Salama Cooperative Insurance Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
AND INDPENDENT JOINT AUDITORS' REPORT

31 DECEMBER 2014

SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
31 DECEMBER 2014

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PKF Al-Bassam & Al-Nemer
Allied Accountants

P.O. Box 15651
Jeddah 21454
Kingdom of Saudi Arabia

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co
Public Accountants
P.O. Box 442, Jeddah 21454
Kingdom of Saudi Arabia

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

Scope of audit

We have audited the accompanying statement of financial position of Salama Cooperative Insurance Company – a Saudi Joint Stock Company – (the "Company") as at 31 December 2014, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' operations cash flows for the year then ended and attached notes 1 to 28 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of Article 123 of the Regulations for Companies and the Company's By-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 31 December 2014 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 Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the financial statements.

Emphasis of matters

1. We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").
2. We draw attention to note 3 that the Company's ability to continue as a going concern is dependent upon future profitable operations and continued financial support from shareholders in order to enable it to cover its losses and settle its liabilities. The accompanying financial statements have been prepared on the assumption that the Company will continue in business as a going concern, and do not include any adjustments that might result from the outcome of this uncertainty.
3. We draw attention to note 19 which refer to the breach of the solvency margin requirement with possibility of SAMA invoking the requirements of the Article 68 (2) (d) of the Insurance Implementing Regulations.

**for PKF Al-Bassam & Al-Nemer
Allied Accountants**

Abdul Mohsen M. Al-Nemer
Certified Public Accountant
Licence No. 399

for Deloitte & Touche
Bakr Abulkhair & Co.

Waleed Bin Moha'd. Sobahi
Certified Public Accountant
Licence No. 378

6 Jumada'I, 1436 H
25 February, 2015
Jeddah, Kingdom of Saudi Arabia

المحاسبون المتحالفون
ترخيص رقم
520/11/323
Licence No.:
Allied Accountants

ديلويت أند توش
بكر أبو الخير وشركاهم
محاسبون قانونيون
ترخيص رقم ٩٦
Lic. 96
C.P.A
Deloitte & Touche
Bakr Abulkhair & Co.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

STATEMENT OF FINANCIAL POSITION
At 31 December 2014

	Note	*2014*	*2013*
		SR'000	*SR'000*
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4(a)	**23,573**	36,465
Term deposits	4(b)	**30,739**	10,576
Premiums receivable, net	5	**48,619**	37,998
Reinsurance receivables, net	6	**3,023**	4,750
Deferred policy acquisition costs	8	**4,739**	2,402
Prepayments and other receivables	11	**15,276**	10,783
Amount due from a related party	21	**6,759**	6,759
FVIS investments	10(a)	**85,484**	60,659
Reinsurers' share of unearned premiums	7	**4,927**	3,235
Reinsurers' share of outstanding claims	9	**6,082**	15,980
Held to maturity investments	10(b)	**30,641**	26,663
Furniture, fittings and office equipment	12	**2,163**	3,197
Due from shareholders' operations		**1,287**	-
Total insurance operations' assets		**263,312**	219,467
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4(a)	**5,524**	33
FVIS investments	10(a)	**14,072**	4,846
Available-for-sale investments	10(c)	**1,923**	6,976
Prepayments and other receivables	11	**555**	82
Due from insurance operations		**-**	4,565
Held to maturity investments	10(b)	**-**	3,719
Statutory deposit	16	**10,976**	10,886
Total shareholders' assets		**33,050**	31,107
TOTAL ASSETS		**296,362**	250,574

Chief Financial Officer

Chief Executive Officer

Chairman

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

STATEMENT OF FINANCIAL POSITION (continued)
At 31 December 2014

	Note	*2014* *SR'000*	*2013* *SR'000*
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance operations' liabilities			
Unearned premiums	7	**143,371**	99,732
Premium deficiency reserve	13	**4,531**	5,833
Unearned commission income	14	**1,291**	916
Outstanding claims	9	**79,726**	77,221
Policyholders' claims		**5,359**	6,441
Reinsurance payables		**2,883**	2,083
Accruals and other payables	15	**17,186**	14,326
Due to shareholders' operations		**-**	4,565
Employees' end of service benefits		**5,951**	5,336
		260,298	216,453
Insurance operations' surplus			
Accumulated surplus from insurance operations		**3,014**	3,014
Total insurance operations' liabilities and surplus		**263,312**	219,467
SHAREHOLDERS' LIABILITIES AND EQUITY			
Liabilities			
Accruals and other payables	15	**1,676**	1,730
Zakat provision	20	**3,108**	2,174
Due to insurance operations		**1,287**	-
Total shareholders' liabilities		**6,071**	3,904
Shareholders' equity			
Share capital	17	**100,000**	100,000
Available-for-sale investments reserve		**-**	2,053
Accumulated losses		**(73,021)**	(74,850)
Total shareholders' equity		**26,979**	27,203
Total shareholders' liabilities and equity		**33,050**	31,107
TOTAL LIABILITIES, SURPLUS AND EQUITY		**296,362**	250,574

Chief Financial Officer

Chief Executive Officer

Chairman

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

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
For the year ended 31 December 2014

	Notes	***2014 SR'000***	*2013 SR'000*
REVENUE			
Gross premiums written	7	**318,970**	218,299
Less: Reinsurance premiums ceded	7	**(14,308)**	(12,016)
Less: Excess of loss premiums	7	**(5,506)**	(3,406)
Net premiums written		**299,156**	202,877
Changes in net unearned premiums		**(41,947)**	(24,501)
Net premiums earned	7	**257,209**	178,376
Reinsurance commissions earned	14	**3,633**	3,628
Net revenue		**260,842**	182,004
COSTS AND EXPENSES			
Gross claims paid	9	**214,359**	168,161
Less: Reinsurers' share	9	**(7,696)**	(13,006)
Net claims paid		**206,663**	155,155
Changes in net outstanding claims and IBNR		**12,401**	25,198
Net claims incurred	9	**219,064**	180,353
Provision for premium deficiency reserve	13	**(1,302)**	5,612
Policy acquisition costs	8	**8,540**	5,560
Other operating expenses		**7,092**	4,625
Net costs and expenses		**233,394**	196,150
Net results of insurance operations		**27,448**	(14,146)
General and administration expenses	22	**(35,922)**	(36,229)
Release of doubtful debt provision		**983**	-
Other income		**1,107**	399
Investment income		**4,808**	1,349
Deficit from insurance operations		**(1,576)**	(48,627)
Shareholders' share of insurance operations' deficit	2	**1,576**	48,627
Policyholders' share of surplus for the year	2	**-**	-
Accumulated surplus at the beginning of the year		**3,014**	3,014
Accumulated surplus at the end of the year		**3,014**	3,014

Chief Financial Officer

Chief Executive Officer

Chairman

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

STATEMENT OF SHAREHOLDERS' OPERATIONS
For the year ended 31 December 2014

	Notes	*2014* *SR' 000*	*2013* *SR' 000*
REVENUES			
Shareholders' share of insurance operations' deficit		**(1,576)**	(48,627)
Unrealised gain on re-measurement of FVIS investments		**1,801**	6,584
Income from held to maturity investments		**182**	224
Income from term deposits		**-**	256
Gain on sale of available-for-sale investments	10c (ii)	**2,497**	170
		2,904	(41,393)
EXPENSES			
General and administrative expenses	22	**(141)**	(152)
Net income / (loss) for the year before Zakat		**2,763**	(41,545)
Zakat	20	**(934)**	(600)
Net income / (loss) for the year		**1,829**	(42,145)
Earnings / (loss) per share – (SR)	23	**0.18**	(4.21)

Chief Financial Officer

Chief Executive Officer

Chairman

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

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014	*2013*
	SR'000	*SR'000*
Net income / (loss) for the year	**1,829**	(42,145)
Items that are or may be reclassified subsequently to profit or loss:		
Change in fair value of available-for-sale investments (Note 10 (c))	**444**	564
Net change in available-for-sale investments reclassified to statement of shareholders' operations (Note 10 (c) (ii))	**(2,497)**	(170)
Total comprehensive loss for the year	**(224)**	(41,751)

Chief Financial Officer

Chief Executive Officer

Chairman

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	Share capital SR'000	*Available-for-sale investments reserve SR'000*	*Accumulated losses SR'000*	*Total SR'000*
Balance as at 1 January 2013	100,000	1,659	(32,705)	68,954
Net loss for the year	-	-	(42,145)	(42,145)
Other comprehensive loss for the year				
Change in fair value of available for sale investments (Note 10 (c))	-	564	-	564
Net change in available for sale investments reclassified to statement of shareholders' operations (Note 10 (c) (ii))	-	(170)	-	(170)
	-	394	-	394
Balance at 31 December 2013	100,000	2,053	(74,850)	27,203
Net income for the year	-	-	**1,829**	**1,829**
Other comprehensive loss for the year				
Change in fair value of available for sale investments (Note 10 (c))	-	**444**	-	**444**
Net change in available for sale investments reclassified to statement of shareholders' operations (Note 10 (c) (ii))	-	**(2,497)**	-	**(2,497)**
	-	**(2,053)**	-	**(2,053)**
Balance at 31 December 2014	**100,000**	**-**	**(73,021)**	**26,979**

Chief Financial Officer

Chief Executive Officer

Chairman

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

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2014

	Notes	*2014* *SR'000*	*2013* *SR'000*
OPERATING ACTIVITIES			
Policyholders' share of surplus for the year		-	-
Adjustments to reconcile Policyholders' share of the surplus for the year to net cash from operating activities:			
Unrealized gain on FVIS investments	10(a)	**(3,451)**	(98)
Realized gain on FVIS investments		**(1)**	-
Reinsurers share of unearned premiums		**(1,692)**	6,071
Amortization related to held to maturity investments	10(b)	**22**	22
Write off of furniture, fittings and office equipment		-	-
Provision for doubtful reinsurance receivables	6	**91**	472
Provision for doubtful premium receivables	5	-	1,015
Write off of doubtful premium receivables	5	-	(4,411)
Release of provision for doubtful premium receivables	5	**(983)**	-
Unearned premiums		**43,638**	18,430
Provision for premium deficiency reserve	13	**(1,302)**	5,612
Employees' end of service benefits, net		**615**	(1,144)
Depreciation		**1,608**	1,965
		38,545	27,934
Changes in operating assets and liabilities:			
Premium receivables		**(9,637)**	(263)
Reinsurance receivables		**1,636**	7,106
Policy acquisition costs		**(2,337)**	(356)
Prepayments and other receivables		**(4,492)**	580
Reinsurers share of outstanding claims		**9,897**	(1,787)
Unearned commission income		**375**	(258)
Outstanding claims		**2,503**	26,985
Policyholders' claims		**(1,081)**	(1,285)
Reinsurance payables		**801**	(1,387)
Accruals and other payables		**2,860**	3,221
Due (from) / to shareholders' operations		**(5,852)**	34
Net cash flows from operating activities		**33,218**	60,524
INVESTING ACTIVITIES			
Purchase of furniture, fittings and office equipment	12	**(574)**	(990)
Transfer of FVIS investments from shareholders' operations	10 (a)	-	(13,974)
Purchase of FVIS investments	10 (a)	**(25,000)**	(46,591)
Purchase of held to maturity investments	10 (b)	**(10,000)**	(20,000)
Term deposits		**(20,163)**	-
Proceeds from maturity of term deposits		-	10,072
Proceeds from maturity of held to maturity investments	10 (b)	**3,000**	7,000
Proceeds from disposal of FVIS investments	10 (a)	**6,627**	3,135
Net cash flows used in investing activities		**(46,110)**	(61,348)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(12,892)**	(824)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**36,465**	37,289
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4(a)	**23,573**	36,465

Chief Financial Officer

Chief Executive Officer

Chairman

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

STATEMENT OF SHAREHOLDER OPERATIONS' CASH FLOWS
For the year ended 31 December 2014

	Notes	***2014 SR'000***	*2013 SR'000*
OPERATING ACTIVITIES			
Net income / (loss) for the year before Zakat		**2,763**	(41,545)
Adjustments to reconcile net loss for the year before Zakat to net cash used in operating activities:			
Unrealized gain on FVIS investments	10(a)	**(1,801)**	(6,584)
Gain on disposal of available for sale investments	10(c)(ii)	**(2,497)**	(170)
Amortization of held to maturity investments	10(b)	**7**	12
		(1,528)	(48,287)
Changes in operating assets and liabilities:			
Prepayment and other receivables		**(472)**	400
Due from / (to) insurance operations		**5,852**	(34)
Statutory deposit		**(90)**	(115)
Accruals and other payables		**(55)**	124
Amount due to a related party		**-**	(2,026)
Zakat paid	20	**-**	(1,182)
Net cash flows from / (used in) operating activities		**3,707**	(51,120)
INVESTING ACTIVITIES			
Transfer of FVIS investments to insurance operations	10(a)	**(7,425)**	13,974
Purchase of FVIS investments	10(a)	**-**	(4,702)
Proceeds from maturity of term deposits		**-**	20,000
Proceeds from disposal of FVIS investments	10(a)	**-**	6,962
Proceeds from disposal of available for sale investments	10(c)	**5,497**	2,170
Proceed From maturity of held to maturity investments		**3,712**	-
Net cash flows from investing activities		**1,784**	38,404
NET DECREASE IN CASH AND CASH EQUIVALENTS		**5,491**	(12,716)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**33**	12,749
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	4(a)	**5,524**	33
MAJOR NON-CASH TRANSACTIONS			
Change in fair value of available for sale investments	10(c)	**444**	564

Chief Financial Officer

Chief Executive Officer

Chairman

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

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Salama Cooperative Insurance Company ("the Company") is a Saudi joint stock company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 1121K dated 29 Rabi Al-Thani 1428H (corresponding to 16 May 2007). The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awal I428H (corresponding to 23 May 2007).

The Registered Office address of the Company is:

Al Amir Muhammed bin Abdulaziz Street,
Bin Hamran Center, P.O. Box 122392,
Jeddah 21332,
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 23 May 2007. The Company started its operations on 1 January 2008. The Company is fully owned by the general public and Saudi shareholders.

In 2010, the Company entered into an agreement with Islamic Arab Insurance Company BSC (“the Seller”) pursuant to which it acquired the Seller’s insurance operations in the Kingdom of Saudi Arabia, effective from 1 October 2009, at a goodwill amount of SR 7,140 thousands, as approved by Saudi Arabian Monetary Agency (“SAMA”),. The portfolio valuation date, for the purpose of the transfer, was 31 December 2008. No payment in respect of goodwill has been made till 31 December 2012. The goodwill payments are governed by rules and regulations issued by SAMA in this regard and also subject to SAMA approval. In case the Company is not able to pay the goodwill before the end of 2015, the goodwill will be set off against the amount payable for goodwill. The Company is not expected to fulfil the requirements of SAMA in respect of goodwill payment, before the end of year 2015. The management discussed this matter with the Seller and Seller agreed and relinquished all their rights in respect of goodwill payment. As no amounts were expected to be paid to the Seller, the goodwill amount was offset against the amount payable to the Seller during the year ended 31 December 2012.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of measurement

These financial statements are prepared under the historical cost basis except for FVIS investments and available for sale investments which are measured at fair value.

b) Statement of compliance

These financial statements are 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. The physical custody and title of all assets related to the Insurance Operations and Shareholders’ Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and Board of Directors.

The Company presents its statement of financial position broadly in order of liquidity. All financial assets and liabilities except for investments held to maturity are expected to be recovered and settled respectively, within twelve months after the reporting date.

c) Functional and presentation currency

The financial statements are expressed in Saudi Riyals, being the functional currency of the Company and have been rounded off to the nearest thousand, unless otherwise specified.

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

d) Surplus distribution

As per the By-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

Shareholders	90%
Policyholders	10%
	100%

If the insurance operations result in a deficit, the entire deficit is borne by Shareholder's Operations.

e) Summary of significant accounting policies

The accounting policies adopted by the Company for preparation of these financial statements are consistent with those of the previous year except for the adoption of following new standards and amendments to existing standards and interpretations mentioned below which had no significant impact on the financial statements of the Company.

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

The Company has adopted the following amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) with a date of initial application of 1 January 2014:

Standard/ Interpretation	***Description***
IAS 1	Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
IAS 19	Revision to IAS 19 Employee Benefits
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
IAS 36	Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
IAS 39	Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
IFRS 1	Amendments to IFRS 1 Government Loans
IFRS 7	Amendments IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRIC 21	Levies

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

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

e) Summary of significant accounting policies (continued)

Standards issued but not yet effective

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

Standard/ Interpretation	***Description***	***Effective date***
IFRS 9	Financial Instruments – Classification & Measurement	1 January 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Inventor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
IFRS 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27	Amendment to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016

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

The significant accounting policies used in the preparation of these financial statements are summarized as follows:

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are principally divided into medical, marine, property, motor, engineering and accident and liability and are principally short-term insurance contracts.

Medical insurance is designed to compensate policy holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties. Customers could also receive compensation for the loss of earnings through loss of profit and business interruption. For property insurance contracts the main risks are fire, natural perils, business interruption and burglary.

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

e) Summary of significant accounting policies (continued)

Insurance contracts (continued)

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and dealer repairs.

General accident insurance includes money, fidelity guarantee, personal accident, jeweler block, jewelry all risks and travel insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types:

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

(b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and Business Interruption following machinery breakdown and includes electronic equipment, boiler and deterioration of stocks insurance.

Cash and cash equivalents
Cash and cash equivalents consists of bank balances, cash on hand, and investments that are readily convertible into known amounts of cash and have an original maturity of three months or less.

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

Premiums receivable are stated at original invoice amount less an allowance for any uncollectible amounts (impairment). An allowance for impairment is made when collection of the full amount is no longer probable and charged to statement of insurance operations and accumulated surplus. Bad debts are written off when there is no possibility of recovery.

Deferred policy acquisition costs
Those direct costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized on a straight-line basis based on the term of expected future premiums except for marine cargo where the deferred portion is computed based on last three months of the total cost incurred. Amortization is recorded in the statement of insurance operations and accumulated surplus.

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

e) Summary of significant accounting policies (continued)

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

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

Available-for-sale investments
After initial recognition, investments which are classified as "available-for-sale" (AFS) are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are included in statement of shareholders' comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported within statement of comprehensive income, is included in the statement of shareholders' operations.

Investments held to maturity
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity and are classified as held to maturity investments.

Held to maturity investments are initially recorded at cost, being fair value of consideration given. Subsequently these are measured at amortized cost (using effective interest rate) less impairment losses.

Any permanent decline in value of investments is adjusted for and reported in the related statements of insurance operations and accumulated surplus or shareholders' operations as impairment.

Furniture, fittings and office equipment
Furniture, fittings and office equipment are measured at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis over following estimated useful lives of the assets.

Motor vehicle	5 years
Furniture and fittings	5 years
Computers and office equipment	3 years

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

Expenditure incurred to replace a component of an item of furniture, fittings and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture, fittings and equipment. All other expenditure is recognised in the statement of insurance operations and accumulated surplus as the expense is incurred.

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

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

e) Summary of significant accounting policies (continued)

Goodwill
Goodwill represented the amount paid / to be paid by the Company in excess of the fair value of the net identifiable assets and liabilities acquired from Islamic Arab Insurance Company as approved by SAMA. Following initial recognition, goodwill was measured at cost less any accumulated impairment losses. Goodwill was tested for impairment, annually at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (note 1).

Liability adequacy test
At each reporting date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and accumulated surplus, and a provision for premium deficiency is created.

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

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

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

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 employees' final salary and length of service subject to the completion of a minimum service period. Provision is made for the amounts payable under Saudi Arabian Labour law applicable to employees accumulated periods of service at the statement of financial position date. The expense for the year is charged to the statement of insurance operations and accumulated surplus.

Zakat
Zakat are provided for in accordance with the Saudi Arabian Zakat Regulations. Zakat is accrued and charged to statement of shareholders' operations.

Impairment of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised for insurance operations' assets in the statement of insurance operations and accumulated surplus, and for shareholders' assets in the statement of shareholders' operations.

Impairment is determined as follows:

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised.
b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the asset's original effective interest rate.

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

e) Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

e) Summary of significant accounting policies (continued)

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.

Revenue Recognition
Premiums and commissions earned
Gross premiums written and commission income are taken into income over the term of the policies to which they relate on a pro-rata basis. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and unearned commission income, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents last three months of the total premiums written during the current financial period. The change in the unearned premiums is taken to the statement of insurance operations and accumulated surplus in order that revenue is recognized over the period of risk.

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

Commission income
Commission income on term deposits is recognised using the effective yield method.

Reinsurance premiums
Reinsurance premiums ceded are recognised as an expense when payable.

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

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to statement of insurance operations and accumulated surplus as incurred. Claims comprise the estimated amounts payable in respect of claims reported to the Company and those not reported at the reporting date.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the reporting date together with the related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims but not paid as of the reporting date 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 the reporting date (“IBNR”) including related claims handling costs and the expected value of salvage and other recoveries at the reporting date.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

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

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

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

e) Summary of significant accounting policies (continued)

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

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.

Operating lease
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.

Foreign currencies
The accounting records of the Company are maintained in Saudi Riyals. Transactions in foreign currencies are recorded in Saudi Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of insurance operations and accumulated surplus or the statement of shareholders' operations as appropriate.

Expenses
Due to the nature of the Company' business, all expenses incurred are considered to be general and administrative expenses and are classified as such.

Segment 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. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. For management purposes, the Company is organized into business units based on their products and services and has the following major reportable segments:

- Medical provides compensation to policy holders for expenses incurred in treatment of a disease, illness or injury.
- Motor provides coverage against losses and liability related to motor vehicles.
- Other includes property, marine, engineering, accident and liability and miscellaneous categories.

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.

No inter-segment transactions occurred during the period. If any transaction were to occur, transfer prices between business 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 business segments which will then be eliminated at the level of the financial statements of the Company.

Fair values of financial instruments
Financial instruments comprise cash and cash equivalents, term deposits, premiums receivable, reinsurance receivables, amounts receivable from related party, investments, outstanding claims, reinsurance share of outstanding claims, reinsurance payables and certain other assets and liabilities.

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

e) Summary of significant accounting policies (continued)

Fair values of financial instruments (continued)
Fair value of FVIS investments is determined on the basis of net assets value of the respective funds at the end of the reporting period. For FVIS or AFS investments, where there is no active market the fair value is determined by using valuation technique, except for unquoted equity investments which are held at cost. Such technique includes using recent arm's length transactions, reference to 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 best estimate and discount rate used is a market related rate for similar assets.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of insurance operations and accumulated surplus 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.

f) Use of estimates and judgments

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. 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 t`he carrying amounts of the assets and liabilities within the next financial year are discussed below.

Provision for outstanding claims
Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. In particular, estimates have to be made to calculated ultimate cost of claims. Incurred but not yet reported (IBNR) at reporting date are derived by deducting paid and outstanding claim at reporting date from ultimate cost of claim. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. These provisions are not discounted for the time value of money.

Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Claims requiring court or arbitration decisions, if any, are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred on a monthly basis, and claims incurred but not reported on a quarterly basis. The provision for outstanding claims as at 31 December 2013 and 2014 were also verified and certified by an independent actuary.

Premium deficiency reserve
Estimation of the premium deficiency is highly sensitive to a number of assumptions as to the future events and conditions. It is based on 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 considers the claims and premiums relationship which is expected to apply on month to month basis. Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that past claims pattern are stable and will continue in future.

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

f) Use of estimates and judgments (continued)

Allowance for impairment of premiums receivable
The Company makes portfolio provision, estimated on a group basis, based on the ageing profile of the premiums receivable. Such estimates involve various degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Reinsurance
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.

Deferred acquisition costs
Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs and are amortised in the statement of insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the 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.

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

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

Impairment of available-for-sale equity investments
The Company determines that available-for-sale equity investments assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

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

3 GOING CONCERN

The Company has an income of SR 1.83 million during the year ended 31 December 2014 (2013: Loss of SR 42.15 million) and accumulated losses amounted to SR 73.021 million at that date (31 December 2013: SR 74.850 million). The Company's ability to continue as a going concern is dependent upon future profitable operations and continued financial support from shareholders in order to enable it to cover its losses and settle its liabilities. Further, as at 31 December 2014, the Company is not in full compliance with Article 66 of SAMA Insurance Implementing Regulations in relation to its solvency requirements (refer note 19).

The above mentioned conditions indicate the existence of uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. However, whilst approving the financial statements of the Company on 25 February 2015, the Board of Directors reconsidered the financial position and the matters disclosed in the preceding paragraphs and continue to believe that the going concern basis of preparation of the financial statements is appropriate.

These financial statements have been prepared on the assumption that the Company will continue in business as a going concern, and do not include any adjustments that might result from the outcome of uncertainties from above mentioned conditions.

Further, during the year, the Board of directors has recommended an increase in the Company's capital through offering a rights issue with a total value of SR 150 million.

On 25 September 2014 (corresponding to 01 Dhul Hijjah 1435H), the Company received an approval from SAMA for increasing its ordinary share capital by SAR 150 million, by way of issuance of right shares to its existing shareholders. The Company has submitted required information and documents to Capital Market Authority (CMA) in order to obtain approval from the Capital Market Authority (CMA). As a result of this rights issue, the share capital of the Company will increase to SR 250 million comprising of 25 million shares of SR 10 each in issued and fully paid up shares.

4 CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	2014 SR'000	*2013 SR'000*
(a) Cash and cash equivalents		
Insurance Operations		
Cash on hand and at banks	**23,573**	36,465
Shareholders' Operations		
Cash at banks	**5,524**	33
(b) Term deposits		
Insurance Operations		
Term deposits	**30,739**	10,576

The term deposits are held with the commercial banks and earn commission at market rates. These term deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three months and less than twelve months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

5 PREMIUMS RECEIVABLE, NET

	2014 SR'000	*2013 SR'000*
Due from policyholders	**48,425**	44,071
Due from policyholders - related party (see note 21)	**22,847**	17,563
Allowance for doubtful premium receivable (see below)	**(22,653)**	(23,636)
	48,619	37,998

Movements in allowance of doubtful premiums receivable were as follows:

	2014 SR'000	*2013 SR'000*
Balance at the beginning of the year	**23,636**	27,032
Provided during the year (note 22)	**-**	1,015
Written off during the year	**-**	(4,411)
Release of provision during the year	**(983)**	-
Balance at the end of the year	**22,653**	23,636

The age analysis of unimpaired premiums receivable arising from insurance contracts is as follows:

	Past due but not impaired				
	Up to three months SR'000	*Above three and up to six months SR'000*	*Above six and less than twelve months SR'000*	*Twelve months and above SR'000*	*Total SR'000*
2014	**37,940**	**5,502**	**2,237**	**2,940**	**48,619**
2013	25,662	3,113	6,230	2,993	37,998

Past due but not impaired 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 is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 43% of this balance as at 31 December 2014 (2013: 39%). Premiums receivable comprise a large number of customers and insurance companies all within the Kingdom of Saudi Arabia.

6 REINSURANCE RECEIVABLE, NET

	2014 SR'000	*2013 SR'000*
Reinsurance receivable	**6,657**	8,293
Allowance for doubtful insurance receivable (see below)	**(3,634)**	(3,543)
	3,023	4,750

Movements in allowance of doubtful premiums receivable were as follows:

	2014 SR'000	*2013 SR'000*
Balance at the beginning of the year	**3,543**	3,071
Provided during the year (note 22)	**91**	472
Balance at the end of the year	**3,634**	3,543

6 REINSURANCE RECEIVABLE, NET (continued)

	Past due but not impaired				
	Up to three months SR'000	*Above three and up to six months SR'000*	*Above six and less than twelve months SR'000*	*Twelve months and above SR'000*	*Total SR'000*
2014	**1,857**	**226**	**384**	**556**	**3,023**
2013	1,609	2,287	327	527	4,750

Past due but not impaired reinsurance 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 reinsurance receivables and the vast majority is, therefore, unsecured. In respect of reinsurance receivables, the five largest customer balances accounted for approximately 50% of gross reinsurance receivables balance as at 31 December 2014 (2013: 65%). Geographical concentration of reinsurance receivables at year end is as follows;

	***2014* SR'000**	*2013 SR'000*
Within Kingdom of Saudi Arabia	**2,232**	2,781
Outside Kingdom of Saudi Arabia	**4,425**	5,512
	6,657	8,293

7 NET PREMIUMS EARNED

	***2014* SR'000**	*2013 SR'000*
Gross written premiums	**318,970**	218,299
Gross unearned premiums at the beginning of the year	**99,732**	81,302
	418,702	299,601
Gross unearned premiums at the end of the year	**(143,371)**	(99,732)
Gross premiums earned	**275,331**	199,869
Reinsurance premium ceded	**(14,308)**	(12,016)
Excess of loss premiums	**(5,506)**	(3,406)
Reinsurers' share of unearned premiums at the beginning of the year	**(3,235)**	(9,306)
	(23,049)	(24,728)
Reinsurers' share of unearned premiums at the end of the year	**4,927**	3,235
Insurance premiums ceded to reinsurers	**(18,122)**	(21,493)
Net premiums earned	**257,209**	178,376

8 DEFERRED POLICY ACQUISITION COSTS

	2014	*2013*
	SR'000	*SR'000*
Balance at the beginning of the year	**2,402**	2,046
Expenses incurred during the year	**10,877**	5,916
Amortisation for the year	**(8,540)**	(5,560)
Balance at the end of the year	**4,739**	2,402

9 CLAIMS INCURRED

	2014	*2013*
	SR'000	*SR'000*
Gross claims paid	**214,359**	168,161
Gross outstanding claims at the end of the year (see note (i) below)	**79,726**	77,221
	294,085	245,382
Gross outstanding claims at the beginning of the year	**(77,221)**	(50,236)
Gross claims incurred	**216,864**	195,146
Reinsurance recoveries	**(7,696)**	(13,006)
Reinsurers' share of outstanding claims at the end of the year (see note (ii) below)	**(6,082)**	(15,980)
	(13,778)	(28,986)
Reinsurers' share of outstanding claims at the beginning of the year	**15,980**	14,193
Reinsurers' share of claims	**2,202**	(14,793)
Net claims incurred	**219,066**	180,353

(i) Gross outstanding claims as at 31 December 2014 include provision for IBNR amounting to SR 62,037 thousand (2013: 34,992 thousand).

(ii) Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the reporting date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

CLAIMS DEVELOPMENT TABLE

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

The Company aims to maintain 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.

9 CLAIMS INCURRED (continued)

CLAIMS DEVELOPMENT TABLE (continued)

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

31 December 2014

Accident year	**2010 & earlier**	**2011**	**2012**	**2013**	**2014**	**Total**
				SR'000		
Estimate of ultimate claims cost:						
At the end of accident year	-	128,273	171,478	162,789	228,220	
One year later	-	136,164	184,820	171,923	-	
Two years later	-	137,413	188,195	-	-	
Three years later	-	138,432	-	-	-	
Four years later	-	-	-	-	-	
Reserve in respect of prior year	791	-	-	-	-	
Current estimate of cumulative claims	791	138,432	188,195	171,923	228,220	727,561
Cumulative payments to date	-	(138,349)	(186,915)	(165,598)	(156,974)	(647,835)
Liability recognised in statement of financial position	**791**	**84**	**1,280**	**6,325**	**71,246**	**79,726**

10 INVESTMENTS

	2014 ***SR'000***	*2013* *SR'000*
Insurance Operations		
FVIS investments (see (a) below)	**85,484**	60,659
Held to Maturity Investments (see (b) below)	**30,641**	26,663
Shareholders' Operations		
FVIS investments (see (a) below)	**14,072**	4,846
Held to Maturity investments (see (b) below)	**-**	3,719
Available for sale investments (see (c) below)	**1,923**	6,976

10 INVESTMENTS (continued)

a) FVIS investments

Insurance operations

Movements in FVIS investments is as follows:

	2014	*2013*
	SR'000	*SR'000*
Balance at the beginning of the year	**60,659**	3,131
Purchased during the year	**25,000**	46,591
Disposals during the year	**(6,627)**	(3,135)
Transfer of FVIS investments from Shareholders' Operations	**-**	13,974
Transfer during the year	**3,000**	-
Changes in fair value of investments	**3,452**	98
Balance at the end of the year	**85,484**	60,659

During 2013, the management of the Company transferred certain FVIS investments from Shareholders' Operations to Insurance Operations.

Shareholders' operations

Movements in FVIS investments is as follows:

	2014	*2013*
	SR'000	*SR'000*
Balance at the beginning of the year	**4,846**	14,496
Purchases during the year	**7,425**	4,702
Transfer of FVIS investments to Insurance Operations (refer note 10(a) – insurance operations)	**-**	(13,974)
Disposals during the year	**-**	(6,962)
Changes in fair value of investments	**1,801**	6,584
Balance at the end of the year	**14,072**	4,846

b) Held to maturity investments

Insurance operations

Movements in investments held to maturity is as follows:

	2014	*2013*
	SR'000	*SR'000*
Balance at the beginning of the year	**26,663**	13,685
Purchases during the year	**10,000**	20,000
Matured during the year	**(3,000)**	(7,000)
Transfer during the year	**(3,000)**	-
Amortised during the year	**(22)**	(22)
Balance at the end of the year	**30,641**	26,663

Shareholders operations

Movements in investments held to maturity is as follows:

	2014	*2013*
	SR'000	*SR'000*
Balance at the beginning of the year	**3,719**	3,731
Matured during the year	**(3,712)**	-
Amortized during the year	**(7)**	(12)
Balance at the end of the year	**-**	3,719

10 INVESTMENTS (continued)

c) Available for sale investments

Shareholders' operations
Movements in available for sale investments are as follows:

2014	***Quoted securities SR'000***	***Unquoted securities SR'000***	***Total SR'000***
Balance at the beginning of the year	**5,053**	**1,923**	**6,976**
Disposed during the year (see note (ii) below)	**(5,497)**	**-**	**(5,497)**
Changes in fair value of investments	**444**	**-**	**444**
Balance at the end of the year	**-**	**1,923**	**1,923**

2013	*Quoted securities SR'000*	*Unquoted securities SR'000*	*Total SR'000*
Balance at the beginning of the year	6,659	1,923	8,582
Disposed during the year (see note (ii) below)	(2,170)	-	(2,170)
Changes in fair value of investments	564	-	564
Balance at the end of the year	5,053	1,923	6,976

(i) Unquoted available for sale investment, having a carrying value of SR 1,923 thousand (2013: SR 1,923 thousand) are measured at cost as its fair value cannot be reliably measured due to the absence of active market and unavailability of observable market prices for similar instruments.

(ii) During the year ended 31 December 2014, the Company sold investment at a price of SR 3,000 thousand (2013: SR 2,000 thousand) for SR 5,497 thousand (2013: SR 2,170 thousand). The realized gain of SR 2,497 thousand (2013: SR 170 thousand) has been transferred from available-for-sale investment reserve to statement of shareholders' operations.

11 PREPAYMENTS AND OTHER RECEIVABLES

	2014 SR'000	*2013 SR'000*
Insurance Operations		
Prepayments	**2,295**	2,457
Other receivables	**12,981**	8,326
	15,276	10,783
Shareholders' Operations		
Other receivables	**555**	82

12 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

	Motor vehicles SR'000	*Furniture and fittings SR'000*	*Computers and office equipment SR'000*	*Total SR'000*
Insurance Operations				
Cost:				
At 1 January 2014	**59**	**5,998**	**5,744**	**11,801**
Additions during the year	**-**	**125**	**449**	**574**
At 31 December 2014	**59**	**6,123**	**6,193**	**12,375**
Accumulated Depreciation:				
At 1 January 2014	**59**	**3,775**	**4,770**	**8,604**
Charge for the year (see note 22)	**-**	**969**	**639**	**1,608**
At 31 December 2014	**59**	**4,744**	**5,409**	**10,212**
Carrying amount:				
At 31 December 2014	**-**	**1,379**	**784**	**2,163**
At 31 December 2013	-	2,223	974	3,197

13 PREMIUM DEFICIENCYRESERVE

As at 31 December 2014 the Company held provision amounting to SR 4,531 thousand (2013: 5,833 thousand) in respect of premium deficiency for its motor, medical, fire, engineering and general accident class of business. The Company created this provision based on the assumption that the premiums for these classes 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 date of statement of financial position.

Movements in provision for premium deficiency reserve is as follows:

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	**5,833**	221
Provided during the year	**-**	5,612
Released during the year	**(1,302)**	-
Balance at the end of the year	**4,531**	5,833

14 UNEARNED COMMISSION INCOME

	2014 SR'000	2013 SR'000
Balance at the beginning of the year	**916**	1,174
Commission received during the year	**4,008**	3,370
Commission earned during the year	**(3,633)**	(3,628)
Balance at the end of the year	**1,291**	916

15 ACCRUALS AND OTHER PAYABLES

	2014	*2013*
	SR'000	*SR'000*
Insurance Operations		
Accrued expenses	**2,198**	2,677
Other payables	**14,988**	11,649
	17,186	14,326

Shareholders' Operations	***2014***	*2013*
	SR'000	*SR'000*
Accrued expenses	**700**	844
Other payables	**976**	886
	1,676	1,730

16 STATUTORY DEPOSIT

	2014	*2013*
	SR'000	*SR'000*
Statutory deposit	**10,976**	10,886

As required by Saudi Arabian Insurance Regulations, the Company has deposited 10% of its paid up capital, amounting to SR 10 million in a bank designated by the Saudi Arabian Monetary Agency ("SAMA"). The return on this deposit during the year ended 31 December 2014, which is payable to SAMA, is SR 90 thousand (2013: SR 115 thousand). A corresponding liability to SAMA has been recorded for the return on this deposit, as the Company does not have any entitlement to it. This statutory deposit cannot be withdrawn without the consent of SAMA.

17 SHARE CAPITAL

The share capital of the Company is SR 100 million divided into 10 million shares of SR 10 each. As at 31 December 2014, the founding shareholders of the Company held three million shares with a nominal value of SR 10 each, which represents 30% of the shares of the Company. The remaining seven million shares with a nominal value of SR 10 each, which represents 70% of the shares of the Company, are held by the public.

18 STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations issued by the Saudi Arabian Monetary Agency ("SAMA"), 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. As the Company has accumulated losses at year end, no transfer to statutory reserve has been made.

19 REGULATORY REQUIREMENT

As required by Saudi Arabian Insurance Regulations (Article 66 of Implementation Regulations issued by SAMA), the Company is required to maintain minimum Solvency Margin equivalent to the highest of minimum capital requirement, premium solvency margin or claims solvency margin. As at 31 December 2014, the Company's solvency level is less than the minimum solvency margin required by the Implementation Regulations and is in the purview of the above-mentioned article of the Implementation Regulations. The Company has submitted its action plan to SAMA to achieve the solvency margin.

20 ZAKAT

Charge for the year	***2014*** ***SR'000***	*2013* *SR'000*
Current year provision	**1,000**	600
Relating to prior years	**-**	-
Charge for the year	**1,000**	600

The current year provision is based on the following:

	2014 ***SR'000***	*2013* *SR'000*
Equity	**25,150**	67,295
Opening provision and adjustments	**42,508**	34,211
Net book value of long term assets	**(33,364)**	(34,491)
Available-for-sale investments reserve	**-**	2,053
	34,294	69,068
Adjusted income / (loss) for the year	**3,046**	(45,068)
Zakat base	**37,340**	24,000

The differences between the financial and the Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

Movements in provision during the year	***2014*** ***SR'000***	*2013* *SR'000*
Balance at the beginning of the year	**2,174**	2,756
Charge for the year	**934**	600
Payment made during the year	**-**	(1,182)
Balance at the end of the year	**3,108**	2,174

Zakat status

The Company has filed its Zakat declarations for the period from 16 May 2007 to 31 December 2008 and for the years ended 31 December 2009 through 2013 and obtained restricted Zakat certificates.

The Department of Zakat and Income Tax ("DZIT") raised initial assessment for the period from 16 May 2007 to 31 December 2008 and demanded additional Zakat liability of SR 619 thousand. The Company filed an appeal against this demand and is confident of a favorable outcome. Zakat assessments for years ended 31 December 2009 through 2011 have not yet been raised. However during the year, the DZIT issued initial assessment for the year 2011, disallowing investments and statutory deposit from Zakat base and requested additional Zakat of SR 1,376 thousand. The Company has filed an appeal against DZIT's initial assessment and is confident of a favorable outcome.

21 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year.

	Nature of transaction	***Transactions for the year ended 31 December 2014 SR'000***	*Transactions for the year ended 31 December 2013 SR'000*	***Balance as at 31 December 2014 SR'000***	*Balance as at 31 December 2013 SR'000*
(a) Insurance Operations					
Major shareholder					
Islamic Arab Insurance Company (B.S.C.) (see below note (d))	General and administrative expenses directly paid on behalf of the Company.	-	-	**6,759**	6,759
Related parties of key management personnel					
Tajeer Co	Insurance policies issued.	**125,382**	100,300	**22,847**	17,563
Chairman of the Board	Insurance policies issued.	**91**	223	**15**	133
Rusd Global Company	Insurance policies issued.	**571**	533	**28**	38
Technology Establishment	Insurance policies issued.	**248**	197	**6**	16
Alawwal Financial Services	Insurance policies issued.	**-**	-	**-**	(20)
Key management personnel	Long-term benefit	**375**	207	**(1,263)**	(888)
	Short-term benefit	**4,244**	2,724	**(151)**	(33)
(b) Shareholder operations					
Major shareholder					
Islamic Arab Insurance Company	General and Administrative Expenses paid by on behalf of the Company	**212**	-	**(212)**	-
Board of directors	Remunerations	**54**	55	**-**	-
Board of committees	Remunerations	**12**	16	**-**	-

(c) Terms of transactions with related parties are approved by the management of the Company. In addition to disclosures set out in note 2(d) and 5 the year end balances of transactions with related parties are disclosed in the statement of financial position.

(d) Subsequent to the year end, the Company made an agreement with a related party according to which a related party will pay full amount before year ending 31 December 2015.

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2014	*2013*
	SR'000	*SR'000*
Insurance Operations		
Employees' costs	**23,924**	23,882
Office rent	**3,527**	3,390
Information technology	**2,165**	1,932
Allowance for doubtful premium receivable (see note 5)	**-**	1,015
Allowance for reinsurance receivables (see note 6)	**91**	472
Depreciation (see note 12)	**1,608**	1,965
Telephone	**278**	319
Printing and stationary	**783**	611
Annual subscription	**808**	414
Water and electricity	**186**	208
Others	**2,552**	2,021
	35,922	36,229
Shareholders' Operations		
Board of director's remuneration (see note a below)	**54**	55
Board attendance fees (see note b below)	**75**	81
Committee expenses (see note c below)	**12**	16
	141	152

a) Board of Directors' remuneration is paid in accordance with the by-laws of the Company.

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

c) Committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

23 EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share for the year have been calculated by dividing the net income / (loss) for the year by the weighted average number of shares in issue during the year (10,000 thousand shares) (2013: 10,000 thousand shares). Diluted earnings per share are not applicable to the Company.

24 SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

All the insurance operations of the Company are carried out in the Kingdom of Saudi Arabia. For management purposes, the operations are monitored in three major lines of business i.e. medical, motor and others.

Segment results do not include general and administrative expenses and investment income. Segment assets do not include cash and cash equivalents, term deposits, net premiums receivable, reinsurance receivable, prepayments and other receivables, amount due from a related party, investments and furniture, fittings and office equipment.

Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables, employees' terminal benefits and due to shareholders' operations.

24 SEGMENTAL INFORMATION (continued)

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

For the year ended 31 December 2014	***Medical SR'000***	***Motor SR'000***	***Other SR'000***	***Total SR'000***
Gross premium written	**37,205**	**263,666**	**18,099**	**318,970**
Less: Reinsurance premiums ceded	**-**	**(818)**	**(13,490)**	**(14,308)**
Less: Excess of loss premiums	**(639)**	**(3,633)**	**(1,234)**	**(5,506)**
Net premiums written	**36,566**	**259,215**	**3,375**	**299,156**
Changes in net unearned premiums	**(3,970)**	**(36,536)**	**(1,441)**	**(41,947)**
Net premiums earned	**32,596**	**222,679**	**1,934**	**257,209**
Reinsurance commissions earned	**-**	**89**	**3,544**	**3,633**
Net revenue	**32,596**	**222,768**	**5,478**	**260,842**
Gross claims paid	**21,231**	**183,253**	**9,875**	**214,359**
Less: Reinsurers share	**(687)**	**(5)**	**(7,004)**	**(7,696)**
Net claims paid	**20,544**	**183,248**	**2,871**	**206,663**
Changes in net outstanding claims	**(3,130)**	**18,039**	**(2,508)**	**12,401**
Net claims incurred	**17,414**	**201,287**	**363**	**219,064**
Premium deficiency reserve	**(2,635)**	**2,001**	**(668)**	**(1,302)**
Policy acquisition costs	**1,399**	**5,963**	**1,178**	**8,540**
Other operating expenses	**2,962**	**3,987**	**143**	**7,092**
Net costs and expenses	**19,140**	**213,238**	**1,016**	**233,394**
Net results of insurance operations	**13,456**	**9,530**	**4,462**	**27,448**
Unallocated expenses				**(35,922)**
Release of provision for premium receivables				**983**
Unallocated other income				**1,107**
Investment income				**4,808**
Deficit from insurance operations				**(1,576)**

24 SEGMENTAL INFORMATION (continued)

As at 31 December 2014	***Medical SR'000***	***Motor SR'000***	***Other SR'000***	***Total SR'000***
Insurance operations' assets				
Reinsurer's share of unearned premiums	**-**	**385**	**4,542**	**4,927**
Reinsurer's share of outstanding claims	**-**	**-**	**6,082**	**6,082**
Deferred policy acquisition costs	**890**	**3,448**	**401**	**4,739**
Unallocated assets				**247,564**
Total insurance operations' assets				**263,312**
Insurance operations' liabilities and surplus				
Unearned premium	**15,444**	**120,529**	**7,398**	**143,371**
Outstanding claims	**6,451**	**64,191**	**9,084**	**79,726**
Unearned commission income	**-**	**75**	**1,216**	**1,291**
Premium deficiency reserve	**-**	**4,331**	**200**	**4,531**
Unallocated liabilities and surplus				**34,393**
Total insurance operations' liabilities and surplus				**263,312**

For the year ended 31 December 2013	*Medical SR'000*	*Motor SR'000*	*Other SR'000*	*Total SR'000*
Gross premiums written	25,558	175,855	16,886	218,299
Less: Reinsurance premiums ceded	(284)	(78)	(11,654)	(12,016)
Less: Excess of loss premiums	(390)	(2,222)	(794)	(3,406)
Net premiums written	24,884	173,555	4,438	202,877
Changes in net unearned premiums	(3,661)	(21,271)	431	(24,501)
Net premiums earned	21,223	152,284	4,869	178,376
Reinsurance commissions earned	-	10	3,618	3,628
Net revenue	21,223	152,294	8,487	182,004
Gross claims paid	27,651	135,561	4,949	168,161
Less: Reinsurers share	(11,110)	-	(1,896)	(13,006)
Net claims paid	16,541	135,561	3,053	155,155
Changes in outstanding claims	2,733	22,620	(155)	25,198
Net claims incurred	19,274	158,181	2,898	180,353
Premium deficiency reserve	2,477	2,330	805	5,612
Policy acquisition costs	1,240	3,213	1,107	5,560
Other operating expenses	1,937	2,508	180	4,625
Net costs and expenses	24,928	166,232	4,990	196,150
Net results of insurance operations	(3,705)	(13,938)	3,497	(14,146)
Unallocated expenses				(36,229)
Unallocated other income				399
Investment income				1,349
Deficit from insurance operations				(48,627)

24 SEGMENTAL INFORMATION (continued)

As at 31 December 2013	*Medical SR'000*	*Motor SR'000*	*Other SR'000*	*Total SR'000*
Insurance operations' assets				
Reinsurer's share of unearned premiums	-	37	3,198	3,235
Reinsurer's share of outstanding claims	881	921	14,178	15,980
Deferred policy acquisition costs	454	1,670	278	2,402
Unallocated assets	-	-	-	197,850
Total insurance operations' assets				219,467
Insurance operations' liabilities and surplus				
Unearned premium	11,474	83,645	4,613	99,732
Outstanding claims	10,462	47,071	19,688	77,221
Unearned commission income	-	8	908	916
Premium deficiency reserve	2,635	2,330	868	5,833
Unallocated liabilities and surplus	-	-	-	35,765
Total insurance operations' liabilities and surplus				219,467

25 CONTINGENT LIABILITIES

Company's bankers have given guarantees to non-government customers amounting to SR 0.8 million (2013: SR 0.8 million) in respect of motor insurance.

26 RISK MANAGEMENT

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

Risk management structure

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

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

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

Insurance risk
The risk under an insurance policy 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 policies is that the actual claims and benefit payments exceed the carrying amount of insurance reserves. 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. Therefore the objective of the Company is to ensure that sufficient resources are available to cover claims.

26 RISK MANAGEMENT (continued)

Insurance risk (continued)

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance policies 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.

Certain 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 statement of 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 various assumptions mentioned in note 2(f).

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors such as flood, environmental and economical, atmospheric disturbance and concentration of risk etc. 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.

Geographical concentration of risks

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

The company monitors concentration of risk primarily by class of business. The major concentration lies in motor and medical line of business.

Independent actuarial review of claims and claims reserves

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

Key assumptions

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

Sensitivities

The company believes that claim liabilities under insurance contract (Gross outstanding claim less reinsurance share of outstanding claim) outstanding at the year-end are adequate. However these amounts are not certain and actual payments may differ from claim liabilities provided in the financial statements. The insurance claim liabilities are sensitive to various assumptions. Sensitivity of loss for the year before Zakat to change in claim liabilities and IBNR based on an increase / decrease of 10% in outstanding claim reserve and increase / decrease of 15 % in IBNR is given below for each business segment.

	2014 SR’000		*2013 SR’000*	
<u>*Outstanding claim net of reinsurance*</u>	**Effect of 10% increase**	**Effect of 10% decrease**	Effect of 10% increase	Effect of 10% decrease
Motor	**(806)**	**806**	(888)	888
Medical	**(265)**	**265**	(355)	355
Others	**(229)**	**229**	(436)	436
	(1,300)	**1,300**	(1,679)	1,679

26 RISK MANAGEMENT (continued)

Insurance risk (continued)

	2014 SR'000		*2013 SR'000*	
IBNR	**Effect of 15% increase**	**Effect of 15% decrease**	Effect of 15% increase	Effect of 15% decrease
Motor	**(8,420)**	**8,420**	(3,866)	3,791
Medical	**(570)**	**570**	(905)	905
Others	**(107)**	**107**	(68)	68
	(9,097)	**9,097**	(4,839)	4,764

Reinsurance 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 management. The criteria may be summarized as follows:

a) Minimum acceptable credit rating by recognized rating agencies (e.g. S&P) that is not lower than BBB.
b) Reputation of particular reinsurance companies.
c) 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 Regulator. 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 management 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.

Regulatory framework risk

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities.

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

Capital management risk

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, if required in future.

26 RISK MANAGEMENT (continued)

Capital management risk (continued)

The table below summarizes the minimum regulatory capital of the Company:

	2014	*2013*
	SR'000	*SR'000*
Minimum regulatory capital (Minimum capital basis)	**100,000**	100,000

As at 31 December 2014, the Company's capital was less than the minimum regulatory capital requirement, and the Company has communicated this matter to SAMA (see note 19).

Financial risk

The Company's principal financial instruments are receivables arising from insurance contracts, due from related parties, cash and cash equivalents, term deposits, investments, other receivables, outstanding claims and policy holder claims, reinsurance payable and certain other assets and liabilities. The main risks arising from the Company's financial instruments are market risk, commission rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Market risk

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

The Company is exposed to market risk with respect to its FVIS investments. Market risk is managed by investing in reputed funds which maintain investments in diversified portfolios and equity shares and by continuous monitoring of developments in equity markets. In addition, the key factors that affect stock market movements are monitored, including analysis of the operational and financial performance of investees. A 5% increase / (decrease) in net asset value of these funds can impact statement of insurance operations and accumulated surplus by SR 4,274 thousand (2013: SR 3,033 thousand) and statement of shareholder operations by SR 704 thousand (2013: SR 242 thousand).

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on it's held to maturity investments and term deposits.

The Company is subject to commission rate fair value risk on its fixed rate murabaha deposits classified as term deposits in the statement of financial position. The company does not account for fixed commission rate instrument as held for trading or as FVIS investment. Accordingly there is no impact on the income or equity of reasonably possible change in commission rate.

The Company is required to maintain a restricted deposit in accordance with insurance regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk of other financial instruments by monitoring changes in commission rates in the currencies in which its financial instruments are denominated.

26 RISK MANAGEMENT (continued)

Financial risk (continued)

Commission rate risk (continued)

Insurance Operations

Details of maturities of the major classes of commission bearing securities for insurance operations as at 31 December 2014 and 2013 are as follows:

	2014 SR '000			
	Less than 1 year	***1 to 5 years***	***over 5 years***	***Total***
Investments held to maturity (note 10(b))	**-**	**17,000**	**13,641**	**30,641**
	-	**17,000**	**13,641**	**30,641**

	2013 SR '000			
	Less than 1 year	*1 to 5 Years*	*over 5 years*	*Total*
Investments held to maturity (note 10(b))	6,000	7,000	13,663	26,663
	6,000	7,000	13,663	26,663

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

The effective interest rates for the commission bearing financial instruments, were as follows:

	2014	*2013*
Saudi Riyal denominated financial assets	**3.33%**	3.33%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in interest rates, with all other variables held constant.

	2014 SR'000 Effect on profit	*2013 SR'000 Effect on profit*
Saudi Riyals:		
Increase in interest rates by 100 basis points	**306**	267
Decrease in interest rates by 100 basis points	**(306)**	(267)

Details of maturities of the major classes of commission bearing securities for shareholders' operations as at 31 December 2014 and 2013 are as follows:

26 RISK MANAGEMENT (continued)

Financial risk (continued)

Commission rate risk (continued)

Shareholder Operations

	2014 SR '000			
	Less than 1 year	***1 to 5 years***	***over 5 years***	***Total***
Investments held to maturity	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**

	2013 SR '000			
	Less than 1 year	*1 to 5 Years*	*over 5 years*	*Total*
Investments held to maturity	3,719	-	-	3,719
	3,719	-	-	3,719

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date. The effective interest rates for the commission bearing financial instruments, were as follows:

	2014	*2013*
Foreign currency denominated financial assets	**6.4%**	6.4%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in interest rates, with all other variables held constant.

	2014	*2013*
	SR'000	*SR'000*
	Effect on profit	*Effect on profit*
Saudi Riyals:		
Increase in interest rates by 100 basis points	**-**	37
Decrease in interest rates by 100 basis points	**-**	(37)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the insurance operations and shareholders' operations primarily deal in Saudi Riyals and in US Dollar which is pegged to Saudi Riyals.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. All of the Company's underwriting activities are carried out in Saudi Arabia. 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 financial statements at the reporting date.

The Company seeks to limit its credit risk with respect to customers by following the 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. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks.

26 RISK MANAGEMENT (continued)

Credit risk (continued)

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

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

	2014	*2013*
	SR' 000	*SR' 000*
Insurance' Operations		
Cash and cash equivalents	**23,573**	36,465
Term deposits	**30,739**	10,576
Premiums receivable, net	**48,619**	37,998
Held to maturity investments	**30,641**	26,663
Reinsurance receivables, net	**3,023**	4,750
Other receivables	**12,981**	8,326
Amount due from a related party	**6,759**	6,759
Reinsurer share of outstanding claims	**6,082**	15,890
	162,417	147,427

	2014	*2013*
Shareholders' Operations	***SR' 000***	*SR' 000*
Cash and cash equivalents	**5,524**	33
Other receivables	**555**	82
Held to maturity investments	**-**	3,719
	6,079	3,834

Liquidity risk

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

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

All of the Company's financial assets and financial liabilities are expected to be realised and settled, respectively within 12 months from the reporting date, except for statutory deposit, which has no term (see note 14), and held to maturity assets, which are expected to be held until their maturities as mentioned in commission rate risk disclosure above. All financial liabilities are non-interest bearing.

27 FAIR VALUES 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 Company's financial assets consist of cash and cash equivalents, term deposits, investments, premiums receivable, reinsurance receivables, other receivables, amount due from related parties and reinsurance share of outstanding claims and its financial liabilities consist of outstanding claims, policyholders' claims, reinsurance payable, other payables and amount due to a related party. The fair values of financial assets and liabilities, except for held to maturity investments, are not materially different from their carrying values at the reporting date.

27 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

The table below presents the financial instruments at their fair values as at 31 December 2014 and 2013:

2014	***Level 1 SR'000***	***Level 2 SR'000***	***Level 3 SR'000***	***Total SR'000***
FVIS investments				
- Policyholders operations	**-**	**85,484**	**-**	**85,484**
- Shareholders operations	**-**	**14,072**	**-**	**14,072**
Total	**-**	**99,556**	**-**	**99,556**

2013	*Level 1 SR'000*	*Level 2 SR'000*	*Level 3 SR'000*	*Total SR'000*
FVIS investments				
- Policyholders operations	-	60,659	-	60,659
- Shareholders operations	-	4,846	-	4,846
Available for sale investments				
- Shareholders operations	-	5,053	-	5,053
Total	-	70,558	-	70,558

The Company determines Level 2 fair values for FVIS investments based on the net assets value of the respective funds as at the end of the reporting period.

28 BOARD OF DIRECTORS' APPROVAL

These financial statements have been approved by the Board of Directors on 25 February 2015 (corresponding to 6 Jamad Al Awwal 1436H).