

**ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
AND AUDITORS' REPORT  
FOR THE PERIOD  
FROM 9 JUNE 2012 (DATE OF MINISTERIAL RESOLUTION)  
TO 31 DECEMBER 2013**

**ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND AUDITORS' REPORT  
FOR THE PERIOD FROM 9 JUNE 2012 (DATE OF MINISTERIAL RESOLUTION) TO 31  
DECEMBER 2013**

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**AUDITORS' REPORT TO THE SHAREHOLDERS  
ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit**

We have audited the accompanying statement of financial position of Alinma Tokio Marine Company – a Saudi Joint Stock Company ('the Company') as at 31 December 2013, and the related statements of insurance operations, shareholders' operations, shareholders' comprehensive income, insurance operations' cash flows, shareholders' cash flows and changes in shareholders' equity for the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013 and the attached notes 1 through 26 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provision of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required.

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

**Unqualified opinion**

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

- present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and the results of its operations and its cash flows for the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013 in accordance with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

**Emphasis of matters**

We draw attention to the following:

1. These financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.
2. We draw attention to note 2 to the financial statements which sets out the fact that the Board of Directors of the Company has decided to recommend to the shareholders of the Company, not to pursue the transfer of insurance portfolios which were disclosed in the prospectus issued for initial public offering by the Company. The Company is in the process of seeking necessary approvals from the shareholders, SAMA and other regulatory authorities in the Kingdom of Saudi Arabia to complete the legal formalities.

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen  
Certified Public Accountant  
Licence No. 382



19 Rabi Al Akhar 1435H  
19 February 2014

Deloitte & Touche Bakr Abulkhair & Co.

Ehsan A. Makhdoum  
Certified Public Accountant  
Licence No. 358

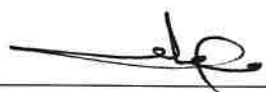


**ALINMA TOKIO MARINE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2013

	<i>Notes</i>	<b>31 December 2013</b>
		<b>SR'000</b>
<b>INSURANCE OPERATIONS' ASSETS</b>		
Cash and bank balances	5	8,924
Premiums and reinsurance receivables, net	6	16,750
Reinsurers' share of outstanding claims	11	11,958
Reinsurers' share of unearned premiums	12	8,826
Deferred policy acquisition costs		1,218
Due from shareholders' operations		9,223
Prepayments and other assets	7	3,374
Furniture, fittings and office equipment	9	4,449
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>64,722</b>
<b>SHAREHOLDERS' ASSETS</b>		
Cash and cash equivalents	5	51,431
Murabaha deposits		15,384
Investments	8	45,383
Due from a related party	20	117
Prepayments and other assets	7	26
Statutory deposit	10	20,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>132,341</b>
<b>TOTAL INSURANCE OPERATIONS' AND SHAREHOLDERS' ASSETS</b>		<b>197,063</b>



Director



Chief Financial Officer



Chief Executive Officer

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




**ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2013

	<i>Notes</i>	<b>31 December 2013</b>
		<b>SR'000</b>
<b>INSURANCE OPERATIONS' LIABILITIES</b>		
Gross outstanding claims	11	19,138
Reinsurance balances payable		12,253
Gross unearned premiums	12	18,066
Unearned reinsurance commission		1,665
Accrued expenses and other liabilities	14	11,985
Employees' end-of-service benefits		1,615
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>64,722</b>
 <b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>		
<b>SHAREHOLDERS' LIABILITIES</b>		
Accrued expenses and other liabilities		2,534
Due to insurance operations		9,223
Zakat and income tax payable	19	1,809
<b>Total shareholders' liabilities</b>		<b>13,566</b>
 <b>SHAREHOLDERS' EQUITY</b>		
Share capital	15	200,000
Accumulated losses		(81,225)
<b>Total shareholders' equity</b>		<b>118,775</b>
 <b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>132,341</b>
 <b>TOTAL INSURANCE OPERATIONS' LIABILITIES AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>197,063</b>

  
Director



Chief Financial Officer

  
Chief Executive Officer

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

**ALINMA TOKIO MARINE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

	<i>Notes</i>	For the period from 9 June 2012 to 31 December 2013 SR '000
<b>REVENUES</b>		
Gross written premiums	12	51,252
Reinsurance premiums ceded	12	(28,491)
Excess of loss premiums	12	(4,824)
<b>Net written premiums</b>		<b>17,937</b>
Changes in gross unearned premiums	12	(18,066)
Changes in reinsurance share of unearned premiums	12	8,826
Net change in unearned premiums		(9,240)
<b>Net earned premiums</b>	12	<b>8,697</b>
Reinsurance commission earned and other income		2,662
<b>Total insurance revenues</b>		<b>11,359</b>
<b>CLAIMS AND EXPENSES</b>		
Gross claims paid	11	(56,132)
Reinsurers' share of claims paid	11	50,843
<b>Net claims paid</b>		<b>(5,289)</b>
Changes in gross outstanding claims		(19,138)
Changes in reinsurers' share of outstanding claims		11,958
<b>Changes in net outstanding claims</b>	11	<b>(7,180)</b>
<b>Net claims incurred</b>		<b>(12,469)</b>
Policy acquisition costs		(691)
Inspection and supervision fees		(241)
General and administrative expenses	16	(38,738)
<b>Total claims and expenses</b>		<b>(52,139)</b>
<b>Net deficit for the period from insurance operations</b>		<b>(40,780)</b>
Appropriation of net deficit transferred to shareholders' operations	3	40,780
Net result for the period from insurance operations		--

Director

Chief Executive Officer

Chief Financial Officer


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**ALINMA TOKIO MARINE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' OPERATIONS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

	<i>Notes</i>	For the period from 9 June 2012 to 31 December 2013 SR '000
<b>INCOME</b>		
Investment income		2,113
Other income		416
<b>Total income</b>		<b>2,529</b>
<b>EXPENSES</b>		
Net deficit transferred from insurance operations		(40,780)
General and administrative expenses	16	(10,104)
Pre-incorporation expenses, net	17	(24,695)
<b>Total expenses</b>		<b>(75,579)</b>
<b>Net loss for the period from shareholders' operations</b>		<b>(73,050)</b>
<b>Loss per share (SR)</b>	23	<b>(3.65)</b>

  
 Director



Chief Financial Officer

  
 Chief Executive Officer


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

**ALINMA TOKIO MARINE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME**


For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

	For the period from 9 June 2012 to 31 December 2013
	<u>SR '000</u>
Net loss for the period from shareholders' operations	(73,050)
<b>Other comprehensive expense</b>	
Zakat for the period (Note 19)	(2,233)
<b>Total comprehensive loss for the period from shareholders' operations</b>	<u><u>(75,283)</u></u>

  
Director



Chief Financial Officer

  
Chief Executive Officer

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



**ALINMA TOKIO MARINE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

	<u>Notes</u>	<u>Share capital</u> SR '000	<u>Accumulated losses</u> SR '000	<u>Total</u> SR '000
Share capital		200,000	--	200,000
Transaction cost relating to issue of share capital	15.2	--	(5,942)	(5,942)
Net loss for the period from 9 June 2012 to 31 December 2013		--	(73,050)	(73,050)
Zakat for the period	19	--	(2,233)	(2,233)
<b>Balance as at 31 December 2013</b>		<b>200,000</b>	<b>(81,225)</b>	<b>118,775</b>

Director

Chief Executive Officer

Chief Financial Officer

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**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

		For the period from 9 June 2012 to 31 December 2013 SR '000
	Notes	
<b>OPERATING ACTIVITIES</b>		
Net result for the period from insurance operations		--
Adjustments for:		
Allowance for doubtful receivables	6	1,172
Loss on disposal of furniture, fitting and office equipment		2
Depreciation	9	2,159
Employees' end of service benefits, net		1,615
<b>Income before changes in operating assets and liabilities</b>		<b>4,948</b>
<b>Changes in operating assets and liabilities:</b>		
Reinsurers' share of unearned premiums		(8,826)
Gross unearned premiums		18,066
Premiums and reinsurance receivables, net		(17,922)
Reinsurers' share of outstanding claims		(11,958)
Deferred policy acquisition cost		(1,218)
Prepayments and other assets		(3,374)
Gross outstanding claims		19,138
Due from shareholders' operations		(9,223)
Reinsurance balances payable		12,253
Unearned reinsurance commission		1,665
Accrued expenses and other liabilities		11,985
<b>Net cash from operating activities</b>		<b>15,534</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of furniture, fittings and office equipment		(6,611)
Proceeds from disposal of furniture, fittings and office equipment		1
<b>Net cash used in investing activities</b>		<b>(6,610)</b>
<b>Cash and bank balances at the end of the period</b>	5	<b>8,924</b>

Director

Chief Executive Officer

Chief Financial Officer

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

**ALINMA TOKIO MARINE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF SHAREHOLDERS' CASH FLOWS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

		For the period from 9 June 2012 to 31 December 2013 SR '000
	Notes	
<b>OPERATING ACTIVITIES</b>		
Net loss for the period		(73,050)
Adjustment for:		
Realized gain on trading investments	18	(847)
Unrealized gain on trading investments	18	(191)
<b>Loss before changes in operating assets and liabilities</b>		<b>(74,088)</b>
<b>Changes in operating assets and liabilities:</b>		
Prepayments and other assets		(26)
Due from a related party		(117)
Statutory deposit		(20,000)
Due to insurance operations		9,223
Accrued expenses and other liabilities		2,534
Zakat paid during the period		(424)
<b>Net cash used in operating activities</b>		<b>(82,898)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments		(294,410)
Murabaha deposits		(30,384)
Maturity of murabaha deposits		15,000
Proceeds from sale of investments		250,065
<b>Net cash used in investing activities</b>		<b>(59,729)</b>
<b>FINANCING ACTIVITIES</b>		
Issue of share capital		200,000
Transaction costs on issue of share capital		(5,942)
<b>Net cash from financing activities</b>		<b>194,058</b>
<b>Cash and cash equivalents at the end of the period</b>	5	<b>51,431</b>

Director

Chief Executive Officer

Chief Financial Officer

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

**ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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**1. REPORTING ENTITY AND OPERATIONS**

Alinma Tokio Marine Company (“the Company”) is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry’s Resolution number 309/Q dated 19 Rajab 1433H (corresponding to 9 June 2012). The Commercial Registration number of the Company is 1010342537 dated 28 Rajab 1433H (corresponding to 18 June 2012). The Registered Office address of the Company is:

Al-Mosa Centre  
P.O. Box 643,  
Riyadh 11421, Kingdom of Saudi Arabia.

The Company is licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree No. 25/M, dated 3 Jumada-Al Thani 1430H (corresponding to 27 June 2009), pursuant to the Council of Ministers’ Resolution No. 140 dated 2 Jumada-Al Thani 1430H (corresponding to 26 June 2009). The Company is listed on the Saudi Stock Exchange (“Tadawul”) since 24 June 2012.

The objective of the Company is to engage in cooperative insurance operations and related activities, including reinsurance, agencies, representation, correspondence and intermediary activities in the Kingdom of Saudi Arabia in accordance with its Articles of Association and applicable regulations in the Kingdom of Saudi Arabia.

As per the Company’s By-laws and its Articles of Association, the Company’s first fiscal year shall commence on the issuance date of the Ministerial Resolution announcing the incorporation of the Company, which was dated 19 Rajab 1433 H (corresponding to 9 June 2012), and will end on 31 December the following year, being 31 December 2013. These financial statements cover the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013 (“the period”).

These are the first financial statements of the Company and therefore no comparative information is presented in these financial statements.

**2. INSURANCE PORTFOLIOS AND ASSET TRANSFER AGREEMENTS**

After careful consideration, the Board of Directors of the Company has decided to recommend to the shareholders’ of the Company, not to pursue the transfer of the insurance portfolios of the Arab Eastern Insurance Company (“AEIC”) and Tokio Marine & Nichido Fire Insurance Co. Limited (“TMNF”). These transfers were initially planned and disclosed in the prospectus issued for initial public offering of the Company. In line with the recommendation of the Board of Directors, the Company is in the process of seeking necessary approvals from shareholders, Saudi Arabian Monetary Agency (“SAMA”) and other regulatory authorities in the Kingdom of Saudi Arabia to complete legal formalities. However, the Company shall make payments for fixed assets in its use to Hussein Aoueini Company (“HAC”) at a mutually agreed price.

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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**3. BASIS OF PREPARATION**

*Statement of compliance*

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

*Basis of measurement*

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments.

*Basis of presentation*

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

As per the By-laws of the Company, the deficit arising from the insurance operation is allocated fully to shareholders' operations whereas the surplus arising from the Insurance operations' is distributed 90% and 10% to shareholders' of the Company and policy holder respectively.

*Functional and presentation currency*

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

*Use of estimates and judgments*

*Estimation uncertainty*

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, 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 assets or liabilities affected in the future.

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

**ALINMA TOKIO MARINE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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

*Technical reserve for insurance activities*

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

*Premium deficiency reserve*

Estimation of the premium deficiency for insurance 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 segment-wise actual claims experience of the Company.

*Useful life of furniture, fittings and office equipment*

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

*Fair value of financial instruments*

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

The fair value of financial instruments are not materially different from their carrying values at the statement of financial position date.

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

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

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

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



**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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

**NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS**

The Company has chosen not to early adopt the amendment to IAS 32 – Financial instruments: Presentation on offsetting financial assets and financial liabilities, which will not be affected until January 1, 2014.

IFRS 9 (2010) – Financial instruments was originally applicable from January 1, 2015 but the effective date has delayed.

The Company's management is currently assessing the implication of the above standards and amendments and the timing of adoption of IFRS 9.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in preparing these financial statements are set out below:

***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand, bank balances and Murabaha deposits that have original maturity period not exceeding three months.

***Murabaha deposits***

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

***Impairment and un-collectability of financial assets***

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets (including reinsurance receivables) may be impaired. If such evidence exists, an impairment loss is recognized in the statement of Insurance operations or the statement of shareholders' operations. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss recognized in the statement of Insurance Operations' or the statement of Shareholders' Operations;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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

***Impairment and un-collectability of financial assets (continued)***

- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
- adverse changes in the payment status of issuers or debtors in the Company; or
- national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

***Premiums and reinsurance receivable***

Premiums and reinsurance receivable are recognized as a financial asset when the policies are issued and the consideration is receivable. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of insurance operations. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms.

***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.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

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.

***Segment reporting***

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

***Leases***

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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

***Foreign currencies***

Transactions denominated in foreign currencies are recorded in Saudi Riyals (SR) at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to SR at the rate of exchange ruling at the statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate as the date of initial transaction and are not subsequently restated. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

***Provisions***

Provisions are recognized when the Company has an obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

***Investments***

***Trading investments***

Trading investment represents investment in short term Murabaha fund which is readily marketable, and initially recognised at cost being the fair value and subsequently remeasured at fair value. Fair value is determined by reference to the net asset value (NAV) quoted by the fund manager. The resultant realised and unrealised gains and losses are recognised in the statement of shareholders' operations.

***Available for sale investments (AFS)***

Investments which are classified as available for sale are measured at fair value. Available for sale investments are those investments that are either designated in this category or not classified in any other category. For an available for sale investments, any gain or loss arising from a change in its fair value is recognized directly in other comprehensive income until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to and recognised in the statement of shareholders' operations for the period.

***Furniture, fittings and office equipment***

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

	<u>Years</u>
Leasehold improvements	5
Furniture and office equipment	5
Computer equipment	3-5

Residual values, useful lives and the method of the depreciation are reviewed annually and adjusted, if appropriate. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the period is recognised in the statement of insurance operations.

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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

***Employees' end of service benefits***

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

***Pre-incorporation expenses***

Expenses incurred by the Company during the formation period, the licensing process and related to the Initial Public Offering (IPO) with no future benefits are charged to the statement of shareholders' operations.

***Transaction costs***

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

***Insurance contracts***

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

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

***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 such an assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an unexpired risk provision is made.

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

***Zakat and income tax***

Zakat and income tax are provided for in accordance with Saudi Arabian Fiscal Regulations. Zakat is computed on the zakatable base of Saudi founding and general public shareholders' while income tax is computed on the non Saudi founding shareholders share of net adjusted income.

Zakat and income taxes are accrued and charged to the accumulated loss under the statement of shareholders' equity.

***Revenue recognition***

Gross premiums and commissions are recognised as revenue when the insurance policy is issued. Premiums and commissions are taken into income over the terms of the policies to which they relate on a pro-rata basis. The change in the provision for unearned premiums is taken to the statement of insurance operations, over the period of risk.

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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

***Revenue recognition (continued)***

Unearned premiums and commissions are those proportions of premiums and commissions written in a year that relate to periods of risk after the statement of financial position date. Unearned premiums are calculated on a daily pro-rata basis, except for marine cargo. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. The unearned portion for marine cargo shall be the premium written during the last three months of the financial period.

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognized from the policy inception date.

Investment income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable. Realized gains or losses on sale of Available for sale investments are reported in the related statements of Insurance operations or statement of Shareholders' comprehensive income. Dividends, commission income and foreign currency gain/loss on AFS investments are recognized at the related statements of Insurance operations or statement of Shareholders' comprehensive income, as part of the net investment income / loss.

Insurance policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over future periods.

***Claims***

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

A provision based on management's judgment is maintained for Incurred But Not Reported ("IBNR") claims at the statement of financial position date.

***Offsetting***

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

***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 are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

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**NOTES TO THE FINANCIAL STATEMENTS**

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

***Deferred acquisition costs***

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

***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.

**5. CASH AND CASH EQUIVALENTS**

	<b>31 December 2013</b>
	<b><u>SR '000</u></b>
<b><i>Insurance operations</i></b>	
Cash in hand	42
Cash at banks - current accounts	8,882
	<b><u>8,924</u></b>

Cash at banks includes an amount of SR 8.87 million held with Alinma Bank, a related party.

***Shareholders' operations***

Cash at bank - current account	1,431
Short-term Murabaha deposits	50,000
	<b><u>51,431</u></b>

Cash at bank represents current account held with Alinma Bank, a related party.

Short term Murabaha deposits are placed with Alinma Bank, a related party, for a period ranging between 8 days to three months depending on the immediate cash requirements of the Company.

**6. PREMIUMS AND REINSURANCE RECEIVABLES, NET**

	<b>31 December 2013</b>
	<b><u>SR '000</u></b>
<b><i>Insurance operations</i></b>	
Premiums receivables from policyholders	11,598
Premiums receivable from related party (note 20)	1,837
Reinsurance receivables	4,487
	<b><u>17,922</u></b>
Less: Provision for doubtful receivables	<b><u>(1,172)</u></b>
	<b><u>16,750</u></b>



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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**6. PREMIUMS AND REINSURANCE RECEIVABLES' NET (Continued)**

These balances comprise amounts receivable from a number of individual and corporate customers as well as insurance companies and reinsurance companies mainly operating in Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain mutually agreed period.

The Company classifies balances as 'past due and impaired' on a case-to-case basis. An impairment adjustment is recorded in the statement of insurance operations. It is not the practice of the Company to obtain collateral over receivables.

As at 31 December 2013, receivables at nominal value of SR 1.17 million were impaired. Movement in the allowance for impairment of receivables is as follows:

	For the period from 9 June 2012 to 31 December 2013
	SR'000
Provided during the period	1,172
Balance as at 31 December 2013	1,172

The age analysis of premiums and reinsurance receivables arising from insurance contracts is as follows:

	Neither past due nor <u>impaired</u> SR '000	Up to 3 <u>months</u> SR '000	3 to 6 <u>months</u> SR '000	6 to 12 <u>months</u> SR '000	Above 12 <u>months</u> SR '000	<u>Total</u> SR '000
31 December 2013	4,012	5,492	6,366	2,052	--	17,922

**7. PREPAYMENTS AND OTHER ASSETS**

	31 December 2013 SR'000
<i>Insurance operations</i>	
Prepayments	2,775
Other receivables	599
	3,374
<i>Shareholders' operations</i>	
Accrued income on Murabaha deposits	26

**ALINMA TOKIO MARINE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**8. INVESTMENTS**

*Shareholders' operations*

This represents investment in Najm for Insurance Services Company (classified as available for sale) and in open ended commodity fund (classified as trading investments):

	<b>31 December 2013</b>
	<b>SR'000</b>
Available for sale investment	<b>1,923</b>
Trading investment	<b>43,460</b>
	<b>45,383</b>

The movement during the period is as follows:

	<b>For the period from 9 June 2012 to 31 December 2013</b>
	<b>SR'000</b>
<i>Available for sale investments</i>	
Purchased during the period	<b>2,423</b>
Sold during the period	<b>(500)</b>
Balance as at 31 December 2013	<b>1,923</b>
<i>Trading Investments</i>	
Purchased during the period	<b>291,987</b>
Sold during the period	<b>(249,565)</b>
Realised gain, net	<b>847</b>
Unrealised gain	<b>191</b>
Balance as at the 31 December 2013	<b>43,460</b>

All investments made by the Company are with unrated counterparties.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**9. FURNITURE, FITTINGS AND OFFICE EQUIPMENT**

*Insurance operations*

	<i>Leasehold improvements</i>	<i>Furniture and office equipment</i>	<i>Computer equipment</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b><u>Cost</u></b>				
Purchased during the period	514	424	5,673	6,611
Disposals during the period	--	--	(3)	(3)
<b>Balance as at 31 December 2013</b>	<b>514</b>	<b>424</b>	<b>5,670</b>	<b>6,608</b>
<b><u>Accumulated depreciation</u></b>				
Charge for the period	102	109	1,949	2,160
Disposals	--	--	(1)	(1)
<b>Balance as at 31 December 2013</b>	<b>102</b>	<b>109</b>	<b>1,948</b>	<b>2,159</b>
<b><u>Net book value</u></b>				
<b>31 December 2013</b>	<b>412</b>	<b>315</b>	<b>3,722</b>	<b>4,449</b>

**10. STATUTORY DEPOSIT**

	<b>31 December 2013</b>
	<i>SR'000</i>
<i>Shareholders' operations</i>	
Statutory deposit	<b>20,000</b>

In accordance with the Saudi Arabian Insurance Regulations issued by the Saudi Arabian Monetary Agency ("SAMA"), the Company has deposited an amount equivalent to 10% of its paid up share capital in a bank account designated by SAMA.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**11. OUTSTANDING CLAIMS**

**a) Incurred claims**

	<i>For the period from 9 June 2012 to 31 December 2013</i>			
	<i>Motor</i>	<i>General</i>	<i>Group Credit</i>	<i>Total</i>
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
<b>Insurance operations</b>				
Claims paid	1,315	51,285	3,532	56,132
Reinsurers' share of claims paid	--	(48,017)	(2,826)	(50,843)
Net claims paid	<u>1,315</u>	<u>3,268</u>	<u>706</u>	<u>5,289</u>
Changes in outstanding claims, IBNR and other reserves	3,004	13,726	2,408	19,138
Changes in reinsurers' share of outstanding claims, IBNR and other reserves	--	(10,032)	(1,926)	(11,958)
Net outstanding claims, IBNR and other reserves	<u>3,004</u>	<u>3,694</u>	<u>482</u>	<u>7,180</u>
Total incurred claims	<u>4,319</u>	<u>6,962</u>	<u>1,188</u>	<u>12,469</u>

General segment includes Marine, Fire, Engineering and general accident.

**b) Outstanding claims**

	<i>31 December 2013</i>		
	<i>Reinsurers'</i>		
	<i>Gross</i>	<i>Share</i>	<i>Net</i>
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
<b>Insurance operations</b>			
<i>Motor outstanding claims</i>			
- Outstanding claims reserve	883	--	883
- Incurred but not reported reserve	549	--	549
- Other reserves	1,572	--	1,572
<i>General outstanding claims</i>			
- Outstanding claims reserve	8,556	(8,175)	381
- Incurred but not reported reserves	2,357	(1,857)	500
- Other reserves	2,813	--	2,813
<i>Group Credit outstanding claims</i>			
- Outstanding claims reserve	153	(123)	30
- Incurred but not reported reserve	2,255	(1,803)	452
<b>Total outstanding claims</b>	<u>19,138</u>	<u>(11,958)</u>	<u>7,180</u>

During the period, the Company has created a provision in respect of premium deficiency, amounting to SR 2.15 million, for Motor, Marine and General accident line of businesses. The Company created this provision based on the assumption that the unearned premiums for these business lines will not be sufficient to provide for the expected claims and other attributable expenses related to the unexpired periods of the policies in force at the balance sheet date.

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For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**12. NET EARNED PREMIUMS**

	For the period from 9 June 2012 to 31 December 2013 <u>SR'000</u>
<i>Insurance operations</i>	
Gross written premiums	51,252
Gross unearned premiums at the end of the period	<u>(18,066)</u>
<b>Gross earned premiums</b>	<b><u>33,186</u></b>
Reinsurance premiums ceded	(28,491)
Excess of loss premiums	<u>(4,824)</u>
	(33,315)
Reinsurers' share of unearned premiums at the end of the period	<u>8,826</u>
<b>Insurance premiums ceded to reinsurers</b>	<b><u>(24,489)</u></b>
<b>Net earned premiums</b>	<b><u>8,697</u></b>

**13. MOVEMENT IN UNEARNED PREMIUM RESERVE**

	<i>31 December 2013</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>SR'000</i>	<i>share</i>	<i>SR'000</i>
<i>Insurance operations</i>			
Premium written during the period	51,252	(33,315)	17,937
Premium earned during the period	(33,186)	24,489	(8,697)
<b>Balance as at 31 December 2013</b>	<b><u>18,066</u></b>	<b><u>(8,826)</u></b>	<b><u>9,240</u></b>

**14. ACCRUED EXPENSES AND OTHER LIABILITIES**

	31 December 2013 <u>SR'000</u>
<i>Insurance operations</i>	
Accrued expenses	6,418
Coinsurance commission	2,871
Brokers commission	1,549
Payable to local and regulatory authorities	814
Payable to policyholders	278
Other payables	<u>55</u>
	<b><u>11,985</u></b>
<i>Shareholders' operations</i>	
Accrued expenses	<b><u>2,534</u></b>

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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**15. SHARE CAPITAL**

15.1 The authorised and issued share capital of the Company is SR 200 million divided into 20 million shares of SR 10 each.

15.2 Incremental costs amounting to SR 5,942 thousands directly attributable to the issue of ordinary shares are recognised in statement of changes in shareholders' equity.

**16. GENERAL AND ADMINISTRATIVE EXPENSES**

	For the period from 9 June 2012 to 31 December 2013 <hr/> SR'000
<i><b>Insurance operations</b></i>	
Employees costs	30,345
Depreciation	2,159
Maintenance	1,618
Allowance for doubtful receivables (note 6)	1,172
Rent	748
Legal and professional fees	217
Others	2,479
	<hr/> <b>38,738</b> <hr/>
<i><b>Shareholders' operations</b></i>	
Employee costs	5,024
Legal and professional fees	1,769
Directors' remuneration (note 20)	1,615
Maintenance	390
Board and sub-committee attendance fee (note 20)	399
Rent	251
Others	656
	<hr/> <b>10,104</b> <hr/>



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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**17. PRE-INCORPORATION EXPENSES, NET**

	For the period from 9 June 2012 to 31 December 2013
	<u>SR'000</u>
Employees' costs	13,052
Depreciation	2,388
Bank guarantee commission	3,695
Legal and professional fees	1,279
Travelling expenses	759
Rent	1,202
Others	<u>2,795</u>
<b>Total expenses</b>	<b>25,170</b>
Less:	
Income earned from investment in short-term Murabaha deposit up to the date of Ministerial resolution (9 June 2012)	<u>(475)</u>
	<u><b>24,695</b></u>

Pre-incorporation expenses represent costs incurred by founding shareholders on behalf of the Company, and subsequently recharged to the Company, for the period from September 2004 up to 9 June 2012 (the date of issuance of the Ministerial Resolution declaring the incorporation of the Company).

**18. INVESTMENT INCOME, NET**

	For the period from 9 June 2012 to 31 December 2013
	<u>SR in 000s</u>
<b><i>Shareholders' operations</i></b>	
Trading investments:	
- Realized gain during the period, net	847
- Unrealized gain during the period	<u>191</u>
<b>Total investment income</b>	<u><b>1,038</b></u>

**ALINMA TOKIO MARINE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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**19. ZAKAT AND INCOME TAX**

**Zakat**

The Company's zakat liability for the period has been calculated in accordance with the provisions of Zakat regulations in the Kingdom of Saudi Arabia.

As the zakat base for the year is higher than the zakatable income, the zakat for the year is calculated at 2.5% on the zakat base for the year.

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

The movement in the Zakat provision for the period is as follows:

	<b>For the period from 9 June 2012 to 31 December 2013</b>
	<b><u>SR'000</u></b>
Zakat charge for the period	2,233
Zakat payment made during the period	<u>(424)</u>
<b>Balance as at 31 December 2013</b>	<b><u>1,809</u></b>

*Status of assessment*

The Company has filed its first Zakat return with the Department of Zakat and Income tax ("DZIT") for the period from 9 June 2012 (date of ministerial resolution) to 8 June 2013 however, the final assessment order has not yet been received.

**Income tax**

The Company has incurred a loss during the period, therefore, no income tax is charged to Statement of Shareholders' Comprehensive Income.

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**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**20. TRANSACTIONS WITH RELATED PARTIES**

20.1 In addition to the note 5 and 6, following are the details of major related party transactions during the period and the related balances at the end of the period:

<b>Nature of Transaction</b>	<b>Related party</b>	<b>For the period from 9 June 2012 to 31 December 2013</b>	<b>Balance as of 31 December 2013</b>
		<b>SR'000</b>	<b>SR'000</b>
IPO related cost	Shareholder	<u>5,942</u>	<u>--</u>
Pre-incorporation costs	Shareholders	<u>23,566</u>	<u>--</u>
	Associate	<u>400</u>	<u>--</u>
Insurance premiums	Shareholder	<u>13,570</u>	<u>1,837</u>
Reinsurance premiums	Shareholder	<u>6,906</u>	<u>4,662</u>
Claims paid	Shareholder	<u>3,599</u>	<u>---</u>
Purchase of fixed assets	Shareholders	<u>3,372</u>	<u>---</u>
	Associate	<u>6</u>	<u>---</u>
Reinsurance Commission	Shareholder	<u>727</u>	<u>--</u>
General and administration expenses	Shareholders	<u>8,794</u>	<u>--</u>
	Associate	<u>5,350</u>	<u>117</u>
Murabaha Deposits	Shareholder	<u>50,000</u>	<u>50,000</u>

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**20. TRANSACTIONS WITH RELATED PARTIES (*continued*)**

20.2 Information relating to key management personnel

**For the period  
from 9 June 2012  
to 31 December  
2013**  
**SR '000**

Short-term benefits	<b>9,909</b>
Long-term benefits	<b>428</b>

Short-term benefits include salaries and allowances whilst long-term benefits include employees' end of service benefits.

20.3 Board and sub-committee related expenses:

**For the period  
from 9 June 2012  
to 31 December  
2013**  
**SR '000**

Board of director's remuneration	<b>1,615</b>
Board and sub-committees attendance fee	<b>399</b>

Board and sub-committees attendance fees represent allowances for attending board and sub-committee meetings.

**21. RISK MANAGEMENT**

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

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its commitment associated with financial liabilities when they fall due. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The financial liabilities consist of outstanding claims and certain other liabilities. All financial liabilities, except for employees' end of service benefits which is non-current in nature, are non-commission bearing and expected to be settled within twelve months from the statement of financial position date.

All assets of the Company, except for Murabaha deposits, furniture, fittings and office equipments and statutory deposit, are current in nature.

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**21. RISK MANAGEMENT (continued)**

Maturity Profile

**31 December 2013**

**SR '000**

**INSURANCE OPERATIONS' LIABILITIES**

	<b>Less than one year</b>	<b>No term</b>	<b>Total</b>
Reinsurance balances payable	<b>12,253</b>	<b>--</b>	<b>12,253</b>
Gross Outstanding claims	<b>19,138</b>	<b>--</b>	<b>19,138</b>
Accrued expenses and other liabilities	<b>11,985</b>	<b>--</b>	<b>11,985</b>
	<b>43,376</b>	<b>--</b>	<b>43,376</b>

**SHAREHOLDERS' LIABILITIES**

	<b>Less than one year</b>	<b>No term</b>	<b>Total</b>
Accrued expenses and other liabilities	<b>2,534</b>	<b>--</b>	<b>2,534</b>

To manage the liquidity risk arising from above financial liabilities, the Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active market except for unquoted equity instruments. These assets can be readily sold to meet liquidity requirements.

***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 credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position. The Company's credit risk exposure relating to customers and deposits is mainly concentrated in Saudi Arabia.

The Company seeks to limit its credit risk with respect to customers by following the Company credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks. The Company enters into reinsurance contracts with reinsurers having minimum acceptable credit rating by recognized rating agencies that is not lower than BBB (with standards and poors) and AA- (with AM Best).

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

	<b>31 December 2013</b>
	<b>SR' 000</b>
<b>INSURANCE OPERATIONS' ASSETS</b>	
Cash and bank balances	<b>8,882</b>
Premiums and reinsurance receivables, net	<b>16,750</b>
Reinsurers' share of outstanding claims	<b>11,958</b>
	<b>37,590</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**21. RISK MANAGEMENT (continued)**

	<b>31 December 2013</b>
	<b>SR' 000</b>
<b>SHAREHOLDERS' ASSETS</b>	
Cash and cash equivalents	<b>51,431</b>
Murabaha deposits	<b>15,384</b>
Statutory deposit	<b>20,000</b>
	<b>86,815</b>

*Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is not broadly diversified due to its early stage of operations however, transactions are entered into with credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

**Market Risk and Asset Liability Management**

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

The Board of Directors of the Company ensure that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of Investment Committee team. The team prepares forecast showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through the proper selection of securities. Company maintains diversified portfolio and perform regular monitoring of developments in related markets. In addition, the key factors that affect stock and bond market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: commission rate risk, currency risk, and market price risk.

*Commission rate risk*

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability of the fair values of financial instruments. The Company is exposed to commission rate risk on its Murabaha deposits.

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



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**21. RISK MANAGEMENT (continued)**

*Commission rate risk (continued)*

An increase/decrease of 100 basis points in interest yields would result in a change in the loss for the period of SR 0.15 million.

The commission and non-commission bearing investments of the Company and their maturities as at 31 December are as follows:

	Less than 1 year	1 to 5 years	Over 5 years	Non- commission bearing	Total
Shareholders' operations	SR'000	SR'000	SR'000	SR'000	SR'000
2013	15,384	--	--	43,460	58,844

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

*Foreign currency risk*

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations, as the Company primarily deals in Saudi Riyal.

*Market Price Risk*

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

The Company's investments amounting to SAR 43 million are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits this nature of market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

Had all investments, other than commission bearing, been measured at fair values as required by IAS 39, Financial Instruments: Recognition and Measurement, the impact of hypothetical change of a 10% in the Net Asset Value of the funds, with all other variables held constant, would impact the Shareholders' operations by SR 4.3 million.

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2013. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

**21. RISK MANAGEMENT (continued)**

**Sensitivity analysis**

The Company believes that the claim liabilities under insurance contracts outstanding at the period 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 is possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. However, the sensitivity to changes in claim liabilities net of reinsurance by 10 percent is analyzed separately for each class of business while keeping all other assumptions constant.

	<u>Net loss</u>	<u>Shareholders' equity</u>
<u>Impact of change in claim liabilities by + / - 10%</u>		
Motor	<b>300</b>	<b>300</b>
General	<b>369</b>	<b>369</b>
Group credit	<b>48</b>	<b>48</b>

A key feature of the liability adequacy testing is that the effects of changes in assumptions on the measurement of liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of liabilities and related assets until the liabilities are derecognised, while significant deterioration in estimates is immediately recognised to make the liabilities adequate.

**Insurance risk**

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of reinsurance arrangements.

Significant portion of reinsurance business ceded is placed on a quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

**NOTES TO THE FINANCIAL STATEMENTS**

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**21. RISK MANAGEMENT (continued)**

***Re-insurance risk***

Similar to 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.

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

Reinsurers are selected using the following parameters and guidelines set by the Company's Board of Directors and Reinsurance Committee. The criteria may be summarized as follows:

- Minimum acceptable credit rating by recognized rating agencies (e.g. S&P) that is not lower than BBB or equivalent.
- Reputation of particular reinsurance companies.
- Existing or past business relationship with the reinsurer

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved by the local insurance regulators.

Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business.

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

**Frequency and severity of claims**

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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**21. RISK MANAGEMENT (continued)**

**Concentration of insurance risk**

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in Motor and Group credit.

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

Since the Company operates majorly in Saudia Arabia only, hence, all the insurance risks relate to policies written in Saudia Arabia.

**Sources of uncertainty in estimation of future claim payments**

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims and technical reserves are given under note 11.

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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**21. RISK MANAGEMENT (continued)**

**Process used to decide on assumptions**

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

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

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

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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**21. RISK MANAGEMENT (continued)**

**Operational risk (continued)**

- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Senior Management ensures that the Company's staff has adequate training and experience and fosters effective communication related to operational risk management.

***Regulatory framework risk***

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

***Capital management risk***

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

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained. The Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SR 100 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company is in compliance with the regulatory requirements and no change has been made to the capital base or to the objectives, policies and processes for managing capital.

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**22. Fair value of financial instruments**

Financial instruments consist of financial assets and financial liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value there is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, premiums and reinsurance receivables, Murabaha deposit, reinsurance share of outstanding claims, investments and accrued income and its financial liabilities consist of reinsurance balance payables, accrued expenses and gross outstanding claims. The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

The table below presents the financial instruments at their fair values based on their fair value hierarchy.

<b>As at 31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>
<b>Trading investment</b>				
- Investment in commodity fund	--	43,460	--	43,460
<b>Available for sale investment</b>				
- Unquoted equity investment	--	--	1,923	1,923
<b>Total</b>	<b>--</b>	<b>43,460</b>	<b>1,923</b>	<b>45,383</b>

There were no transfers between the levels of fair value hierarchies during the period.

Level 3 investments comprise investment in unquoted equity instruments. The unquoted equity instruments are carried at an amount which as per the management is the best estimate of the exit price i.e. fair value.

**23. LOSS PER SHARE**

The basic and diluted loss per share is calculated as follows:

	<b>31 December 2013</b>
Net loss for the period (SR'000)	<b>73,050</b>
Weighted average number of ordinary share (Number in thousands)	<b>20,000</b>
<b>Loss per share</b>	<b>SR 3.65</b>

**24. CONTINGENT LIABILITIES AND COMMITMENTS**

As at 31 December 2013, the Company had no contingent liabilities and commitments.

**NOTES TO THE FINANCIAL STATEMENTS**

For the period from 9 June 2012 (Date of Ministerial Resolution) to 31 December 2013

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**25. SEGMENT REPORTING**

Segment information is presented in respect of the Company's business segments which are Fire, Marine, General Accident, Engineering, Motor and Group Credit based on the Company's management and internal reporting structure.

Operating segments do not include Shareholders' operations of the Company.

Segment assets do not include cash and bank balances, premiums and reinsurance receivables, due from shareholders' operations, prepayments and other assets and furniture, fittings and office equipment.

Segment liabilities do not include reinsurance balance payable, accrued expenses and other liabilities and employees' end of service benefits.

Segment results do not include general and administrative expenses.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premium receivable and depreciation on the property and equipment) are monitored on a centralized basis.

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. Information disclosed in the note is based on current reporting to the chief executive officer as follows:



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**NOTES TO THE FINANCIAL STATEMENTS**

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**25. SEGMENT REPORTING (continued)**

The segment results from 9 June 2012 to 31 December 2013 are as follows:

	<b>Fire</b>	<b>Marine</b>	<b>General accident</b>	<b>Engineering</b>	<b>Motor</b>	<b>Group credit</b>	<b>Total</b>
	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>
<b>REVENUES</b>							
Gross written premiums	15,941	8,636	3,471	1,573	10,764	10,867	51,252
Reinsurance premiums ceded	(10,819)	(7,714)	(2,919)	(1,469)	--	(5,570)	(28,491)
Excess of loss premiums	(3,893)	(331)	(254)	(36)	(310)	--	(4,824)
<b>Net written premiums</b>	<b>1,229</b>	<b>591</b>	<b>298</b>	<b>68</b>	<b>10,454</b>	<b>5,297</b>	<b>17,937</b>
Net change in unearned premiums	(1,384)	(308)	(208)	(75)	(7,265)	--	(9,240)
<b>Net earned premiums</b>	<b>(155)</b>	<b>283</b>	<b>90</b>	<b>(7)</b>	<b>3,189</b>	<b>5,297</b>	<b>8,697</b>
Reinsurance commission earned and other income	1,526	557	538	32	5	4	2,662
<b>Total insurance revenue</b>	<b>1,371</b>	<b>840</b>	<b>628</b>	<b>25</b>	<b>3,194</b>	<b>5,301</b>	<b>11,359</b>
<b>CLAIMS AND EXPENSES</b>							
Net claims incurred	(1,770)	(4,426)	(748)	(18)	(4,319)	(1,188)	(12,469)
Policy acquisition costs	(157)	(45)	(33)	(10)	(446)	--	(691)
Inspection and supervision fees	(72)	(42)	(14)	(6)	(54)	(53)	(241)
General and administrative expenses	--	--	--	--	--	--	(38,738)
<b>Net deficit from insurance operations</b>							<b>(40,780)</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

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**25. SEGMENT REPORTING (continued)**

The segment information relating to the statement of financial position as at 31 December 2013 is as follows:

	<b>Fire</b>	<b>Marine</b>	<b>General accident</b>	<b>Engineering</b>	<b>Motor</b>	<b>Group credit</b>	<b>Total</b>
	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>	<b>SR '000</b>
Reinsurers' share of outstanding claims	<b>6,288</b>	<b>1,750</b>	<b>1,954</b>	<b>40</b>	<b>--</b>	<b>1,926</b>	<b>11,958</b>
Reinsurers' share of unearned premiums	<b>3,905</b>	<b>2,690</b>	<b>891</b>	<b>1,340</b>	<b>--</b>	<b>--</b>	<b>8,826</b>
Deferred policy acquisition costs	<b>282</b>	<b>45</b>	<b>6</b>	<b>98</b>	<b>787</b>	<b>--</b>	<b>1,218</b>
Unallocated assets	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>42,720</b>
<b>Total assets</b>							<b>64,722</b>
Gross outstanding claims	<b>8,039</b>	<b>2,852</b>	<b>2,776</b>	<b>59</b>	<b>3,004</b>	<b>2,408</b>	<b>19,138</b>
Gross unearned premiums	<b>5,288</b>	<b>2,998</b>	<b>1,099</b>	<b>1,416</b>	<b>7,265</b>	<b>--</b>	<b>18,066</b>
Unearned insurance commission	<b>948</b>	<b>275</b>	<b>199</b>	<b>243</b>	<b>--</b>	<b>--</b>	<b>1,665</b>
Unallocated liabilities	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>25,853</b>
<b>Total liabilities</b>							<b>64,722</b>

**26. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors on 11 Rabi Al Akhar 1435 H corresponding to 11 February 2014.