AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

Financial Statements and Independent Auditors' Report
For the Year Ended 31 December 2014

KPMG Al Fozan & Al Sadhan

PKF Al-Bassam & Al-Nemer
Allied Accountants

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of Al Alamiya for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at 31 December 2014 and the related statements of comprehensive income of insurance and shareholders' operations, statement of changes in shareholders' equity, statement of cash flows of insurance and shareholders' operations for the year then ended and the notes from 1 to 26 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, 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:

i) present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and

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

EMPHASIS OF MATTER:

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

KPMG Al Fozan & Al Sadhan
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Abdullah H. Al Fozan
Certified Public Accountant
License No. 348

PKF Al-Bassam & Al-Nemer
Allied Accountants
P. O. Box 28355
Riyadh 11437
Kingdom of Saudi Arabia

Abdul Mohsen M. Al Nemer
Certified Public Accountant
License No. 399

05 Jumada I 1436H
(24 February 2015)

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2014 SR	2013 SR
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	5	**60,891,348**	40,462,274
Term deposits	6	**54,195,859**	83,914,450
Investments	7(a)	**1,923,079**	1,923,079
Premiums and insurance balances receivable, net	9	**82,154,784**	77,173,180
Due from related parties	23	**2,052,914**	1,256,938
Due from shareholders' operations		**77,577,490**	49,320,644
Reinsurers' share of unearned premiums	10(a)	**70,004,884**	69,121,800
Reinsurers' share of outstanding claims	10(d)	**395,362,988**	596,366,930
Deferred policy acquisition costs	10(b)	**6,136,160**	6,027,808
Prepayments and other assets	11	**7,978,400**	5,003,694
Property and equipment, net	13	**1,259,082**	855,456
TOTAL INSURANCE OPERATIONS' ASSETS		**759,536,988**	931,426,253
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	**12,476,575**	9,958,892
Term deposits	6	**100,220,075**	115,627,202
Investments	7(b)	**40,624,123**	27,404,625
Other assets	11	**424,271**	424,835
Statutory deposit	12	**20,000,000**	20,000,000
TOTAL SHAREHOLDERS' ASSETS		**173,745,044**	173,415,554
TOTAL ASSETS		**933,282,032**	1,104,841,807

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

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December

	Notes	*2014* *SR*	*2013* *SR*
INSURANCE OPERATIONS' LIABILITIES			
Gross outstanding claims	10(d)	**471,947,554**	663,503,315
Gross unearned premiums	10(a)	**151,161,351**	138,747,983
Accounts payable		**6,060,301**	3,769,281
Reinsurance balances payable		**76,900,309**	75,912,509
Due to related parties	23	**2,987,938**	3,153,965
Accrued expenses and other liabilities	14	**30,278,830**	27,775,624
Surplus distribution payable		**488,001**	488,001
Unearned reinsurance commission	10(c)	**10,654,878**	8,880,200
End of service benefits		**9,057,826**	9,195,375
TOTAL INSURANCE OPERATIONS' LIABILITIES		**759,536,988**	931,426,253
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Due to insurance operations		**77,577,490**	49,320,644
Due to a related party	23	**1,058,354**	1,058,354
Accrued expenses and other liabilities	14	**12,299,691**	9,929,652
TOTAL SHAREHOLDERS' LIABILITIES		**90,935,535**	60,308,650
SHAREHOLDERS' EQUITY			
Share capital	17	**200,000,000**	200,000,000
Unrealised (loss) / gain on available for sale investments		**(384,982)**	208,689
Accumulated losses		**(116,805,509)**	(87,101,785)
TOTAL SHAREHOLDERS' EQUITY		**82,809,509**	113,106,904
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		**173,745,044**	173,415,554
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**933,282,032**	1,104,841,807

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME – INSURANCE OPERATIONS

For the year ended 31 December

	Notes	*2014 SR*	*2013 SR*
Gross written premiums	10(a)	**335,198,886**	330,882,339
Less: Reinsurance premium ceded	10(a)	**(151,907,802)**	(159,360,819)
Excess of loss premiums		**(11,546,168)**	(11,797,289)
NET WRITTEN PREMIUMS		**171,744,916**	159,724,231
Changes in unearned premiums, net		**(11,530,284)**	(4,690,400)
NET PREMIUMS EARNED		**160,214,632**	155,033,831
Gross claims paid	10(d)	**(312,278,853)**	(317,748,657)
Reinsurers' share of gross claims paid	10(d)	**180,911,149**	199,766,026
Changes in outstanding claims, net		**(9,448,181)**	(16,978,025)
NET CLAIMS INCURRED		**(140,815,885)**	(134,960,656)
Policy acquisition costs	10(b)	**(15,195,720)**	(15,042,796)
Reinsurance commission income	10(c)	**24,625,957**	28,172,849
Other underwriting expenses		**(1,701,891)**	(1,521,154)
NET UNDERWRITING SURPLUS		**27,127,093**	31,682,074
General and administrative expenses	20	**(55,929,161)**	(53,981,819)
Investment income		**551,200**	501,046
Other income		**(5,978)**	134,509
INSURANCE OPERATIONS' DEFICIT		**(28,256,846)**	(21,664,190)
Shareholders' appropriation from insurance operations' deficit	2(a)	**28,256,846**	21,664,190
NET SURPLUS FOR THE YEAR		**--**	--

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS' OPERATIONS

For the year ended 31 December

	Notes	*2014 SR*	*2013 SR*
INCOME			
Shareholders' appropriation from insurance operations' deficit	2(a)	**(28,256,846)**	(21,664,190)
Investment income		**1,555,972**	1,566,453
		(26,700,874)	(20,097,737)
General and administrative expenses	20	**(1,409,917)**	(1,817,189)
NET LOSS FOR THE YEAR		**(28,110,791)**	(21,914,926)
OTHER COMPREHENSIVE INCOME			
Change in fair value of available for sale investments		**(593,671)**	(202,247)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(28,704,462)**	(22,117,173)
BASIC AND DILUTED LOSS PER SHARE FOR THE YEAR	18	**(1.41)**	(1.10)

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014 and 2013

	Share Capital SR	*Unrealized gain / (loss) on available for sale investments SR*	*Accumulated losses SR*	*Total SR*
Balance at 1 January 2013	200,000,000	410,936	(62,994,250)	137,416,686
Net loss for the year	--	--	(21,914,926)	(21,914,926)
Other comprehensive income:				
Net change in fair value of available for sale investments	--	(202,247)	--	(202,247)
Total comprehensive loss	--	(202,247)	(21,914,926)	(22,117,173)
Zakat and income tax (note 16)	--	--	(2,192,609)	(2,192,609)
Balance as at 31 December 2013	200,000,000	208,689	(87,101,785)	113,106,904
Balance at 1 January 2014	**200,000,000**	**208,689**	**(87,101,785)**	**113,106,904**
Net loss for the year	--	--	**(28,110,791)**	**(28,110,791)**
Other comprehensive income:				
Change in fair value of available for sale investments	--	**(593,671)**	--	**(593,671)**
Total comprehensive loss	--	**(593,671)**	**(28,110,791)**	**(28,704,462)**
Zakat and income tax (note 16)	--	--	**(1,592,933)**	**(1,592,933)**
Balance as at 31 December 2014	**200,000,000**	**(384,982)**	**(116,805,509)**	**82,809,509**

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASHFLOWS – INSURANCE OPERATIONS

For the year ended 31 December

	Note	*2014* *SR*	*2013* *SR*
OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		--	--
Adjustments to reconcile insurance operations' surplus to net cash provided from operating activities:			
Depreciation		**725,474**	604,878
Employees' end of service benefits		**2,027,768**	1,526,484
Provision for doubtful debt		**328,985**	(1,570,737)
Gain on sale of property and equipment		--	(12,392)
Operating cash inflows before changes in operating assets and liabilities		**3,082,227**	548,233
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable		**(5,310,589)**	(2,546,006)
Due from related parties		**(795,976)**	33,557,243
Due from shareholders' operations		**(28,256,846)**	(21,664,190)
Reinsurers' share of outstanding claims		**201,003,942**	(511,890,024)
Prepayments and other assets		**(2,974,706)**	143,452
Reinsurers' share of unearned premiums		**(883,084)**	(30,265,583)
Deferred policy acquisition costs		**(108,352)**	(1,338,109)
Gross outstanding claims		**(191,555,761)**	528,868,049
Gross unearned premiums		**12,413,368**	34,955,983
Accounts payable		**2,291,020**	(11,572,999)
Reinsurance balances payable		**987,800**	47,153,492
Due to shareholders' operations-current account		--	(4,433,778)
Due to related parties		**(166,027)**	(2,281,846)
Accrued expenses and other liabilities		**2,503,206**	7,495,747
Unearned reinsurance commission income		**1,774,678**	1,041,066
Cash (used in) / from operations		**(5,995,100)**	67,770,730
Employees' end of service benefits paid		**(2,165,317)**	(869,304)
Net cash (used in) / from operating activities		**(8,160,417)**	66,901,426
INVESTING ACTIVITY			
Purchase of property and equipment		**(1,129,100)**	(368,045)
Sale proceed on disposal of property and equipment		--	60,000
Term deposit		**29,718,591**	(83,914,450)
Net cash from / (used in) investing activity		**28,589,491**	(84,222,495)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**20,429,074**	(17,321,069)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**40,462,274**	57,783,343
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	**60,891,348**	40,462,274

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

AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS – SHAREHOLDERS' OPERATIONS
For the year ended 31 December

	Note	*2014* *SR*	*2013* *SR*
OPERATING ACTIVITIES			
Net loss for the year		**(28,110,791)**	(21,914,926)
Operating cash outflows before changes in operating assets and liabilities			
Changes in operating assets and liabilities:			
Other assets		**564**	5,292
Due from insurance operations-current account		--	4,433,778
Due to a related party		--	1,344
Due to insurance operations		**28,256,846**	21,664,190
Accrued expenses and other liabilities		**777,106**	670,612
		923,725	4,860,290
Zakat and tax paid		--	(474,762)
Net cash from operating activities		**923,725**	4,385,528
INVESTING ACTIVITIES			
Term deposits		**15,407,127**	(24,884,477)
Investments		**(13,813,169)**	(420,985)
Net cash from / (used in) investing activities		**1,593,958**	(25,305,462)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,517,683**	(20,919,934)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**9,958,892**	30,878,826
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	5	**12,476,575**	9,958,892

Non-cash transactions:

Net change in fair value of available for sale investments		**(593,671)**	(202,247)

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

Al Alamiya for Cooperative Insurance Company ("the Company") is a Saudi joint stock company registered on 29 Dhu-al Qu'dah, 1430H (17 November 2009) under commercial registration (CR) number 4030194978. The registered head office of the Company is in Riyadh under CR number of 1010287831 with branches in Jeddah (CR 4030194978) and Khobar (CR 2051042939).

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 26 Dhu Al Hijjah, 1430H (13 December 2009), the Company received the license from Saudi Arabian Monetary Agency ("SAMA") to transact insurance business in the Kingdom of Saudi Arabia.

The registered office address of the Company is at Prince Mohammed bin Abdul Aziz Road, Home Centre Building, P.O. Box: 6393, Riyadh 11442, Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

a) Statement of compliance

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

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

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

b) Basis of measurement

The financial statements have been prepared under the historical cost basis, except for the measurement at fair value of available for sale investments.

c) Functional and presentational currency

The financial statements have been presented in Saudi Riyals, which is the functional currency of the Company.

2 BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations 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 statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the foreseeable future are discussed below.

(i) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the end of reporting date, for which the insured event has occurred prior to the end of reporting date. The Company uses the services of an independent actuary in the valuation of IBNR as well as premium deficiency reserves.

(ii) Impairment losses on premium and insurance balance receivables

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

(iii) Deferred policy acquisition costs

Certain acquisition costs related to writing or renewal of new policies are recorded as deferred acquisition costs and are amortised over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment.

(iv) Impairment of available for sale financial assets

The Company determines that available-for-sale financial 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.

3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations. In the current year, the Company has applied number of amendments to IFRS and new interpretations issued by International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after 1 January 2014. These have not has any material impact on the Company.

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

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

IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36*

Amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

Standards issued but not yet effective

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

3 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (continued)

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

However, on 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9) amending IFRS 9 to include the new general hedge accounting model. In its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for years ending on or after 31 December 2018.

Annual improvements 2010-2012 Cycle

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

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

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

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

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

IAS 24 Related Party Disclosures

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

Annual improvements 2011-2013 Cycle

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

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

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

The Company has not early adopted any other standard, interpretation or amendment that has been issued for early adoption but is not yet effective.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) *Cash and cash equivalents*

For the purpose of the statements of cash flows for both insurance and shareholders' operations, cash and cash equivalents comprise cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

b) *Insurance contracts*

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

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

c) *Investments*

All investments excluding those held at fair value through profit and loss (if any) are initially recognised at cost, being the fair value of the consideration given including transaction cost associated with the investment.

Available for sale investments ("AFS")
Available for sale investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial investments are subsequently measured at fair value.

Return on investments is recognised on an effective yield method. Profit or loss on sale of investments is recognised at the time of sale. Dividend income is recognised when right to receive such dividend is established.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'unrealized gain / (loss) on available for sale investment'. When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income – shareholders operations.

Any significant or prolonged decline in value of investments is adjusted for and reported in the statement of comprehensive income – shareholders' operations, as impairment charges. Fair values of investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

d) *Revenue recognition*

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage. The change in the provision for unearned premium is taken to the statement of income - insurance operations in the same order that revenue is recognised over the period of risk.

Retained premiums, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

- Last three months of the period-end, in respect of marine cargo
- Actual number of days for other lines of business

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Claims

Claims consist of amounts payable to policy holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to the statement of comprehensive income - insurance operations in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at 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. The ultimate liability may be in excess of or less than the amount provided.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the statement of income - insurance operations for that year. The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

f) Liability adequacy test

At each end of reporting period, a liability adequacy test is performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of income - insurance operations initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy test ("premium deficiency reserve"). The Company estimates premium deficiency reserves based on an independent actuarial valuation.

g) Receivables

Premium and insurance receivables balance are recognized as receivable when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive income - insurance operation. Premium and insurance balance receivables are derecognized when the de-recognition criteria for financial assets have been met.

h) Unearned commission

Commission receivable on outwards reinsurance contracts is deferred and amortised over the terms of the insurance contracts to which it relates. Amortisation is recorded in the statement of income - insurance operations.

i) Property and equipment

Property and equipment are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value is depreciated on a straight line basis over the estimated useful life as follows:

	Years
Furniture, fixtures and office equipment	3
Motor vehicles	3

The assets' residual values and useful lives are reviewed at each financial position date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from disposal of property and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the related property and equipment and are recognised in the statement of income - insurance operations when the related property and equipment is disposed.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Reinsurance

The Company cedes insurance risk in the normal course of business for a portion of its businesses. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations'. financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

k) Deferred policy acquisition costs (DPAC)

DPAC are those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts that are deferred to the extent that those costs are recoverable out of future premiums. All other policy acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. Amortisation is recorded in the statement of income - insurance operations.

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

l) Zakat and income tax

The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis at the year end and is charged to statement of changes in shareholders' equity. The zakat charge is computed on the Saudi shareholder's share of the zakat base. Income tax is computed on the foreign shareholder's share of adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

m) Provisions

A provision for incurred liabilities is recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

n) Foreign currencies

Transactions in foreign currencies are initially recorded at the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot exchange rate at the reporting date. All differences arising on non–trading activities are taken to the statement of income - insurance operations. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

As the Company's foreign currency transactions are primarily in US dollar, which is pegged against Saudi Riyals so foreign exchange gains and losses are not significant and have not been disclosed separately.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of income - insurance operations or statement of comprehensive income - 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 in the statement of comprehensive income of insurance or shareholders' operations;

b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

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 original effective interest rate.

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

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
  - adverse changes in the payment status of issuers or debtors in the Company; or
  - national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

p) De-recognition of financial instruments

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

q) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, land – are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

r) Employees' end of service benefits

Employees' end of service benefits are accrued currently and are payable as a lump sum to all employees on termination of their employment contracts under the terms and conditions of Saudi Labor Regulations. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

s) Segmental reporting

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

- Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from.
- Motor insurance products which provide coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Engineering includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD.
- Medical products which provide health care cover to policyholders.
- Marine insurance for loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.
- Others include property, general accident and marine insurance.

Shareholders' operations is a non-operating segment. Income earned from investments is its 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 transactions were to occur, transfer prices between operating segments are set mutually agreed terms. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segment only.

t) Offsetting

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

u) Trade date accounting

All regular way purchases and sales of financial assets are recognised / derecognised 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.

5 CASH AND CASH EQUIVALENTS

	2014		2013	
	Insurance operations SR	*Shareholders' operations SR*	*Insurance operations SR*	*Shareholders' operations SR*
Cash in hand	**26,248**	**--**	25,293	--
Cash at banks - Current accounts	**60,865,100**	**12,476,575**	40,436,981	9,958,892
	60,891,348	**12,476,575**	40,462,274	9,958,892

The Company obtained guarantee facility from a bank of SAR 900,000 in favour of Company's service providers.

6 TIME DEPOSITS

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

Time deposits are placed with local banks with a maturity of more than three months from the date of original acquisition and earned special commission income at an average rate of 0.7% per annum (2013: 0.8% per annum).

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

7 INVESTMENTS

a) Insurance operations – Investments

This represents investment in respect of the Company's share in the capital of Najm for Insurance Services. This investment has been carried at cost in the absence of active markets or other means of reliably measuring their fair value.

b) Shareholders' operations – Available for sale investments (AFS)

	2014		2013	
	Amortised cost SR	*Market value SR*	*Amortised cost SR*	*Market value SR*
Bonds				
Tourism Development Investment Company (TDIC) (100% owned by Abu Dhabi Government)	**--**	**--**	3,820,508	3,845,250
Abu Dhabi National Energy Company (TAQA) (51% owned by Abu Dhabi Government)	**4,308,059**	**4,350,674**	4,453,942	4,434,375
SABIC Capital II BV	**13,853,721**	**13,500,000**	--	--
Sukuks				
Saudi Electricity Company	**18,870,826**	**18,923,436**	18,921,483	19,125,000
EIB Sukuk Ltd (Emirates Islamic Bank)	**3,976,499**	**3,850,013**	--	--
	41,009,105	**40,624,123**	27,195,933	27,404,625

The investment income ranges between 1.9% to 2.8% per annum (2013: 2.1% to 2.8% per annum) in case of bonds and 2.4% per annum (2013: 2.4% per annum) in case of sukuks.

8 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Determination of fair value and fair value hierarchy

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

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

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

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

	Level 1 *SR*	*Level 2* *SR*	*Level 3* *SR*	*Total* *SR*
2014				
Abu Dhabi National Energy Company (TAQA) (51% owned by Abu Dhabi Government)	**4,350,674**	--	--	**4,350,674**
SABIC Capital II BV	**13,500,000**	--	--	**13,500,000**
Saudi Electricity Company (Sukuks)	**18,923,436**	--	--	**18,923,436**
EIB Sukuk Ltd(Emirates Islamic Bank)	**3,850,013**	--	--	**3,850,013**
	40,624,123	--	--	**40,624,123**
2013				
Tourism Development Investment Company (TDIC) (100% owned by Abu Dhabi Government)	3,845,250	--	--	3,845,250
Abu Dhabi National Energy Company (TAQA) (51% owned by Abu Dhabi Government)	4,434,375	--	--	4,434,375
Saudi Electricity Company (Sukuks)	19,125,000	--	--	19,125,000
	27,404,625	--	--	27,404,625

The unlisted securities of SR 1.92 million (2013: SR 1.92 million), held as part of Company's insurance operations, were stated at cost in the absence of active markets or other means of reliably measuring their fair value.

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the year ended 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The net change in the fair value of AFS investments amounting to a loss of SR 593,671 (2013: loss of SR 202,247) has been recorded in the statement of comprehensive income – shareholders' operations.

9 PREMIUMS AND INSURANCE BALANCES RECEIVABLE, NET

	2014 *SR*	*2013* *SR*
Premiums receivable	**45,724,701**	48,967,996
Receivables from insurance and reinsurance companies	**21,983,148**	20,501,445
Receivables from related parties	**27,301,100**	20,228,919
	95,008,949	89,698,360
Less: Allowance for doubtful debts	**(12,854,165)**	(12,525,180)
	82,154,784	77,173,180

Allowance for doubtful debts includes SR 1.9 million (31 December 2013: SR 2.6 million) against receivables from related parties. Movement in the allowance for doubtful debt was as follows:

	2014 *SR*	*2013* *SR*
Balance at 1 January	**12,525,180**	15,715,621
Reversal for the year	**328,985**	(1,570,737)
Write off against the provision	--	(1,619,704)
Balance at 31 December	**12,854,165**	12,525,180

As at 31 December 2014 and 2013, the ageing of premiums and insurance balances receivable is as follows:

		Neither past due nor impaired	*Past due but not impaired*			*Past due and impaired*
	Total *SR*	*SR*	*Less than 30 day* *SR*	*31 to 60 days* *SR*	*61 to 90 days* *SR*	*SR*
2014	**95,008,949**	**39,916,728**	**3,712,844**	**2,142,939**	**5,679,024**	**43,557,414**
2013	89,698,360	54,984,963	3,385,472	440,330	1,059,261	29,828,334

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies outside Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company as at 31 December 2014 accounts for more than 12% (31 December 2013: 16%) of the premiums receivable. In addition, the five largest customers accounts for 40% (31 December 2013: 39%) of the premiums receivable as at 31 December 2014.

Unimpaired premiums and reinsurance balances receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured. The Company does not have an internal credit ratings assessment process and accordingly, amounts which are neither past due nor impaired, in respect of premiums receivable balances, are from individuals and unrated corporate.

10 MOVEMENT IN UNEARNED PREMIUMS, DEFERRED POLICY ACQUISITION COSTS, UNEARNED REINSURANCE COMMISSION AND OUTSTANDING CLAIMS

a) Unearned premium

	2014			*2013*		
	Gross SR	*Reinsurers' share SR*	*Net SR*	*Gross SR*	*Reinsurers' share SR*	*Net SR*
Balance at 1 January	**138,747,983**	**(69,121,800)**	**69,626,183**	103,792,000	(38,856,217)	64,935,783
Premiums written during the year	**335,198,886**	**(151,907,802)**	**183,291,084**	330,882,339	(159,360,819)	171,521,520
Premiums earned during the year	**(322,785,518)**	**151,024,718**	**(171,760,800)**	(295,926,356)	129,095,236	(166,831,120)
Balance at 31 December	**151,161,351**	**(70,004,884)**	**81,156,467**	138,747,983	(69,121,800)	69,626,183

b) Deferred policy acquisition costs

	2014 SR	*2013 SR*
Balance at 1 January	**6,027,808**	4,689,699
Cost incurred during the year	**15,304,072**	16,380,905
Amortised during the year	**(15,195,720)**	(15,042,796)
Balance at 31 December	**6,136,160**	6,027,808

c) Unearned reinsurance commission

	2014 SR	*2013 SR*
Balance at 1 January	**8,880,200**	7,839,134
Commission received during the year	**26,400,635**	29,213,915
Commission earned during the year	**(24,625,957)**	(28,172,849)
Balance at 31 December	**10,654,878**	8,880,200

10 MOVEMENT IN UNEARNED PREMIUMS, DEFERRED POLICY ACQUISITION COSTS, UNEARNED REINSURANCE COMMISSION AND OUTSTANDING CLAIMS (continued)

d) Outstanding claims

	2014			*2013*		
	Gross SR	*Reinsurers' share SR*	*Net SR*	*Gross SR*	*Reinsurers' share SR*	*Net SR*
Balance at 31 December						
Outstanding claims	**(405,386,554)**	**381,550,389**	**(23,836,165)**	(617,759,315)	576,502,931	(41,256,384)
IBNR	**(63,202,000)**	**13,812,599**	**(49,389,401)**	(43,416,000)	19,863,999	(23,552,001)
	(468,588,554)	**395,362,988**	**(73,225,566)**	(661,175,315)	596,366,930	(64,808,385)
Premium deficiency and other reserves	**(3,359,000)**	**--**	**(3,359,000)**	(2,328,000)	--	(2,328,000)
	(471,947,554)	**395,362,988**	**(76,584,566)**	(663,503,315)	596,366,930	(67,136,385)
Claims paid during the year	**(312,278,853)**	**180,911,149**	**(131,367,704)**	(317,748,657)	199,766,026	(117,982,631)
Balance at 1 January						
Outstanding claims	**617,759,315**	**(576,502,931)**	**41,256,384**	99,532,472	(66,721,877)	32,810,595
IBNR	**43,416,000**	**(19,863,999)**	**23,552,001**	35,102,794	(17,755,029)	17,347,765
	661,175,315	**(596,366,930)**	**64,808,385**	134,635,266	(84,476,906)	50,158,360
Premium deficiency and other Reserves	**2,328,000**	**--**	**2,328,000**	--	--	--
Claims incurred	**(120,723,092)**	**(20,092,793)**	**(140,815,885)**	(846,616,706)	711,656,050	(134,960,656)

11 PREPAYMENTS AND OTHER ASSETS

	2014		*2013*	
	Insurance operations SR	*Shareholders' operations SR*	*Insurance operations SR*	*Shareholders' operations SR*
Prepaid rent	**203,394**	**--**	249,310	--
Employees' housing advances	**1,044,073**	**--**	899,174	--
Employees' prepaid insurance	**634,378**	**--**	689,721	--
Other assets	**6,096,555**	**424,271**	3,165,489	424,835
	7,978,400	**424,271**	5,003,694	424,835

12 STATUTORY DEPOSIT

Statutory deposit amounting to SR 20,000,000 (2012: SR 20,000,000) represents 10% of the paid up capital of the company which is maintained with a bank designated by SAMA in accordance with The Cooperative Insurance Companies Control Law for Insurance Companies. This statutory deposit cannot be withdrawn without the consent of SAMA.

13 PROPERTY AND EQUIPMENT, NET

	Furniture and fixtures SR	*Office equipment SR*	*Motor vehicles SR*	*Total 2014 SR*	*Total 2013*
Cost:					
Balance at 1 January	**3,208,896**	**5,212,733**	**384,450**	**8,806,079**	8,552,762
Additions	--	**1,129,100**	--	**1,129,100**	368,045
Disposal	--	--	--	--	(114,728)
Balance at 31 December	**3,208,896**	**6,341,833**	**384,450**	**9,935,179**	8,806,079
Accumulated depreciation:					
Balance at 1 January	**(2,838,843)**	**(4,727,372)**	**(384,408)**	**(7,950,623)**	(7,412,865)
Charge for the year (note 20)	**(151,133)**	**(574,300)**	**(42)**	**(725,474)**	(604,878)
Elimination on disposal	--	--	--	--	67,113
Balance at 31 December	**(2,989,975)**	**(5,301,672)**	**(384,450)**	**(8,676,097)**	(7,950,630)
Net book value:					
At 31 December 2014	**218,921**	**1,040,161**	--	**1,259,082**	
At 31 December 2013	370,053	485,361	42		855,456

14 ACCRUED EXPENSES AND OTHER LIABILITIES

	Insurance operations 2014 SR	*Shareholders' operations 2014 SR*	*Insurance operations 2013 SR*	*Shareholders' operations 2013 SR*
Accrued salaries and benefits	**4,375,000**	--	2,675,000	--
Accrued supervision fees	**531,357**	--	584,475	--
Board of Directors' remuneration	**1,100,000**	--	800,000	--
Provision for zakat and income tax (note 16c)	--	**9,487,998**	--	7,895,065
Withholding tax payable	**7,104,983**	--	6,301,132	--
Accrued IT related services	**1,665,966**	--	2,396,794	--
Accrued legal and professional fees	**1,200,000**	--	950,000	--
Outsourced service charges payable (note 23)	**13,958,760**	--	12,900,000	--
Other accrued expenses	**342,764**	**2,811,693**	1,168,223	2,034,587
	30,278,830	**12,299,691**	27,775,624	9,929,652

15 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.

Claims triangulation analysis (gross and net) is by accident years spanning a number of financial years.

2014

Accident Year	*2011 & earlier*	*2012*	*2013*	*2014*	*TOTAL*
Estimate of ultimate claim cost:					
At the end of accident year	443,673,744	132,559,640	886,256,662	201,533,730	1,664,023,776
One year later	443,009,181	123,355,663	822,913,907	--	1,389,278,751
Two years later	401,411,368	108,380,495	--	--	509,791,862
Three years later and after	392,922,578	--	--	--	392,922,578
Current estimate of cumulative claims	392,922,578	108,380,495	822,913,907	201,533,730	1,525,750,709
Cumulative paid claims	381,037,373	107,169,815	474,967,322	90,628,645	1,053,803,155
Liability recognised in statement of financial position	11,885,205	1,210,680	347,946,585	110,905,085	471,947,554

2013

Accident Year	*2010 & earlier*	*2011*	*2012*	*2013*	*TOTAL*
Estimate of ultimate claim cost:					
At the end of accident year	243,689,306	195,807,051	132,559,640	890,148,662	1,462,204,659
One year later	258,983,011	179,848,783	123,355,663	--	562,187,457
Two years later	250,299,380	146,934,600	--	--	397,233,981
Three years later and after	244,588,691	--	--	--	244,588,691
Current estimate of cumulative claims	244,588,691	146,934,600	123,355,663	890,148,662	1,405,027,617
Cumulative paid claims	238,977,854	137,890,266	107,109,957	257,546,224	741,524,302
Liability recognised in statement of financial position	5,610,837	9,044,334	16,245,706	632,602,438	663,503,315

16 ZAKAT AND INCOME TAX

a) Zakat charge for the year

The zakat charge for the year consists of the current year's provision amounting to SR 1.59 million (2013: SR 2.19 million).

The zakat provision is based on the following:

	2014 *SR*	*2013* *SR*
Share capital	**200,000,000**	200,000,000
Reserves and provision	**(70,601,594)**	(38,740,435)
Book value of long term assets	**(3,218,380)**	(2,766,662)
Adjusted net loss for the year	**(25,930,999)**	(24,460,059)
Zakat base	**100,249,027**	134,032,844
Saudi shareholders' share of zakat base	**77,156,664**	100,477,722

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

b) Income tax charge for the year

Income tax relating to the foreign shareholders is nil (2013: nil).

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

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

	2014 *SR*	*2013* *SR*
At the beginning of the year	**7,895,065**	6,177,218
Provided during the year	**1,592,933**	2,192,609
Payments during the year	--	(474,762)
At the end of the year	**9,487,998**	7,895,065

d) Status of zakat and tax assessments

The Company has submitted its zakat and income tax returns up to the year ended 31 December 2013, obtained the required certificates and official receipts but the final assessments have not been raised.

e) Status of appeal

The Company has filed an appeal against the DZIT's initial assessment for the period / year ended 31 December 2010, 2011, 2012 and 2013 which are pending as at 31 December 2014.

17 SHARE CAPITAL

The authorised, issued and paid up share capital of the Company is SR 200 million divided into 20 million shares with a nominal value SR 10 each. The founding shareholders of the Company have subscribed and paid for 14 million shares which represents 70% of the shares of the Company's capital and the remaining 6 million shares have been subscribed by the public.

17 SHARE CAPITAL (continued)

The Company decided to increase its share capital through rights issue to maintain the solvency margin of the business and support the future growth of the company. The Company's application to increase its share capital was approved by Saudi Arabian Monetary Agency (SAMA) and by the Capital Markets Authority (CMA) during 2014.

The Company held an extraordinary general assembly of its shareholders on 6 January 2015 to approve the increase in the share capital through a rights issue. Based on the approval received from the shareholders at the extraordinary general assembly, the Company proceeded to raise SAR 200 million through a rights issue. Under the terms of the rights issue, the Company offered 20,000,000 new ordinary shares by way of rights to qualifying shareholders at SAR 10 per new ordinary share at close of business on the record date, 6 January 2015. The rights issue was made on the basis of one new ordinary share for every one existing ordinary share held by shareholders.

The Company has successfully raised additional share capital of SR 200 million in February 2015.

18 BASIC AND DILUTED LOSS PER SHARE FOR THE YEAR

Basic and diluted loss per share for the year has been calculated by dividing the net loss for the year by 20 million issued shares at the reporting date.

19 STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by appropriating 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution. No appropriation has been made because the Company has accumulated losses at the end of the year.

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2014		*2013*	
	Insurance operations SR	*Shareholders' operations SR*	*Insurance operations SR*	*Shareholders' operations SR*
Salaries and benefits	**37,608,189**	**325,000**	35,932,262	325,000
End of service benefits	**2,027,768**	--	1,526,484	--
Remuneration of the Board of Directors (note 23)	--	**465,000**	--	465,000
Outsourced service charges (note 23)	**4,700,000**	--	6,000,000	--
Rent	**1,147,732**	--	1,559,880	--
Provision / (reversal) for doubtful debts	**328,985**	--	(1,570,737)	--
Depreciation	**725,474**	--	604,878	--
Legal and professional fees	**1,688,030**	--	1,843,144	--
Business travel and transport	**1,610,871**	--	2,024,755	--
IT related services	**3,832,427**	--	3,080,791	--
Utilities	**1,020,727**	--	1,036,853	--
Stationery	**370,230**	--	424,724	--
Promotion and advertising	**141,494**	--	128,925	--
Others	**727,234**	**619,917**	1,389,860	1,027,189
	55,929,161	**1,409,917**	53,981,819	1,817,189

21 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

22 CONTINGENCIES AND COMMITMENTS

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

23 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders and key management personnel of the Company. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken at mutually agreed terms which are approved by the management. The following are the details of major related party transactions for insurance and shareholders' operations during the year and the balances at the end of the year:

		Transactions for the year ended		*Balance as at*	
Related party	*Nature of transaction*	***31 December 2014 SR***	*31 December 2013 SR*	***31 December 2014 SR***	*31 December 2013 SR*
Shareholders / Companies under common management	Gross written Premiums	**125,073,727**	113,197,103	**27,301,100**	20,228,919
	Gross claims paid	**92,699,086**	79,821,348	--	--
	Reinsurance premiums ceded	**54,203,141**	53,091,341	--	--
	Reinsurers' share of gross claims paid	**31,947,087**	51,047,521	--	--
	Reinsurance commission income	**11,842,219**	14,261,850	--	--
	Outsourced service charges	**4,700,000**	6,000,000	**(13,958,760)**	(12,900,000)
	Brand fee	**30,100**	30,100	**(142,975)**	(112,875)
	Reinsurers' share of gross outstanding Claims	--	--	**(90,835,582)**	161,896,613
	Gross outstanding claims	--	--	**(24,120,594)**	25,958,244
Board of Directors	Remuneration and meeting fee	**465,000**	465,000	**(489,705)**	(495,500)
RSA group entities	Operational expenses paid on behalf of affiliates	**389,545**	532,291	**2,052,914**	1,256,938
RSA group entities	Operational expenses paid by affiliates on our behalf	**(502,996)**	(472,577)	**(4,046,292)**	(4,212,319)

23 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management personnel's remuneration

Key management personnel of the Company include all directors (executive and non-executive) and senior management.
The remuneration of key management personnel during the period is as follows:

	2014 *SR*	*2013* *SR*
Short term benefits	**6,228,959**	5,869,296
End of service benefits	**204,877**	149,020
	6,433,836	6,018,316

24 SEGMENTAL INFORMATION

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

Segment results do not include general and administration expenses and other income.

Segment assets do not include (in respect of insurance operations) property and equipment, due from shareholders' operations, bank balances and cash, prepaid expenses and other assets, premiums and reinsurance balances receivable, net. Accordingly, these are included in unallocated assets and are managed and reported to the chief operating decision maker on a centralised basis.

Segment liabilities do not include (in respect of insurance operations) employees' end of service benefits, reinsurance balances payable, accrued expenses and other liabilities. Accordingly, these are included in unallocated liabilities and are managed and reported to the chief operating decision maker on a centralised basis.

All of the Company's operating assets (except certain reinsurance balances) and principal activities are located in the Kingdom of Saudi Arabia.

Shareholders' operations is a non-operating segment. Certain direct operating expenses, other overhead expenses and loss or surplus from the insurance operations are allocated to this segment on an appropriate basis.

	For the year ended 31 December 2014						
	Property SR	**Motor SR**	**Engineering SR**	**Medical SR**	**Marine SR**	**Others SR**	**Total SR**
Insurance operations							
Gross written premiums	**107,945,018**	**125,683,000**	**24,962,721**	**7,908,921**	**27,614,241**	**41,084,985**	**335,198,886**
Reinsurance premiums ceded	**(88,328,093)**	**--**	**(22,085,397)**	**(4,381,956)**	**(13,861,841)**	**(23,250,515)**	**(151,907,802)**
Excess of loss premiums	**(4,599,198)**	**(2,169,660)**	**(1,353,949)**	**(344,712)**	**(2,247,833)**	**(830,816)**	**(11,546,168)**
Net written premiums	**15,017,727**	**123,513,340**	**1,523,375**	**3,182,253**	**11,504,567**	**17,003,654**	**171,744,916**
Change in unearned premiums, net	**(8,382,917)**	**(4,161,959)**	**(178,908)**	**1,900,982**	**73,346**	**(780,828)**	**(11,530,284)**
Net premiums earned	**6,634,810**	**119,351,381**	**1,344,467**	**5,083,235**	**11,577,913**	**16,222,826**	**160,214,632**
Gross claims paid	**(167,005,330)**	**(114,318,857)**	**(4,747,953)**	**(12,473,875)**	**(4,384,528)**	**(9,348,310)**	**(312,278,853)**
Reinsurers' share of gross claims paid	**162,446,478**	**--**	**3,290,267**	**7,414,926**	**997,663**	**6,761,815**	**180,911,149**
Change in outstanding claims, net	**2,696,681**	**(8,046,070)**	**3,334,412**	**(700,993)**	**(1,068,289)**	**(5,663,922)**	**(9,448,181)**
Net claims incurred	**(1,862,171)**	**(122,364,927)**	**1,876,726**	**(5,759,942)**	**(4,455,154)**	**(8,250,417)**	**(140,815,885)**
Policy acquisition costs	**(3,818,011)**	**(5,503,215)**	**(2,136,973)**	**(505,817)**	**(2,333,977)**	**(897,727)**	**(15,195,720)**
Reinsurance commission income	**13,616,887**	**--**	**3,827,753**	**--**	**4,149,821**	**3,031,496**	**24,625,957**
	14,571,515	**(8,516,761)**	**4,911,973**	**(1,182,524)**	**8,938,603**	**10,106,178**	**28,828,984**
Other underwriting expenses							**(1,701,891)**
Net underwriting result							**27,127,093**
General and administrative Expenses							**(55,929,161)**
Investment income							**551,200**
Other income, net							**(5,978)**
Insurance operations' deficit							**(28,256,846)**

24 SEGMENTAL INFORMATION (continued)

	For the year ended 31 December 2013						
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
Insurance operations							
Gross written premiums	100,431,996	118,542,815	19,154,808	20,807,792	39,031,610	32,913,318	330,882,339
Reinsurance premiums ceded	(94,017,550)	--	(15,768,842)	(10,952,290)	(22,534,375)	(16,087,762)	(159,360,819)
Excess of loss premiums	(3,280,497)	(3,019,900)	(2,050,179)	(365,498)	(2,268,612)	(812,603)	(11,797,289)
Net written premiums	3,133,949	115,522,915	1,335,787	9,490,004	14,228,623	16,012,953	159,724,231
Change in unearned premiums, net	156,999	(5,142,948)	375,596	284,996	92,782	(457,825)	(4,690,400)
Net premiums earned	3,290,948	110,379,967	1,711,383	9,775,000	14,321,405	15,555,128	155,033,831
Gross claims paid	(177,138,229)	(96,572,034)	(2,416,976)	(12,528,875)	(18,928,811)	(10,163,732)	(317,748,657)
Reinsurers' share of gross claims paid	174,318,557	--	1,571,184	4,986,950	12,053,379	6,835,956	199,766,026
Change in outstanding claims, net	(4,654,353)	(16,276,806)	622,793	1,068,990	745,092	1,516,259	(16,978,025)
Net claims incurred	(7,474,025)	(112,848,840)	(222,999)	(6,472,935)	(6,130,340)	(1,811,517)	(134,960,656)
Policy acquisition costs	(3,432,878)	(4,960,391)	(2,600,058)	(1,001,578)	(2,343,977)	(703,914)	(15,042,796)
Reinsurance commission income	14,533,546	--	4,860,318	--	7,231,215	1,547,770	28,172,849
	6,917,591	(7,429,264)	3,748,644	2,300,487	13,078,303	14,587,467	33,203,228
Other underwriting expenses	--	--	--	--	--	--	(1,521,154)
Net underwriting surplus							31,682,074
General and administrative Expenses							(53,981,819)
Investment income							501,046
Other income, net							134,509
Insurance operations' surplus							(21,664,190)

	As at 31 December 2014						
	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
Insurance operations' assets							
Reinsurers' share of unearned Premiums	40,805,592	--	13,677,738	2,587,974	2,857,485	10,076,095	70,004,884
Reinsurers' share of outstanding claims	355,577,552	214,828	10,323,842	1,893,981	8,914,011	18,438,774	395,362,988
Deferred policy acquisition Costs	1,075,214	2,423,716	2,011,066	77,292	160,998	387,874	6,136,160
Unallocated assets							288,032,956
							759,536,988
Insurance operations' liabilities							
Gross outstanding claims	361,608,384	48,596,464	13,689,863	3,493,965	15,564,844	28,994,034	471,947,554
Gross unearned premiums	51,437,486	56,347,437	15,026,034	4,668,953	6,877,098	16,804,343	151,161,351
Unearned reinsurance commission Income	3,563,384	--	4,090,041	--	1,175,988	1,825,465	10,654,878
Unallocated liabilities							125,773,205
							759,536,988

24 SEGMENTAL INFORMATION (continued)

	As at 31 December 2013						
	Property SR	**Motor SR**	**Engineering SR**	**Medical SR**	**Marine SR**	**Others SR**	**Total SR**
Insurance operations' assets							
Reinsurers' share of unearned premiums	45,818,542	--	8,385,516	4,762,952	4,171,958	5,982,832	69,121,800
Reinsurers' share of outstanding claims	562,154,778	2,000	10,076,399	3,416,966	10,935,295	9,781,492	596,366,930
Deferred policy acquisition costs	1,304,261	2,542,985	820,072	452,110	667,993	240,387	6,027,808
Unallocated assets							259,909,715
							931,426,253
Insurance operations' liabilities							
Gross outstanding claims	570,882,291	40,337,566	16,776,832	4,315,957	16,517,839	14,672,830	663,503,315
Gross unearned premiums	48,067,519	52,185,478	9,554,904	8,744,913	8,264,917	11,930,252	138,747,983
Unearned reinsurance commission income	5,650,025	--	1,526,638	--	1,217,988	485,549	8,880,200
Unallocated liabilities							120,294,755
							931,426,253

25 RISK MANAGEMENT

Risk Governance

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

Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Department

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

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

a) Insurance risk

Insurance risk is the risk that actual claims payable to policy holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property, motor, engineering, medical and marine risks.

25 RISK MANAGEMENT (continued)

Frequency and severity of claims
The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, casualty, medical and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Property
Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting there from, are underwritten either on a replacement value or on a market value basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties and the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional as well as non-proportional treaties.

Engineering
The engineering business includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this line of business. These are adequately covered under the Engineering proportional and non-proportional treaties.

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive polices for owner/drivers over 18 years of age. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 2 million (31 December 2013: SR 0.7 million)

Medical
The Company' underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim to SR 1.5 million (2013: SR 1.5 million).

Marine
For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim, to SR 1.75 million (2013: SR 1.75 million)

Concentration of insurance risk
The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in property and motor. The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.
Since the Company does not have any foreign operations, hence, all the insurance risks relate to policies written in Saudi Arabia.

25 RISK MANAGEMENT (continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the reporting date are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. A hypothetical 10% change in the claims ratio would impact income by approximately SR 14.1 million (31 December 2013: SR 13.1 million) annually in aggregate.

b) Reinsurance risk

In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. 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. Reinsurance program is effected under treaty, facultative and excess of loss reinsurance contracts.

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

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure in this connection is SR 395.4 million (2013: SR 596.4 million).

c) **Regulatory framework risk**

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

d) **Credit risk**

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

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

- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the management in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.

25 RISK MANAGEMENT (continued)

d) Credit risk (continued)

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

	2014 SR		*2013 SR*	
	Insurance' Operations	*Shareholders' operations*	*Insurance' Operations*	*Shareholders' operations*
Assets				
Cash and cash equivalents	**60,865,100**	**12,476,575**	40,436,981	9,958,892
Time deposits	**54,195,859**	**100,220,075**	83,914,451	115,627,202
Investments	**--**	**40,624,123**	--	27,404,625
Premiums and insurance balances receivable	**95,008,949**	**--**	89,698,360	--
Reinsurers' share of outstanding claims	**395,362,988**	**--**	596,366,930	--
Due from related parties	**2,052,914**	**--**	1,256,938	--
Other assets	**--**	**424,271**	156,270	424,835
	607,485,810	**153,745,044**	811,829,930	153,415,554

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collection and payments are monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of those companies which are actively traded. The Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

25 RISK MANAGEMENT (continued)

f) Liquidity risk (continued)

Maturity table

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

	2014			*2013*		
	Less than one year SR	*No term SR*	*Total SR*	*Less than one year SR*	*No term SR*	*Total SR*
INSURANCE OPERATIONS' FINANCIAL LIABILITIES						
Gross outstanding claims	**471,947,554**	--	**471,947,554**	663,503,315	--	663,503,315
Accounts payable	**6,060,301**	--	**6,060,301**	3,769,281	--	3,769,281
Reinsurance balances payable	**76,900,309**	--	**76,900,309**	75,912,509	--	75,912,509
Due to related parties	**2,987,938**	--	**2,987,938**	3,153,965	--	3,153,965
Accrued expenses and other liabilities	**23,173,847**	--	**23,173,847**	21,478,663	--	21,478,663
	581,069,949	--	**581,069,949**	767,817,733	--	767,817,733
SHAREHOLDERS' FINANCIAL LIABILITIES						
Due to a related party	**1,058,354**	--	**1,058,354**	1,058,354	--	1,058,354
Accrued expenses and other liabilities	**2,811,692**	--	**2,811,692**	2,034,587	--	2,034,587
	3,870,046	--	**3,870,046**	3,092,941	--	3,092,941
	577,199,903	--	**577,199,903**	770,910,674	--	770,910,674

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

g) Foreign currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal.

h) Special commission rate risk

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

The Company is not exposed to special commission rate risk as commission rates are fixed.

25 RISK MANAGEMENT (continued)

i) Market rate risk

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

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

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

	Change in market price	*Effect on statement of shareholders comprehensive operations SR*
2014	+5%	**2,031,206**
	-5%	**(2,031,206)**
2013	+5%	1,370,231
	-5%	(1,370,231)

j) Capital management

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

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

26 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 18 February 2015, corresponding to 29 Rabi Al Thani 1436H.