cumulative changes in fair values of available for sale investments	13 (b)	**16,254,049**	9,283,283
TOTAL SHAREHOLDERS' EQUITY		**995,933,666**	1,186,155,130
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		**1,278,166,059**	1,232,180,834
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		**5,608,594,137**	4,421,407,278

The accompanying notes 1 to 32 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED DEFICIT / SURPLUS
For the Year Ended 31 December 2013
(Amounts in SR)

	Notes	*2013*	*2012*
Gross premiums written	15	**4,137,512,368**	3,318,027,285
Less: Reinsurance premiums ceded	15	**(1,127,792,216)**	(844,525,432)
Excess of loss premiums		**(117,451,386)**	(71,413,939)
NET PREMIUMS WRITTEN		**2,892,268,766**	2,402,087,914
Change in unearned premiums, net		**(294,620,355)**	(220,026,497)
Change in other reserves		**672,622**	7,000,000
NET PREMIUMS EARNED		**2,598,321,033**	2,189,061,417
Gross claims paid and other expenses	11	**(2,704,174,962)**	(2,061,682,457)
Reinsurers' share of gross claims paid	11	**537,901,527**	406,842,135
Change in outstanding claims, net		**(465,871,759)**	(164,694,197)
NET CLAIMS INCURRED	11	**(2,632,145,194)**	(1,819,534,519)
Policy acquisition costs	16	**(120,949,734)**	(95,450,517)
Reinsurance commission income	22	**108,218,360**	106,915,135
NET UNDERWRITING RESULT		**(46,555,535)**	380,991,516
General and administrative expenses	23	**(233,812,050)**	(222,640,982)
Special commission income		**6,256,536**	5,736,910
Other income	24	**76,175,637**	44,501,887
INSURANCE OPERATIONS' (DEFICIT) / SURPLUS		**(197,935,412)**	208,589,331
Shareholders' appropriation from insurance operations' surplus	3	**197,935,412**	(187,730,398)
Insurance operations' deficit / surplus after shareholders' appropriation		-	20,858,933
Surplus distribution	3	-	(20,858,933)
ACCUMULATED DEFICIT / SURPLUS AT THE END OF THE YEAR		-	-

The accompanying notes 1 to 32 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' OPERATIONS
For the Year Ended 31 December 2013
(Amounts in SR)

	Notes	*2013*	*2012*
INCOME			
Shareholders' appropriation from insurance operations' (deficit) / surplus	3	**(197,935,412)**	187,730,398
Special commission income		**15,277,865**	14,494,480
Realised (losses) / gains on sale of available for sale investments		**(162,308)**	204,316
Dividend income on available for sale investments		**1,823,728**	1,826,641
		(180,996,127)	204,255,835
EXPENSES			
General and administrative expenses	23	**(11,465,250)**	(2,930,105)
NET (LOSS) / INCOME FOR THE YEAR		**(192,461,377)**	201,325,730
BASIC AND DILUTED (LOSSES) / EARNINGS PER SHARE	27	**(1.92)**	2.01

The accompanying notes 1 to 32 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
For the Year Ended 31 December 2013
(Amounts in SR)

	Note	*2013*	*2012*
NET (LOSS) / INCOME FOR THE YEAR		**(192,461,377)**	201,325,730
OTHER COMPREHENSIVE INCOME / (LOSS)			
Zakat and income tax	25	**(4,730,853)**	(31,127,789)
Change in fair values of available for sale investments		**6,970,766**	2,452,069
Other comprehensive income / (loss) for the year		**2,239,913**	(28,675,720)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		**(190,221,464)**	172,650,010

The accompanying notes 1 to 32 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended 31 December 2013
(Amounts in SR)

	Notes	*Share capital*	*Statutory reserve*	*Retained (losses) / earnings*	*Cumulative change in fair values of available for sale investments*	*Total*
Balance at 1 January 2013		**800,000,000**	**139,374,369**	**237,497,478**	**9,283,283**	**1,186,155,130**
Net loss for the year		-	-	**(192,461,377)**	-	**(192,461,377)**
Other comprehensive (loss) / income for the year		-	-	**(4,730,853)**	**6,970,766**	**2,239,913**
Total comprehensive (loss) for the year		-	-	**(197,192,230)**	**6,970,766**	**(190,221,464)**
Bonus shares issued	26	**200,000,000**	-	**(200,000,000)**	-	-
Balance at 31 December 2013		**1,000,000,000**	**139,374,369**	**(159,694,752)**	**16,254,049**	**995,933,666**
Balance at 1 January 2012		800,000,000	105,334,781	261,339,125	6,831,214	1,173,505,120
Net income for the year		-	-	201,325,730	-	201,325,730
Other comprehensive (loss) / income for the year		-	-	(31,127,789)	2,452,069	(28,675,720)
Total comprehensive income for the year		-	-	170,197,941	2,452,069	172,650,010
Dividends paid		-	-	(160,000,000)	-	(160,000,000)
Transfer to statutory reserve	5	-	34,039,588	(34,039,588)	-	-
Balance at 31 December 2012		800,000,000	139,374,369	237,497,478	9,283,283	1,186,155,130

The accompanying notes 1 to 32 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For the Year Ended 31 December 2013
(Amounts in SR)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		-	20,858,933
Adjustments to reconcile insurance operation' surplus after shareholders' appropriation to net cash from operating activities:			
Depreciation		**10,493,194**	12,155,885
Gain on sale of available for sale investment		-	(586,018)
Special commission income		**(6,256,536)**	(5,736,910)
Gain on sale of property and equipment, net		**(156,102)**	(142,554)
Gross unearned premiums		**579,978,794**	400,941,533
Reinsurance' share of unearned premiums		**(285,358,439)**	(180,915,036)
Cash from operations		**298,700,911**	246,575,833
Changes in operating assets and liabilities:			
Premiums and reinsurance balances receivable		**55,580,395**	(418,459,073)
Due to / from related parties		**(53,876,783)**	37,422,122
Reinsurers' share of outstanding claims		**(8,327,670)**	(59,322,781)
Deferred policy acquisition costs		**(139,835,990)**	(4,930,152)
Prepayments and other assets		**(57,066,167)**	(1,547,855)
Gross outstanding claims		**474,199,429**	224,016,978
Due to shareholders' operations, net		**(345,248,751)**	(25,543,906)
Accounts and commissions payable		**26,385,378**	(47,908,323)
Accrued expenses and other liabilities		**15,040,464**	(12,973,971)
Reinsurance balances payable		**132,267,721**	(110,457,425)
Unearned reinsurance commission		**(10,128,816)**	4,699,558
Other reserves		**(672,622)**	(7,000,000)
Net cash from / (used in) operating activities		**387,017,499**	(175,428,995)
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits, net		**8,363,894**	(1,456,186)
Special commission income		**6,256,536**	5,736,910
Proceeds from sale of property and equipment		**468,369**	152,673
Proceeds from Sale of available for sale investments		**20,000,000**	38,000,000
Purchase of property and equipment		**(18,167,732)**	(7,237,061)
Net cash from investing activities		**16,921,067**	35,196,336
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**403,938,566**	(140,232,659)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**282,656,404**	422,889,063
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**686,594,970**	282,656,404
Non-cash transaction:			
Change in fair values of available for sale investments	13(a)	**501,053**	843,750

The accompanying notes 1 to 32 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' CASH FLOWS
For the Year Ended 31 December 2013
(Amounts in SR)

	Notes	*2013*	*2012*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / income for the year		**(192,461,377)**	201,325,730
Adjustments for:			
Special commission income		**(15,277,865)**	(14,494,480)
Dividend income on available for sale investments		**(1,823,728)**	(1,826,641)
Realised gains on sale of available for sale investments		**162,308**	(204,316)
Impairment on investment in an associate		**8,000,000**	-
Cash flow from operation		**(201,400,662)**	184,800,293
Changes in operating assets and liabilities:			
Due from insurance operations, net		**345,248,751**	25,543,906
Accrued expenses and other liabilities		**674,500**	15,500
Zakat and income tax paid	25	**(38,077,648)**	(33,064,472)
Prepayments and other assets		**(313,666)**	(20,596)
Increase in statutory deposit		**(20,000,000)**	-
Net cash from operating activities		**86,131,275**	177,274,631
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits, net		**(60,294,391)**	(820,254)
Purchase of available for sale investments	13	**(29,972,505)**	(28,500,000)
Proceeds from sale of available for sale investments		**22,512,592**	25,530,912
Special commission income		**15,277,865**	14,494,480
Dividend income on available for sale investments		**1,823,728**	1,826,641
Net cash (used in) / from investing activities		**(50,652,711)**	12,531,779
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid	32	-	(160,000,000)
Net cash (used in) financing activity		-	(160,000,000)
INCREASE IN CASH AND CASH EQUIVALENTS		**35,478,564**	29,806,410
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**286,624,155**	256,817,745
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**322,102,719**	286,624,155
Non-cash transactions:			
Change in fair values of available for sale investments	13(b)	**6,970,766**	2,452,069
Increase in share capital due to bonus issue	26	**200,000,000**	-

The accompanying notes 1 to 32 form an integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010231925 dated 8 Rabi Thani 1428H (corresponding to 26 April 2007). The registered office address of the Company is P.O. Box 2302, Riyadh 11451, Kingdom of Saudi Arabia. The objectives of the Company are to transact cooperative insurance and reinsurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed on the Saudi Arabian Stock Exchange (Tadawul) on 28 Rabi Al-Awal 1428H (corresponding to 16 April 2007).

2. BASIS OF PREPARATION

Basis of measurement
The financial statements have been prepared on a historical cost basis except for the measurement at fair value of available for sale investments and investment in an associate which is accounted for under the equity method.

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

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly. 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.

Functional and presentational currency
The functional and presentational currency of the Company is Saudi Arabian Riyals.

3. SURPLUS DISTRIBUTION

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

The insurance operations' deficit of the Company for the year ended 31 December 2013 amounted to SR 197,935,412 (A surplus in 31 December 2012: SR 208,589,331). Accordingly, there were no transfer from insurance operation to shareholders' operation in 2013. However, 90% of insurance operation surplus amounting to SR 187,730,398 has been transferred to the shareholders' operations for the year 2012, leaving a surplus payable to policyholders of SR 20,858,933 as at 31 December 2012.

The results for the current year were significantly impacted by the increase in net claim reserves by SR 466 million compared to year ended 31 December 2012 as estimated by the Company's actuary and in line with the directives of the Saudi Arabian Monetary Agency (SAMA) regarding the calculation of technical reserves. This was mainly as a result of the availability of more accurate claims data used in the runoff analysis performed by the actuary on previous years which led to upwards revision in loss ratios, mainly on medical line of business.

4. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

The accounting policies adopted are consistent with those of the previous financial year, except for the followings new and amended IFRSs:

New and amended standards issued and adopted

IFRS 13 Fair Value Measurement

IFRS 13 Fair value measurement: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provide guidance on how to determine fair value and requires disclosures about fair value measurements. Adoption of this standard has not impacted the Company's financial position or performance.

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation.

The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. Adoption of this standard has not impacted the Company's financial position or performance.

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

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available for sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). Adoption of the standard has not impacted the Company's financial position or performance.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2017. In subsequent phases, the Board will address impairment and hedge accounting. The Company will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

4. CHANGES IN ACCOUNTING POLICIES AND NEW STANDARDS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE (Continued)

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand and at banks and short-term time deposits with an original maturity of less than three months at the date of acquisition.

Goodwill
Goodwill represents the fair value of the consideration paid in excess of the fair value of net assets or liabilities acquired. Goodwill is tested for impairment by management at least once at the end of each financial year. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Land, property and equipment
Land is stated at cost less any impairment and is not depreciated. 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 asset. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis at the following depreciation rates:

	Rates
Leasehold improvements	15% - 25%
Office equipment, furniture and fixtures	10% - 15%
Computers	25%
Motor vehicles	25%

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments
All investments are initially recognised at fair value, being the fair value of the consideration given, including acquisition charges associated with the investment. Premiums and discounts are amortized on a systematic basis to their maturity. For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the statement of financial position date without any deduction for transaction costs.

(a) Available for sale investments
Investments which are classified as "available for sale" are subsequently measured at fair value. Available for sale investments are those investments that are not held to maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognised directly under insurance operations' surplus and / or shareholders' comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognised under the insurance operations' surplus and / or shareholders' comprehensive income is included in the statement of insurance operations and accumulated surplus and / or shareholders' operations for the year. Available for sale investments whose fair value cannot be reliably measured are carried at amortised cost less impairment provision.

(b) Investments in held to maturity securities
Investments which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of shareholders' operations when the investment is derecognized or impaired.

(c) Investment in an associate
Associates are enterprises in which the Company generally holds 20% to 50% of the voting power and/or over which it exercises significant influence. Investments in associates are carried in the statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

Statutory reserve
In accordance with its bylaws, the Company shall allocate 20% of its net income from shareholders' operations each year to the statutory reserve until it has built up a reserve equal to the share capital. The reserve is not available for distribution.

Impairment and un-collectability of financial assets
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of shareholders' operations. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between the cost and fair value, less any impairment loss previously recognized in the statement of shareholders' operations
- For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is determined based on future cash flows that are discounted at the original effective special commission rate.

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

Zakat and income tax
Zakat and income tax are provided for in accordance with the Saudi Arabian Zakat and Tax Regulations and are charged to the statement of shareholders' comprehensive income.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special commission income
Special commission income from time deposits is recognized on an effective yield basis.

Dividend income
Dividend income is recognised when the right to receive dividend is established.

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

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

Employees' end of service benefits
The Company provides end-of-service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Foreign currencies
Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statements of insurance operations and accumulated surplus and shareholders' operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Foreign exchange gains or loss on available for sale investments are recognised in under 'insurance operations surplus' in the statement of insurance operations and under other comprehensive income under the statement of shareholders' comprehensive operations. As the company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

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

Premiums earned and commission income
Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

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

Commission receivable on reinsurance contracts are deferred and amortised on a straight-line basis over the term of the reinsurance contracts.

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 following methods:

- 25% of premiums for marine cargo business
- Actual number of days for other lines of business

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premiums receivable
Premiums receivable are recognized when due and are measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of insurance operations and accumulated surplus. Premiums receivable are derecognized when the derecognition criteria for financial assets have been met.

Claims
Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and are charged to statement of insurance operations and accumulated surplus as incurred.

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

Any difference between the provisions at the date of statement of financial position and settlements and provisions in the following year is included in the underwriting account for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

Liability adequacy test
At each statement of financial position 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 the statement of insurance operations and accumulated surplus and an unexpired risk provision is created.

Deferred policy acquisition costs
Commissions, SAMA fees, CCHI fees, TPA fees, partial administration cost (related to underwriting and issue of policy), unearned portion of stamp charges (excluding motor business) and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contacts to which they relate, similar to premiums earned. All other acquisition costs are recognised as an expense when incurred. Amortization is recorded in the statement of insurance operations and accumulated surplus.

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 amortization period and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.

During the period, the company has changed its method of deferring expenses relating to issuance of policies and other management expenses, however the impact was not deemed to be significant on the financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance
The Company cedes insurance risk in the normal course of business for all of its businesses. 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 year. 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.

Unearned reinsurance commission
Commission receivable on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate. Amortisation is recorded in the statement of insurance operations.

Product classification
The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

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 can also be 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segmental reporting

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

- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies.
- Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Other classes, which covers any other classes of insurance not included above.

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

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from income or loss in the accompanying financial statements.

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

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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

Deferred policy acquisition costs
Certain acquisition costs related to the sale of new policies are recorded as deferred policy acquisition costs and are amortized 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 realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations.

Goodwill
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows.

Critical accounting judgments, estimates and assumptions

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities for the current year and could also have an impact on the subsequent financial year. Such estimates and judgments are constantly assessed based on historical experience and other factors such as expectations of future events that are believed to be reasonable under the current circumstances.

Estimation of insurance contracts reserves:

Following are the critical areas of estimation and judgments for medical business for which the Company acquires services of independent actuary to determine such reserves.

(i) Incurred but not reported claims (IBNR)

As a first step towards setting appropriate IBNR reserves for the medical line of business, a runoff analysis is prepared to assess how the claims reserves determined at the previous valuation dates compare with actual developments.

Results from runoff analysis are taken into consideration while setting reserves for IBNR claims. An analysis is carried out by using the following methods:

- Chain Ladder method - this builds up, using historical claims payment patterns, ratios of eventual cumulative claims which have been incurred in a particular period to those which have been paid as at the end of a reporting period.
- Bornheutter-Ferguson method – this is a technique that combines actual past claims experience and any prior information or expectations that might be available concerning claims, for example expected ultimate loss ratios.
- Hybrid method – this uses a combination of the Chain Ladder (CL) method and Bornheutter-Ferguson (BF) method.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

Based on the actuary's assessment, the Company believes that reserves for medical business are very sensitive and could be subject to changes in assumptions used. Following range depicts the sensitivity of medical reserves resulting from changes in assumptions (varying expected loss ratio for 2012 from 100% to 110% and 78% to 88% for 2013 against an original assumption of targeting losses at 105% and 83% for 2012 and 2013 respectively):

	Changes in Assumption	Change in Medical Claims Reserves	
		Gross	Net
Higher	Increase Estimated Loss Ratio from 105% to 110% for underwriting year 2012 and from 83% to 88% for 2013	+11.24%	+11.71%
Lower	Decrease Estimated Loss Ratio from 105% to 100% for underwriting year 2012 and from 83% to 78% for 2013	-11.24%	-11.71%

(ii) 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 realize in the future. The loss ratios for first and second quarter of 2013 per underwriting year (UWY) i.e. for those quarters for which the outstanding claims reserves have exhausted were determined. The findings suggested that the loss ratio for UWY 2012 exceeded 100% whereas the loss ratio for UWY 2013 reached a maximum of 85%.

Since policies written in 2012 have all expired and loss ratio for policies written in 2013 have been observed to be profitable based on the information available, no premium deficiency reserve has been set aside.

(iii) Excess of Loss Recovery (Health)

Excess of Loss Recovery calculation uses the pattern of Excess of Loss claim recoveries for underwriting year 2012 and the amount recoverable under the treaty for underwriting year 2013. The latter is subject to a limitation as there is a provision for increasing the reinsurance premium payable if the loss ratio for the reinsurer goes above 79.2% to 82.5%, the accrual of reinsurance premiums based on "swing rates" must be consistent with the expected loss ratio for the reinsurance.

Reasonable assumptions were used to determine the excess of loss recoveries and not much variability is expected to arise due to a volatility of assumptions used in our calculation.

7. CASH AND CASH EQUIVALENTS

	2013		2012	
	Insurance Operations SR	*Shareholders' Operations SR*	*Insurance Operations SR*	*Shareholders' Operations SR*
Cash in hand and at banks	**478,291,081**	**20,958,696**	260,156,404	13,229,654
Short-term time deposits	**208,303,889**	**301,143,483**	22,500,000	273,394,501
	686,594,970	**322,102,719**	282,656,404	286,624,155

Cash at banks and short-term time deposits are placed with counterparties who have credit ratings equivalent to A- to B ratings under Standard and Poor's and Moody's ratings methodology.

Short-term time deposits are placed with local and international banks with an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 2.66% per annum (2012: 3.81% per annum). The carrying amounts disclosed above reasonably approximate the fair value at the statement of financial position date.

8. TIME DEPOSITS

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

Time deposits are placed with local and international banks with a maturity of more than three months from the date of original acquisition and earned special commission income at an average rate of 1.8% per annum (2012: 1.3% per annum).

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

9. PREMIUMS AND REINSURANCE BALANCES RECEIVABLE

	2013 SR	*2012 SR*
Premiums receivable	**1,254,544,899**	1,251,801,501
Less: Provision for doubtful debts	**(138,286,694)**	(135,246,450)
	1,116,258,205	1,116,555,051
Reinsurance balances receivable	**127,010,591**	185,334,384
Less: Provision for doubtful debts	**(3,214,838)**	(6,255,082)
	123,795,753	179,079,302
Total premiums and reinsurance balances receivables, net	**1,240,053,958**	1,295,634,353

9. PREMIUMS AND REINSURANCE BALANCES RECEIVABLE (Continued)

As at December 31, 2013, the movement in the provision for doubtful debts of premium receivables was as follows:

	2013 *SR*	*2012* *SR*
Balance, January 1	**135,246,450**	146,246,408
Provided during the year	**3,040,244**	-
Reversal for the year	-	(10,999,958)
Balance, December 31	**138,286,694**	135,246,450

As at December 31, 2013, the movement in the provision for doubtful debts of reinsurance receivables was as follows:

	2013 *SR*	*2012* *SR*
Balance, January 1	**6,255,082**	5,255,124
Write off during the year	**(3,040,244)**	-
Provided during the year	-	999,958
Balance, December 31	**3,214,838**	6,255,082

The aging analysis of premiums and reinsurance balances receivable is as at 31 December 2013 and 2012 is set as below:

	Total *SR*	*Neither past due nor impaired* *SR*	*Past due but not impaired*			*Past due and impaired* *SR*
			Less than 30 day *SR*	*31 to 90 days* *SR*	*More than 90 days* *SR*	
2013	**1,381,555,490**	**670,814,904**	**309,341,790**	**225,277,913**	**34,619,351**	**141,501,532**
2012	1,437,135,885	465,373,633	565,556,124	209,548,538	55,156,058	141,501,532

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies mainly in Europe. Premiums and reinsurance balances receivable include SR 202,557,489 (31 December 2012: SR 61,280,569) due in foreign currencies, mainly US Dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company as at 31 December 2013 accounts for more than 19% (31 December 2012: 29%) of the premiums receivable. In addition, the five largest customers accounts for 50% (31 December 2012: 56%) of the premiums receivable as at 31 December 2013.

Unimpaired premiums and reinsurance balances receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured. The Company does not have an internal credit ratings assessment process and accordingly, amounts which are neither past due nor impaired, in respect of premiums receivable balances, are from individuals and unrated corporates. Balances due from reinsurers are with counterparties who have investment grade credit ratings issued by external rating agencies.

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

(a) The following are the details of major related party transactions during the year and their balances at the end of the year:

Related parties	Nature of transaction	Amount of transaction for the twelve months period ended		Balance	
		31 December 2013 (Audited) SR	31 December 2012 (Audited) SR	31 December 2013 (Audited) SR	31 December 2012 (Audited) SR
Due from related parties					
Medgulf BSC (*shareholder*)	Claims payments, recovery of premiums for group policies and other expenses paid on behalf of Medgulf BSC	**17,278,720**	4,521,199	**47,601,431**	30,322,711
Motion al-Saudia (*affiliate*)	Operational expenditures paid on behalf of affiliate	**(9,264)**	2,446,859	**10,924,474**	10,933,738
Addison Bradley Arabia- KSA (*affiliate*)	Operational expenditures paid on behalf of affiliate	**3,573,742**	2,709,561	**10,021,326**	6,447,584
Other related parties		**(5,581,669)**	-	**291,882**	-
				68,839,113	47,704,033
Due to related parties					
Medivisa KSA (*affiliate*)	Claims administration fee (for medical) and Operational expenditures, net	**28,567,551**	(36,142,473)	**(9,892,430)**	(38,459,981)
Al Samya Trading Co (*affiliate*)	Brokers commissions	**(1,115,635)**	(5,002,953)	**(2,188,353)**	(1,072,718)
Other related parties		-	(5,880,346)	-	(5,289,787)
				(12,080,783)	(44,822,486)
Net balance due from related parties				**56,758,330**	2,881,547

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the twelve months period ended		Balance	
		31 December 2013 (Audited) SR	31December 2012 (Audited) SR	31 December 2013 (Audited) SR	31 December 2012 (Audited) SR
The Saudi Investment Bank, (*Founding shareholders*)	- Current account and time deposit	**22,068,680**	1,962,270	**108,725,492**	86,656,812
	- Commission income on time deposits	**48,096**	803,676	**230,676**	182,580
Other related parties	- Gross premiums written	**43,028,405**	45,807,088	**9,402,435**	6,786,050
	- Claims incurred	**26,988,214**	29,478,773	**920,397**	899,280
	- Premiums ceded	**41,751,789**	38,257,162	**8,990,108**	50,741,897
	- Brokerage commission	**142,691**	10,918,420	**1,410,622**	1,553,313

Compensation of key management personnel

(b) The remuneration of the Board of Directors and other key management personnel during the year is as follows:

	2013 SR	2012 SR
Short-term benefits	**20,221,453**	17,346,486
End of service benefits	**596,844**	1,117,022
	20,818,297	18,463,508

11. CLAIMS

a) Outstanding Claims and IBNR

	2013			*2012*		
	Gross SR	*Reinsurers' share SR*	*Net SR*	*Gross SR*	*Reinsurers' share SR*	*Net SR*
Outstanding at end of the year	**958,895,554**	**(468,830,982)**	**490,064,572**	741,083,907	(470,927,759)	270,156,148
Incurred but not reported	**493,010,360**	**(136,856,183)**	**356,154,177**	236,622,578	(126,431,736)	110,190,842
	1,451,905,914	**(605,687,165)**	**846,218,749**	977,706,485	(597,359,495)	380,346,990
Claims paid during the year	**2,704,174,962**	**(537,901,527)**	**2,166,273,435**	2,061,682,457	(406,842,135)	1,654,840,322
Outstanding at beginning of the year	**741,083,907**	**(470,927,759)**	**270,156,148**	501,776,745	(358,099,973)	143,676,772
Incurred but not reported	**236,622,578**	**(126,431,736)**	**110,190,842**	251,912,762	(179,936,741)	71,976,021
	977,706,485	**(597,359,495)**	**380,346,990**	753,689,507	(538,036,714)	215,652,793
Claims incurred	**3,178,374,391**	**(546,229,197)**	**2,632,145,194**	2,285,699,435	(466,164,916)	1,819,534,519

b) Claims Triangulation Analysis by Accident Year

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

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

Accident Year	*2009*	*2010*	*2011*	*2012*	*2013*	*TOTAL*
At the end of accident year	1,148,964,653	1,525,392,055	1,759,169,129	2,030,374,787	2,865,129,379	
One year later	1,166,830,952	1,538,464,663	1,887,695,642	2,355,342,250	-	
Two years later	1,165,977,189	1,509,521,001	1,967,918,830	-	-	
Three years later	1,145,561,660	1,537,037,551	-	-	-	
Four years later	1,281,007,248					
Ultimate paid claims (estimated)	1,281,007,248	1,537,037,551	1,967,918,830	2,355,342,250	2,865,129,379	
Cumulative paid claims	1,148,683,612	1,514,344,909	1,895,194,984	2,242,414,792	1,753,891,048	
Outstanding claims + IBNR	-	9,145,418	52,931,430	606,594,070		
Adjustment of outstanding claims + IBNR based on SAMA's regulation	132,323,636	22,692,642	72,723,846	112,927,458	1,111,238,332	1,451,905,914

12. INVESTMENT IN AN ASSOCIATE

Investment in an associate comprises of an equity investment amounting to SR 6,000,000 (a 25% equity interest) (2012: SR 14,000,000), in an unquoted company (the "associate"), registered in the Kingdom of Saudi Arabia. During 2013, the Company has impaired the investment by SR 8,000,000 due to the losses made by the associate.

13. INVESTMENTS

Investments are classified as set out below:

(a) Insurance Operations - Available for sale investments

	2013		
	Quoted SR	***Unquoted SR***	***Total SR***
Bonds	**38,533,875**	-	**38,533,875**
Funds	**52,341,125**	-	**52,341,125**
Total	**90,875,000**	-	**90,875,000**

	2012		
	Quoted SR	*Unquoted SR*	*Total SR*
Bonds	38,608,125	-	38,608,125
Funds	-	71,765,822	71,765,822
Total	38,608,125	71,765,822	110,373,947

The available for sale investments comprise of bonds issued by corporate and funds with financial institutions in the Kingdom of Saudi Arabia.

The cumulative change in fair values of available for sale investments for insurance operations amounting to SR 1,619,491 (31 December 2012: SR 1,118,438) is presented within insurance operations' surplus' in the statement of financial position.

The movements during the year in available for sale investments for insurance's operations were as follows:

	2013 SR	*2012 SR*
At the beginning of the year	**110,373,947**	146,944,179
Sold during the year	**(20,000,000)**	(37,413,982)
	90,373,947	109,530,197
Net change in fair values	**501,053**	843,750
At the end of the year	**90,875,000**	110,373,947

13. INVESTMENTS (Continued)

(b) Shareholders' Operations - Available for sale investments

	2013		
	Quoted SR	*Unquoted SR*	*Total SR*
Sukuk	**28,693,160**	**40,995,500**	**69,688,660**
Bonds	**36,539,925**	**-**	**36,539,925**
Equities	**-**	**18,750,000**	**18,750,000**
Funds	**78,618,467**	**7,530,000**	**86,148,467**
Total	**143,851,552**	**67,275,500**	**211,127,052**

	2012		
	Quoted SR	*Unquoted SR*	*Total SR*
Sukuk	65,070,375	-	65,070,375
Bonds	35,473,575	-	35,473,575
Equities	-	18,750,000	18,750,000
Funds	18,389,189	59,175,542	77,564,731
Total	118,933,139	77,925,542	196,858,681

The cumulative change in fair values of available for sale investments for shareholders' operations amounting to SR 16,254,049 (31 December 2012: SR 9,283,283) is presented within shareholders' equity in the statement of financial position.

The movements during the year in available for sale investments for shareholders' operations were as follows:

	2013 SR	*2012 SR*
At the beginning of the year	**196,858,681**	191,233,208
Purchased during the year	**29,972,505**	28,500,000
Sold during the year	**(22,674,900)**	(25,326,596)
	204,156,286	194,406,612
Net change in fair values	**6,970,766**	2,452,069
At the end of the year	**211,127,052**	196,858,681

13. INVESTMENTS (Continued)

(C) Insurance and Shareholders' Operations - Available for sale investments

i. The analysis of investments of insurance and shareholders' operations by counterparties is as follows:

	2013 *SR*	*2012* *SR*
Government and quasi government	**46,542,426**	35,473,575
Banks & other financial institutions	**214,953,029**	215,793,678
Corporates	**40,506,597**	55,965,375
Total	**302,002,052**	307,232,628

ii. The credit quality of investment portfolio is as follows:

	2013 *SR*	*2012* *SR*
AA- To AA	**57,617,473**	46,836,372
A- To A+	**218,104,579**	226,743,756
B- To B	**26,280,000**	33,652,500
Total	**302,002,052**	307,232,628

Credit ratings are based on Standard and Poor's rating methodology or the issuer in case of unrated investments.

iii. Fair value

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

Determination of fair value and fair value hierarchy

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

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repacking).
Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
Level 3: Valuation techniques for which any significant input is not based on observable market data.

13. INVESTMENTS (Continued)

iv. The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2013			
	Level 1 SR	***Level 2 SR***	***Level 3 SR***	***Total SR***
Available for sale investments				
Mutual Funds	**130,959,592**	**7,530,000**	-	**138,489,592**
Bonds	**75,073,800**	-	-	**75,073,800**
Sukuk	**28,693,160**	**40,995,500**	-	**69,688,660**
Total available for sale investments	**234,726,552**	**48,525,500**	-	**283,252,052**

	2012			
	Level 1 SR	*Level 2 SR*	*Level 3 SR*	*Total SR*
Available for sale investments				
Mutual Funds	141,928,053	7,402,500	-	149,330,553
Bonds	74,081,700	-	-	74,081,700
Sukuk	44,070,375	21,000,000	-	65,070,375
Total available for sale investments	260,080,128	28,402,500	-	288,482,628

The unlisted securities amounting to SR 18,750,000 were stated at cost in the absence of active markets or other means of reliably measuring their fair value.

During the year 2013, there were a transfer between level 1 and level 2 fair value measurements. Accordingly, an amount of SR 10,588 has been transferred from level 2 to level 1, and no transfers into or out off level 3 fair value measurements.

14. PREPAYMENTS AND OTHER ASSETS

	2013		*2012*	
	Insurance Operations SR	***Shareholders' Operations SR***	*Insurance Operations SR*	*Shareholders' Operations SR*
Advances to employees	**7,933,707**	-	6,289,756	-
Prepaid expenses	**1,085,158**	-	1,124,368	-
Prepayment on hospital dues	**89,490,917**	-	41,163,207	-
Advances to suppliers	**12,804,735**	-	2,951,209	-
Prepaid rent	**3,507,147**	-	3,776,454	-
Accrued special commission income	**1,243,534**	**2,787,249**	1,086,273	2,473,583
Others	**2,030,950**	-	4,638,714	-
	118,096,148	**2,787,249**	61,029,981	2,473,583

15. MOVEMENT IN UNEARNED PREMIUMS

	2013			*2012*		
	Gross SR	***Reinsurers' share SR***	***Net SR***	*Gross SR*	*Reinsurers' share SR*	*Net SR*
At the beginning of the year	**1,718,652,217**	**(634,044,489)**	**1,084,607,728**	1,317,710,684	(453,129,453)	864,581,231
Premiums written during the year	**4,137,512,368**	**(1,127,792,216)**	**3,009,720,152**	3,318,027,285	(844,525,432)	2,473,501,853
Premiums earned during the year	**(3,557,533,574)**	**842,433,777**	**(2,715,099,797)**	(2,917,085,752)	663,610,396	(2,253,475,356)
At the end of the year	**2,298,631,011**	**(919,402,928)**	**1,379,228,083**	1,718,652,217	(634,044,489)	1,084,607,728

16. DEFERRED POLICY ACQUISITION COSTS

	2013 SR	*2012 SR*
At the beginning of the year	**35,018,105**	**30,087,953**
Costs incurred during the year	**260,785,724**	100,380,669
Amortised during the year	**(120,949,734)**	(95,450,517)
At the end of the year	**174,854,095**	35,018,105

Commissions, SAMA fees, CCHI fees, TPA fees, partial administration cost (related to underwriting and issue of policy), unearned portion of stamp charges (excluding motor business) are include in the deferred policy acquisition costs.

17. PROPERTY AND EQUIPMENT, NET

	Leasehold improvements SR	*Office equipment, furniture and fixtures SR*	*Computers SR*	*Motor vehicles SR*	*Total SR*
Cost:					
1 January 2012	22,838,197	19,160,189	10,868,649	4,007,557	**56,874,592**
Additions	1,660,349	1,286,309	3,768,823	521,580	**7,237,061**
Disposals	-	(106,613)	(586,500)	(440,420)	**(1,133,533)**
31 December 2012	24,498,546	20,339,885	14,050,972	4,088,717	62,978,120
Additions	281,914	781,718	16,443,100	661,000	**18,167,732**
Disposals	-	(371,608)	(674,933)	(863,431)	**(1,909,972)**
31 December 2013	**24,780,460**	**20,749,995**	**29,819,139**	**3,886,286**	**79,235,880**
Accumulated depreciation:					
1 January 2012	11,341,421	3,382,201	3,855,447	1,142,077	**19,721,146**
Provided during the year	5,093,089	2,818,176	3,192,090	1,052,530	**12,155,885**
Disposals	-	(106,330)	(586,500)	(430,584)	**(1,123,414)**
31 December 2012	16,434,510	6,094,047	6,461,037	1,764,023	30,753,617
Provided during the year	3,113,205	2,785,377	3,587,339	1,007,273	**10,493,194**
Disposals	-	(329,603)	(667,601)	(600,501)	**(1,597,705)**
31 December 2013	**19,547,715**	**8,549,821**	**9,380,775**	**2,170,795**	**39,649,106**
Net book value:					
31 December 2013	**5,232,745**	**12,200,174**	**20,438,364**	**1,715,491**	**39,586,774**
31 December 2012	8,064,036	14,245,838	7,589,935	2,324,694	32,224,503
31 December 2011	11,496,776	15,777,988	7,013,202	2,865,480	37,153,446

18. STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid-up capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. This statutory deposit cannot be withdrawn without the consent of SAMA.

19. GOODWILL

The Company commenced its insurance operations on 1 January 2009. During 2009, the Company entered into an agreement ("the agreement") for the purchase of insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of the Mediterranean and Gulf Insurance and Reinsurance Company (MEDGULF) B.S.C. (closed). The Company held an ordinary general assembly meeting on 22 December 2008 and approved the purchase of the insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of the Mediterranean and Gulf Insurance and Reinsurance Company (MEDGULF) B.S.C. (closed) effective 1 January 2009. This acquisition resulted in goodwill of SR 480,000,000.
Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. Recoverable amount was determined on the basis of fair value less cost to sell.

19. GOODWILL (Continued)

The Fair Value less cost to sell ("FVLCTS") is used to conclude on the impairment assessment. The valuation result has determined that carrying amounts of goodwill is less than its recoverable amount.

Fair Value analysis is based on the "Market Approach" where trading activity of Medgulf's stock and the capitalisation of earnings using value metrics of broadly comparable listed companies and Mergers and Acquisitions transaction multiples were considered up to the valuation date.

The budgeted annual growth rate for gross premiums to be written over the next four years to be in the range of 9% to 14%.

As per management's assessment, the Company's track record supports the assumptions used in the impairment testing.

20. ACCRUED EXPENSES AND OTHER LIABILITIES

	2013		*2012*	
	Insurance Operations SR	***Shareholders Operations SR***	*Insurance Operations SR*	*Shareholders Operations SR*
Employees' end of service benefits (note 21)	**33,863,687**	-	25,767,309	-
Accrued CCHI fees	**30,110,038**	-	24,843,277	-
Payable to suppliers	**8,475,299**	-	8,662,558	-
Accrued expenses	**5,542,992**	**899,500**	4,267,456	225,000
Other payables	**866,774**	-	277,726	-
	78,858,790	**899,500**	63,818,326	225,000

21. EMPLOYEES' END OF SERVICE BENEFITS

	2013 SR	*2012 SR*
At the beginning of the year	**25,767,309**	21,827,796
Charged during the year (note 23)	**10,144,510**	6,041,534
Paid during the year	**(2,048,132)**	(2,102,021)
At the end of the year (note 20)	**33,863,687**	**25,767,309**

22. UNEARNED REINSURANCE COMMISSION

	2013 SR	*2012 SR*
At the beginning of the year	**49,901,488**	45,201,930
Commission received during the year	**98,089,544**	111,614,693
Commission earned during the year	**(108,218,360)**	(106,915,135)
At the end of the year	**39,772,672**	**49,901,488**

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2013		*2012*	
	Insurance Operations SR	***Shareholders' Operations SR***	*Insurance Operations SR*	*Shareholders' Operations SR*
Employee salaries and costs	**120,096,642**	-	103,459,895	-
Supervision and inspection fees - SAMA	**9,394,670**	-	16,403,988	-
Supervision and inspection fees - CCHI	**15,999,589**	-	24,843,277	-
Professional fees	**9,411,510**	**660,050**	9,481,470	434,500
Withholding taxes on reinsurance payments	**6,582,828**	-	5,508,326	-
Rent	**19,199,593**	-	14,104,492	-
Depreciation	**9,061,038**	-	12,155,885	-
Promotion and advertising	**3,860,266**	**54,570**	6,258,276	-
Employees' end of service benefits (note 21)	**10,144,510**	-	6,041,534	-
Stationery	**4,148,913**	**72,948**	3,504,259	-
Business travel and transport	**2,482,475**	**31,398**	4,015,574	34,082
Repair and maintenance	**3,331,615**	-	3,366,179	-
Utilities	**846,386**	-	981,610	-
Board of Directors and other committees remunerations and expenses	-	**2,190,000**	-	1,805,392
Others	**19,252,015**	**8,456,284**	12,516,217	656,131
	233,812,050	**11,465,250**	222,640,982	2,930,105

24. OTHER INCOME

	2013 SR	*2012 SR*
Income from hospitals for prompt settlement of claims	**34,758,400**	27,134,614
Others	**41,417,237**	17,367,273
	76,175,637	44,501,887

25. ZAKAT AND INCOME TAX

a) Zakat charge for the year

The zakat charge for the year consists of the current year's provision amounting to SR 4,730,854 (2012: SR 13,486,085).

The zakat provision is based on the following:

	2013 SR	*2012 SR*
Share capital	**1,000,000,000**	800,000,000
Opening provisions and other adjustments	**46,230,376**	659,308,475
Book value of long term assets	**(699,011,697)**	(469,504,051)
Zakat base	**347,218,679**	989,804,424
Saudi shareholders' share of zakat base	**189,234,180**	539,443,411

25. ZAKAT AND INCOME TAX (Continued)

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

b) Income tax charge for the year

There was no income tax in 2013 due to the loss incurred. Income tax relating to the non Saudi shareholders in 2012 amounting to SR 17,641,704 consists of the 2012 year charge, which has been provided for based on the estimated taxable profit at 45.5%.

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

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

	2013 *SR*	*2012* *SR*
At the beginning of the year	**45,800,704**	47,737,387
Provided during the year	**4,730,853**	31,127,789
Payments in advance	**(7,641,020)**	-
Payments during the year	**(30,436,628)**	(33,064,472)
At the end of the year	**12,453,909**	45,800,704

d) Status of zakat and tax assessments

The Company has filed its zakat and income tax declarations for the period from 16 April 2007 to 31 December 2008 (the period) and year ended 31 December 2011 (the year) and part of 2012 with the Department of Zakat and Income Tax (DZIT).

26. SHARE CAPITAL

The shareholders in their general assembly meeting held on 2 June 2013 (corresponding to 23 Rajab 1434H) approved the bonus issue (25% bonus per share). The Company received an approval from SAMA for the bonus share issuance on 20 March 2013 (corresponding to 8 Jumada Al Awwal 1434H) and from the Capital Market Authority (CMA) on 20 April 2013 (corresponding to 10 Jumada Al Thani 1434H). As a result of bonus shares issue, the share capital of the Company has increased to SR 1 billion comprising of 100 million issued and paid up shares. While bonus shares issued to shareholders, the Company is still in process of updating the Company's Bye-laws and other related documents.

The authorized and paid up share capital of the Company is SR 1,000 million divided into 100 million shares of SR 10 each (2012: SR 800 million divided into 80 million shares of SR 10 each) . The founding shareholders of the Company have subscribed and paid for 75 million shares (SR 750 million) with a nominal value of SR 10 each, which represent 75% of the shares of the Company and the remaining 25 million shares (SR 250 million) with a nominal value of SR 10 each which represent 25% of the shares of the Company, have been subscribed by the general public.

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the period was calculated by dividing the net income for the period by the weighted average number of shares issued and outstanding during the period amounting to 100 million shares. Basic and diluted earnings per share for the prior periods have been adjusted with the effect of 25% bonus share issue.

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

29. COMMITMENTS AND CONTINGENCIES

a) ***Legal proceedings***

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

b) ***Operating lease commitments***

The minimum future lease payments for the use of the Company office premises are as follows:

	2013	2012
	SR	SR
Less than one year	**-**	-
One to five years	**22,234,215**	14,104,492
	22,234,215	14,104,492

c) ***Capital commitments***

As at 31 December 2012, the Company had no capital commitments (2011: nil).

30. SEGMENTAL INFORMATION

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

Segment results do not include allocation of general and administration expenses, special commission income and other income to operating segments.

Segment assets do not include allocation of cash and cash equivalents, time deposits investments, premiums and reinsurance balances receivable, prepayments and other assets, due from related parties, and property and equipment, net, to the operating segments.

Segment liabilities do not include allocation of accounts and commission payable, reinsurance balances payable, accrued expenses and other liabilities, due to shareholders' operations, surplus distribution payable and other reserves to operating segments.

30. SEGMENTAL INFORMATION (Continued)

Operating segments

For the year ended 31 December 2013

	Medical SR	*Motor SR*	*Others SR*	*Total SR*
Insurance operations				
Gross premiums written	**3,010,993,691**	**394,001,233**	**732,517,444**	**4,137,512,368**
Net premiums written	**2,453,077,394**	**342,756,446**	**96,434,926**	**2,892,268,766**
Net premiums earned	**2,228,107,553**	**287,106,887**	**83,106,593**	**2,598,321,033**
Net claims incurred	**(2,386,078,573)**	**(231,928,236)**	**(14,138,385)**	**(2,632,145,194)**
Policy acquisition costs	**(66,855,113)**	**(26,592,961)**	**(27,501,660)**	**(120,949,734)**
Reinsurance commission income	**45,164,905**	**8,228,388**	**54,825,067**	**108,218,360**
Net underwriting result	**(179,661,228)**	**36,814,078**	**96,291,615**	**(46,555,535)**
General and administrative expenses				**(233,812,050)**
Special commission income and other income				**82,432,173**
Insurance operations' surplus				**(197,935,412)**

For the year ended 31 December 2012

	Medical SR	*Motor SR*	*Others SR*	*Total SR*
Insurance operations				
Gross premiums written	2,484,327,724	225,521,466	608,178,095	3,318,027,285
Net premiums written	2,091,096,615	215,894,131	95,097,168	2,402,087,914
Net premiums earned	1,907,209,451	192,609,482	89,242,484	2,189,061,417
Net claims incurred	(1,674,722,661)	(135,948,366)	(8,863,492)	(1,819,534,519)
Policy acquisition costs	(54,723,335)	(18,437,225)	(22,289,957)	(95,450,517)
Reinsurance commission income	52,451,713	2,028,001	52,435,421	106,915,135
Net underwriting result	230,215,168	40,251,892	110,524,456	380,991,516
General and administrative expenses				(222,640,982)
Special commission income and other income				50,238,797
Insurance operations' surplus				208,589,331

30. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

As at 31 December 2013	*Medical SR*	*Motor SR*	*Others SR*	*Total SR*
Insurance operations' assets				
Reinsurers' share of unearned premiums	**242,708,330**	**24,749,519**	**651,945,079**	**919,402,928**
Reinsurers' share of outstanding claims	**168,344,497**	**22,158,634**	**415,184,034**	**605,687,165**
Deferred policy acquisition costs	**142,318,219**	**5,371,905**	**27,163,971**	**174,854,095**
Unallocated assets	**-**	**-**	**-**	**2,630,483,890**
				4,330,428,078
Insurance operations' liabilities and surplus				
Gross unearned premiums	**1,416,044,916**	**161,136,803**	**721,449,292**	**2,298,631,011**
Unearned reinsurance commission	**-**	**557,769**	**39,214,903**	**39,772,672**
Gross outstanding claims	**913,459,313**	**99,791,953**	**438,654,648**	**1,451,905,914**
Unallocated liabilities	**-**	**-**	**-**	**540,118,481**
				4,330,428,078

As at 31 December 2012	*Medical SR*	*Motor SR*	*Others SR*	*Total SR*
Insurance operations' assets				
Reinsurers' share of unearned premiums	167,358,837	2,011,862	464,673,790	634,044,489
Reinsurers' share of outstanding claims	238,913,019	3,353,199	355,093,277	597,359,495
Deferred policy acquisition costs	14,116,048	4,379,341	16,522,716	35,018,105
Unallocated assets				1,922,804,355
				3,189,226,444
Insurance operations' liabilities and surplus				
Gross unearned premiums	1,115,725,582	83,032,963	519,893,672	1,718,652,217
Unearned reinsurance commission	-	630,544	49,270,944	49,901,488
Gross outstanding claims	537,240,430	69,651,461	370,814,594	977,706,485
Unallocated liabilities	-	-	-	442,966,254
				3,189,226,444

31. RISK MANAGEMENT

Risk governance

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

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

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

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

a) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims severity, actual benefits paid and subsequent development of long term claims are different than expected. Therefore the objective of the Company is to ensure that sufficient resources are available to cover these liabilities. The insurance risk arising from insurance contracts is 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 mainly motor and medical risks. 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.

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive polices for owner/drivers over 18 years of age. Substantially all of the motor contracts relate to private individuals. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 937,500 (31 December 2012: SR 937,500)

Medical
The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has a quota-share treaty ceding 15% of its risks and a reinsurance cover to limit the losses for any individual claim to SR 150,000 (31 December 2012: SR 100,000).

31. RISK MANAGEMENT (Continued)

a) Insurance risk (Continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. The general insurance claims provision is sensitive to the above key assumptions. A hypothetical 10% change in the claims ratio would impact income by approximately SR 10,110,393 (31 December 2012: SR 8,201,958) annually in aggregate.

b) Reinsurance risk

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

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

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

	2013 *SR*	*2012* *SR*
Middle East	**90,853,075**	77,477,526
Europe	**514,834,090**	519,881,969
	605,687,165	597,359,495

c) Regulatory framework risk

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

31. 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 assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

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

- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the investment officer in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

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

	2013		*2012*	
	Insurance Operations SR	***Shareholders' Operations SR***	*Insurance Operations SR*	*Shareholders' Operations SR*
Cash at banks and time deposits	**686,260,377**	**322,102,719**	282,244,683	286,624,155
Time deposits	**129,639,726**	**126,149,039**	138,003,620	65,854,648
Investments	**90,875,000**	**211,127,052**	110,373,947	196,858,681
Statutory deposit	**-**	**100,000,000**	-	80,000,000
Premiums and reinsurance balances receivable	**1,240,053,958**	**-**	1,295,634,353	-
Advances to employees	**7,933,707**	**-**	6,289,756	-
Advances to suppliers	**12,804,735**	**-**	2,951,209	-
Accrued special commission income	**1,243,534**	**2,787,249**	1,086,273	2,473,583
Reinsurers' share of outstanding claims	**605,687,165**	**-**	597,359,495	-
Due from related parties	**56,758,330**	**-**	2,881,547	-
	2,831,256,532	**762,166,059**	2,436,824,883	631,811,067

31. RISK MANAGEMENT (Continued)

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

Maturity profiles

Unearned premiums and reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations. The table below summarises the maturity profile of the non-derivative financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

	2013			2012		
	Up to one year SR	*More than one year SR*	*Total SR*	*Up to one year SR*	*More than one year SR*	*Total SR*
INSURANCE OPERATIONS' FINANCIAL LIABILITIES						
Gross outstanding claims	**1,300,225,856**	**151,680,058**	**1,451,905,914**	843,262,378	134,444,107	977,706,485
Accounts and commission payable	**73,314,933**	-	**73,314,933**	46,929,555	-	46,929,555
Reinsurance balances payable	**294,402,083**	-	**294,402,083**	162,134,362	-	162,134,362
Accrued expenses and other liabilities	**78,858,790**	-	**78,858,790**	63,818,326	-	63,818,326
Surplus distribution payable	-	**85,595,806**	**85,595,806**	20,858,933	64,736,873	85,595,806
	1,746,801,662	**237,275,864**	**1,984,077,526**	1,137,003,554	199,180,980	1,336,184,534
SHAREHOLDERS' FINANCIAL LIABILITIES						
Accrued expenses and other liabilities	**899,500**	-	**899,500**	225,000	-	225,000
Provision for zakat and income tax	**4,730,853**	**7,723,056**	**12,453,909**	31,127,789	14,672,915	45,800,704
	5,630,353	**7,723,056**	**13,353,409**	31,352,789	14,672,915	46,025,704
TOTAL FINANCIAL LIABILITIES	**1,752,432,015**	**244,998,920**	**1,997,430,935**	1,168,356,343	213,853,895	1,382,210,238

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the non derivative financial liabilities of the Company.

31. RISK MANAGEMENT (Continued)

f) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

	2013				*2012*			
	Saudi Riyals SR	*US Dollar SR*	*Others SR*	*Total SR*	*Saudi Riyals SR*	*US Dollar SR*	*Others SR*	*Total SR*
INSURANCE OPERATIONS' ASSETS								
Cash and cash equivalents	576,197,306	110,397,664	-	686,594,970	224,069,946	58,586,458	-	282,656,404
Time deposits	129,639,726	-	-	129,639,726	115,503,620	22,500,000	-	138,003,620
Premiums and reinsurance balances receivable	1,037,496,469	200,389,034	2,168,455	1,240,053,958	1,181,566,866	101,533,404	12,534,083	1,295,634,353
Due from related parties	56,758,330	-	-	56,758,330	2,881,547	-	-	2,881,547
Reinsurers' share of outstanding claims	605,687,165	-	-	605,687,165	597,359,495	-	-	597,359,495
Investments	52,341,125	38,533,875	-	90,875,000	71,765,822	38,608,125	-	110,373,947
Prepayments and other assets	117,728,531	367,617	-	118,096,148	60,839,356	190,625	-	61,029,981
Reinsurers' share of unearned premium	919,402,928	-	-	919,402,928	634,044,489	-	-	634,044,489
Deferred policy acquisition costs	174,854,095	-	-	174,854,095	35,018,105	-	-	35,018,105
Property and equipment, net	39,586,774	-	-	39,586,774	32,224,503	-	-	32,224,503
TOTAL INSURANCE OPERATIONS' ASSETS	3,709,692,449	349,688,190	2,168,455	4,061,549,094	2,955,273,749	221,418,612	12,534,083	3,189,226,444
SHAREHOLDERS' ASSETS								
Cash and cash equivalents	111,636,707	210,462,590	3,422	322,102,719	40,179,241	246,441,492	3,422	286,624,155
Time deposits	66,805,289	59,343,750	-	126,149,039	65,854,648	-	-	65,854,648
Due from insurance operations	-	-	-	-	76,369,767	-	-	76,369,767
Investment in an associate	6,000,000	-	-	6,000,000	14,000,000	-	-	14,000,000
Investments	136,229,443	74,897,609	-	211,127,052	125,955,938	70,902,743	-	196,858,681
Prepayments and other assets	926,395	1,860,854	-	2,787,249	720,923	1,752,660	-	2,473,583
Land	30,000,000	-	-	30,000,000	30,000,000	-	-	30,000,000
Statutory deposit	100,000,000	-	-	100,000,000	80,000,000	-	-	80,000,000
Goodwill	480,000,000	-	-	480,000,000	480,000,000	-	-	480,000,000
TOTAL SHAREHOLDERS' ASSETS	931,597,834	346,564,803	3,422	1,278,166,059	913,080,517	319,096,895	3,422	1,232,180,834
TOTAL ASSETS	4,641,290,283	696,252,993	2,171,877	5,339,715,153	3,868,354,266	540,515,507	12,537,505	4,421,407,278

31. RISK MANAGEMENT (Continued)

f) Foreign currency risk (Continued)

	2013				*2012*			
	SR	***US Dollar***	***Other***	***Total***	*SR*	*US Dollar*	*Other*	*Total*
	SR	***SR***	***SR***	***SR***	*SR*	*SR*	*SR*	*SR*
INSURANCE OPERATIONS' LIABILITIES								
Gross outstanding claims	**1,451,905,914**	-	-	**1,451,905,914**	977,706,485	-	-	977,706,485
Accounts and commission payable	**73,314,933**	-	-	**73,314,933**	46,929,555	-	-	46,929,555
Reinsurance balances payable	**110,151,189**	**183,562,512**	**688,382**	**294,402,083**	107,985,062	53,073,008	1,076,292	162,134,362
Due to shareholders' operations	-	-	-	-	76,369,767	-	-	76,369,767
Accrued expenses' and other liabilities	**78,858,790**	-	-	**78,858,790**	63,818,326	-	-	63,818,326
Surplus distribution payable	**85,595,806**	-	-	**85,595,806**	85,595,806	-	-	85,595,806
Unearned reinsurance commission	**39,772,672**	-	-	**39,772,672**	49,901,488	-	-	49,901,488
Gross unearned premiums	**2,298,631,011**	-	-	**2,298,631,011**	1,718,652,217	-	-	1,718,652,217
Other reserves	**6,327,378**	-	-	**6,327,378**	7,000,000	-	-	7,000,000
TOTAL INSURANCE OPERATIONS' LIABILITIES	**4,144,557,693**	**183,562,512**	**688,382**	**4,328,808,587**	3,133,958,706	53,073,008	1,076,292	3,188,108,006
SHAREHOLDERS' LIABILITIES								
Accrued expenses and other liabilities	**899,500**	-	-	**899,500**	225,000	-	-	225,000
Provision for zakat and income tax	**12,453,909**	-	-	**12,453,909**	45,800,704	-	-	45,800,704
Due to insurance operations	**268,878,984**	-	-	**268,878,984**	-	-	-	-
TOTAL SHAREHOLDERS' LIABILITIES	**282,232,393**	-	-	**282,232,393**	46,025,704	-	-	46,025,704
TOTAL LIABILITIES	**4,426,790,086**	**183,562,512**	**688,382**	**4,611,040,980**	3,179,984,410	53,073,008	1,076,292	3,234,133,710

31. RISK MANAGEMENT (Continued)

g) Special commission rate risk

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

The Company is exposed to special commission rate risk on certain of its investments, cash and cash equivalents, and time deposits. The Company limits special commission rate risk by monitoring changes in special commission rates in the currencies in which its investments are denominated.

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

31 December 2013		
Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 4,705,225
	- 50 basis points	SR (4,705,225)
31 December 2012		
Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 3,194,524
	- 50 basis points	SR (3,194,524)

h) Market price risk

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

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

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

	Change in market price	*Effect on statement of shareholders comprehensive operations SR*
2013	**+5%**	**8,476,666**
	-5%	**(8,476,666)**
2012	+5%	7,877,063
	-5%	(7,877,063)

31. RISK MANAGEMENT (Continued)

i) Capital management

Capital requirements are set and regulated by the Saudi Arabian Monetary Agency. 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' 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 periods and no changes were made to capital management objectives, policies and processes from the previous year.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 13 Rabi Al-Akhar 1435H corresponding to 13 February, 2014.