ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT JOINT AUDITORS' REPORT

FOR THE PERIOD FROM 3 JULY 2013 (INCEPTION DATE) TO 31 DECEMBER 2014

INDEX	PAGE

PKF Al-Bassam & Al-Nemer
Allied Accountants
P. O. Box 15651
Jeddah 21454
Kingdom of Saudi Arabia

KPMG Al Fozan & Al Sadhan
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 Issued 11/3/1992

INDEPENDENT JOINT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
KINGDOM OF SAUDIA ARABIA**

SCOPE OF AUDIT

We have audited the accompanying statement of financial position of AlJazira Takaful Taawuni Company – a Saudi Joint Stock Company (the "Company") as at 31 December 2014, and related statements of insurance operations and accumulated surplus, shareholders' operations and shareholders' comprehensive income, statements of changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the period from 3 July 2013 to 31 December 2014 and the related notes from 1 to 21 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

UNQUALIFIED OPINION

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

i) present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and the results of its operations and its cash flows for the period from 3 July 2013 to 31 December 2014 in accordance with International Financial Reporting Standards; and

ii) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

EMPHASIS OF MATTER

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

PKF Al-Bassam & Al-Nemer
Allied Accountants

Ibrahim A. Al Bassam
Certified Public Accountant
License No. 337

KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
License No. 382

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

23 February 2015
4 Jumada Al Awal 1436H
Jeddah, Kingdom of Saudi Arabia

كي بي ام جي الفوزان والسدحان
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Al Sadhan

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	SR '000
INSURANCE OPERATIONS' ASSETS		
Cash and cash equivalents	3	19,318
Available-for-sale investments held to cover unit-linked liabilities	5	10,953
Contributions receivable	13(c)	442
Reinsurance share of unearned contributions		156
Reinsurance share of outstanding claims including IBNR	9	1,998
Due from a related party	13(b)	2,142
Other receivables		80
Total Insurance Operations' Assets		35,089
SHAREHOLDERS' ASSETS		
Cash and cash equivalents	3	6,666
Investments held-to-maturity	4	271,215
FVIS investments	6	40,723
Due from Insurance Operations		1,739
Statutory deposit	7	35,000
Total Shareholders' Assets		355,343
TOTAL ASSETS		390,432

Chairman

Chief Executive Officer

Senior Finance Manager

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION - continued
AS AT 31 DECEMBER 2014

	Notes	SR '000
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		
Insurance Operations' Liabilities		
Reserve for insurance activities	8	11,991
Unearned contributions		9,862
Outstanding claims including IBNR	9	4,537
Advance contributions		219
Contributions deposit		185
Reinsurance balances payable		1,736
Accrued expenses and other liabilities		4,546
Due to Shareholders' Operations		1,739
Employees' end of service benefits		147
Total Insurance Operations' Liabilities		34,962
Insurance Operations' Surplus		
Surplus from Insurance Operations		127
Total Insurance Operations' Liabilities and Surplus		35,089
SHAREHOLDERS' LIABILITIES AND EQUITY		
Shareholders' Liabilities		
Accrued expenses and other liabilities		468
Accrued Zakat & income tax	16	13
Total Shareholders' Liabilities		481
Shareholders' Equity		
Share capital	10	350,000
Statutory reserve	11	1,955
Retained earnings		2,907
Total Shareholders' Equity		354,862
Total Shareholders' Liabilities and Equity		355,343
TOTAL INSURANCE OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' LIABILITIES AND EQUITY		390,432

Chairman

Chief Executive Officer

Senior Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

	Notes	*For the period from 3 July 2013 to 31 December* 2014 SR '000
INSURANCE REVENUE		
Gross written contributions		30,206
Investible contributions, net	8	(10,214)
Net insurance contributions		19,992
Contributions ceded		(2,333)
Net written contributions		17,659
Unearned contributions – net		(9,706)
Reserve for insurance activities	8	(1,910)
Net insurance revenue		6,043
CLAIMS AND EXPENSES		
Gross claims paid		(716)
Reinsurance share of claims paid		596
Net paid claims		(120)
Outstanding claims including IBNR, net	9	(2,539)
Net claims incurred		(2,659)
Policy acquisition costs		(731)
Supervision and inspection fees		(151)
Total claims and expenses		(3,541)
Underwriting surplus for the period		2,502
General and administrative expenses, net	14	(5,998)
Portfolio management fee	1 & 13	3,328
Other income	15	1,434
Surplus for the period from Insurance Operations		1,266
Shareholders' share of surplus from Insurance Operations	2 (c)	(1,139)
Surplus for the period and accumulated surplus		127

Chairman

Chief Executive Officer

Senior Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' OPERATIONS
FOR THE PERIOD FROM 3 JULY 2013 TO 31 DECEMBER 2014

	Notes	SR '000
REVENUE		
Shareholders' share of surplus from Insurance Operations	2 (c)	1,139
Profit on investments held-to-maturity		5,485
Realised gain on investments		3,578
Unrealised gain on FVIS investments	6	216
Other income		73
Pre-incorporation income, net	12	1,597
Total income		12,088
General and administrative expenses, net	14	(2,311)
NET INCOME FOR THE PERIOD		9,777
Weighted average number of ordinary shares outstanding (in thousands)	17	35,000
Earnings per share for the period (SR)	17	0.28

Chairman

Chief Executive Officer

Senior Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
FOR THE PERIOD FROM 3 JULY 2013 TO 31 DECEMBER 2014

	SR '000
NET INCOME FOR THE PERIOD	**9,777**
Zakat and income tax for the period (note 16)	(450)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**9,327**

Chairman

Chief Executive Officer

Senior Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM 3 JULY 2013 TO 31 DECEMBER 2014

	Share capital	Statutory reserve	Retained earnings	Total
	SR '000	SR '000	SR '000	SR '000
Issuance of share capital (note 10)	350,000	-	-	350,000
Transaction costs relating to issuance of share capital (note 10)	-	-	(4,465)	(4,465)
Net income for the period	-	-	9,777	9,777
Transfer to statutory reserve (note 11)	-	1,955	(1,955)	-
Zakat and income tax for the period (note 16)	-	-	(450)	(450)
Balance as at 31 December 2014	**350,000**	**1,955**	**2,907**	**354,862**

Chairman

Chief Executive Officer

Senior Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
FOR THE PERIOD FROM 3 JULY 2013 TO 31 DECEMBER 2014

OPERATING ACTIVITIES	Notes	SR '000
Surplus for the period		127
Adjustments for the period:		
Employees' end of service benefits, net		147
Reinsurance share of unearned contributions		(156)
Unearned contributions		9,862
		9,980
Change in operating assets and liabilities:		
Available-for-sale investments held to cover unit-linked liabilities	5	(10,953)
Contributions receivable		(442)
Reinsurance share of outstanding claims including IBNR	9	(1,998)
Due from a related party		(2,142)
Other receivables		(80)
Reserve for Insurance activities	8	11,991
Outstanding claims including IBNR	9	4,537
Advance contributions		219
Contributions deposit		185
Reinsurance balances payable		1,736
Accrued expenses and other liabilities		4,546
Due to Shareholders' Operations		1,739
Net cash flows from operating activities		19,318
Cash and cash equivalents at end of the period	3	19,318

Chairman

Chief Executive Officer

Senior Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' CASH FLOWS
FOR THE PERIOD FROM 3 JULY 2013 TO 31 DECEMBER 2014

	Notes	*SR' 000*
OPERATING ACTIVITIES		
Net income for the period		9,777
Adjustments for the period:		
Realised gain on investments		(3,578)
Premium on held-to-maturity investments		(1,215)
Unrealised gain on FVIS investments	6	(216)
		4,768
Change in operating assets and liabilities		
Statutory deposit	7	(35,000)
Due from Insurance Operations		(1,739)
Accrued expenses and other liabilities		468
Zakat and income tax paid	16	(437)
Net cash flows used in operating activities		(31,940)
INVESTING ACTIVITIES		
Purchase of held-to-maturity investments		(270,000)
Purchase of FVIS investments	6	(303,750)
Proceeds from disposal of investments		266,821
Net cash flows used in investing activities		(306,929)
FINANCING ACTIVITIES		
Issue of share capital	10	350,000
Transaction costs relating to issue of share capital	10	(4,465)
Net cash flows from financing activities		345,535
Cash and cash equivalents at the end of the period	3	6,666

Chairman

Chief Executive Officer

Senior Finance Manager

The accompanying notes 1 to 21 form an integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

AlJazira Takaful Taawuni Company (the "Company"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia pursuant to the Council of Ministers' No. 137 dated 27 Rabi' Al-Thani 1431H (corresponding to 12 April 2010) and Royal Decree No. M/23 dated 28 Rabi' Al-Thani 1431H (corresponding to 13 April 2010). The Company obtained its Commercial Registration 4030251980 on 2 Ramadan 1434H (corresponding to 10 July 2013) and Ministry of Commerce and Industry's Resolution dated 24 Sha'baan 1434H (corresponding to 3 July 2013). The registered office address of the Company is:

Al Musadia Plaza (3), Al Madinah Road,
P.O Box 6277, Jeddah 21442,
Kingdom of Saudi Arabia.

The objectives of the Company are to engage in providing insurance products including protection and saving insurance products and related services in accordance with its Articles of Association and applicable regulations in the Kingdom of Saudi Arabia. During the period, the Company has received licence number TMN/34/201312 dated 15 Safar 1435H (corresponding to 18 December 2013) from Saudi Arabian Monetary Agency (SAMA) to conduct insurance business.

The insurance portfolio and related assets and liabilities will be acquired from a founding shareholder by the Company on completion of valuation and approval by SAMA. Furthermore in accordance with the Transitional Agreement (the "Agreement") between the Company and a founding shareholder, all the general and administrative cost up to transfer of insurance portfolio will be shared by the Company and the founding shareholder in the ratio of 17% and 83% respectively. Currently, the Company is using furniture and fixture of a founding shareholder. Moreover in accordance with the Agreement, the Company manages the insurance portfolio of the founding shareholder in consideration of receiving a management fee at the rate ranging from 10% to 20% of total revenue of founding shareholder's portfolio.

As per the Company's by-laws and Article of Association, the Company's first fiscal year shall commence on the issuance date of Ministerial Resolution announcing the incorporation of the Company which was 24 Sha'baan 1434H (corresponding to 3 July 2013) and will be ending on 31 December of the following year, being 31 December 2014. Accordingly, no comparative information is presented into these financial statements.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Company has prepared these financial statements in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The financial statements are prepared under the historical cost convention except for the measurement at fair value of available-for-sale investments and Fair Value through Income Statement (FVIS) investments.

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

(c) Basis of preparation

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. Assets, liabilities, income and expenses clearly attributable to either activity are recorded in the respective books of accounts. The basis of allocation of expenses of joint operations are determined by the management and approved by the Board of Directors.

As per the by-laws of the Company and Saudi Arabian Insurance Regulations, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' Operations	90%
Transfer to Insurance Operations	10%
	100%

If the Insurance Operations results in a deficit, the entire deficit is borne by the Shareholders Operations.

The Company presents its statement of financial position in order of liquidity.

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

(d) Use of estimates and judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

Allowance for doubtful receivable
A provision for impairment of premiums receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the premiums receivable is impaired.

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

(d) Use of estimates and judgements (continued)

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

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

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

(e) New IFRS, IFRIC and amendments thereof, issued but not yet effective

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

Standard/ Interpretation	*Description*	*Effective date*
IFRS 9	Financial Instruments – Classification & Measurement	1 January 2018
IFRS 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27	Amendments to IAS 27 Equity method in Separate Financial Statements	1 January 2016

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

(f) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below:

Cash and cash equivalents
Cash and cash equivalents consist of cash and bank balances and Murabaha deposits that have original maturity period not exceeding three months.

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

Held-to-maturity investments are recorded at cost, adjusted by the amount of amortization of premium or accretion of discount using the effective profit rate method.

Any permanent decline in value of investments is adjusted for and reported in the related statements of income as impairment charges.

Contributions receivable
Contributions receivable are stated at gross considerations from insurance contract less an allowance for any uncollectible amounts (impairment). An allowance for impairment is made when collection of due amount is no longer probable. Bad debts are written off as incurred.

Available-for-sale investments held to cover unit-linked liabilities
The classification depends on the purpose for which the investments were acquired or originated. The Company's investments are classified as available-for-sale investments.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale. These investments are initially recorded at fair value. After initial measurement available-for-sale investments are measured at fair value.

Financial assets held to cover unit-linked liabilities represent assets associated with certain contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in units of mutual funds, which are readily marketable. Fair value gains and losses are reported as a separate component and included under the reserve for Insurance activities.

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

Fair values of investments are based on quoted prices for the marketable securities.

Reserve for insurance activities
The provision for investment contract liabilities is calculated on the basis of an actuarial valuation method by independent appointed actuary through the use of the current unit fund price.

The actuarial valuation includes a provision for participation which is the amount the Company expects to pay investment contract holders.

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

(f) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations and accumulated surplus by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Reinsurance

The Company cedes its insurance risk in the normal course of business for all of its segments. Reinsurance contracts are contracts entered into by the Company under which the Company is compensated for losses on insurance contracts issued. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies. Reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of the reinsurance share of settlement of claims and other receivables such as profit commissions and the reinsurance share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Reinsurance liabilities represent balances due to reinsurance companies.

Amounts recoverable from or due to reinsurance companies are recognised consistently with the amounts associated with the underlying Insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance balances payable

Reinsurance balances payable comprise of the amounts payable to various reinsurance companies in-respect of reinsurance share of contribution net of reinsurance share of paid claims.

Accounts payable and accruals

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

Contribution deposit

Contribution deposit is taken from potential policy holders in respect of initial contribution. On completion of mandatory documentation and medical examination of potential policy holder, this deposit transfers to gross written contribution.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

(f) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

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

Zakat and income tax

Zakat and income tax are provided for in accordance with the Saudi Arabian fiscal regulations. Zakat is debited to the Saudi founding shareholders and general public equity accounts while income tax is debited to non-Saudi founding shareholders' equity accounts. Additional amounts, if any, that may become due on finalisation of an assessment are recorded in the year in which the assessment is finalised.

As all Zakat and income tax charges will be recovered from the shareholders, no adjustments are made in the financial statements to account for the effects of deferred income taxes.

Revenue recognition

Contributions are taken into Statement of Insurance Operations and accumulated surplus over the terms of the policies to which they relate on a pro-rata basis. Unearned contributions represent the portion of contributions written relating to the unexpired period of coverage at the reporting date. The change in the provision for unearned contributions is taken to the statement of insurance operations and accumulated surplus in order that revenue is recognised over the period of risk.

Rebate pertaining to unit-linked investments are calculated in accordance with the terms of agreement with Fund Manager and is accounted for on accrual basis.

Gain or loss on sale of investment is recognised as income or loss in the statement of shareholders' operations.

Portfolio management fee is calculated in accordance with the terms of agreement with the founding shareholder and is accounted for on accrual basis.

Subsidy from Human Resources Development Fund is recognized as income on receipt basis.

Reinsurance premium

Reinsurance premiums ceded are recognized as an expense when payable.

Pre-incorporation expenses

Pre-incorporation expenses with no economic benefits beyond the current period are charged to the Statement of Shareholders' Operations.

Transaction costs

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

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

(f) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, impairment loss is recognised in the statement of shareholders' operations.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing a significant financial difficulty, default or delinquency in repayments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairment is determined as follows:

(a) for assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
(b) for assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

Impairment of non-financial assets

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

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

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

(f) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets - (continued)
An assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Shareholders' Operations unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

De-recognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;

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

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

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

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

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

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

(f) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Foreign currencies

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

Fair values

Financial instruments include cash and cash equivalents, available-for-sale investments held to cover unit-linked liabilities, contribution receivable, accrued income, other receivables, Reinsurance share of outstanding claims, due from Insurance Operations, Reinsurance balances payable, due to related parties, due to Shareholders' Operations, gross outstanding claims, other payables and employees' end of service benefits.

Except for the fair value of available-for-sale investments which are based on unit prices quoted on Tadawul, the fair values of all other financial instruments are estimated using prevailing valuation methods.

Product classification

The company issues life insurance contracts which are linked to investment contracts. Where contract contains both an investment component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any contributions relating to the insurance component are accounted for through the statement of insurance operations and accumulated surplus and the remaining element is accounted through the insurance operations' statement of financial position.

Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders

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

Amounts collected under the contracts are accounted for through the statement of insurance operations and accumulated surplus, and the investible portion of the contribution collected is shown as a deduction from the gross contributions from insurance operations, and transferred to unit linked liabilities.

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

(f) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, are charged to Statement of Insurance Operations and Accumulated Surplus as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company generally estimates its claims based on actuarial input. This includes a provision based on management's judgment and the cost of settling claims incurred but not reported at the statement of financial position date.

The Company does not discount its liability for unpaid claims.

Surrenders and maturities

Surrenders refer to the partial or full termination of the individual insurance contract. Surrenders are accounted for on the basis of notifications received and are charged to statement of insurance operations and accumulated surplus in the year in which they are notified. Maturities refer to the amount given to the insured towards the end of the maturity period of the individual insurance contract.

Surrenders and maturities are calculated based on the terms and conditions of the respective individual insurance contract.

Segment reporting

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

3. CASH AND CASH EQUIVALENTS

	31 December 2014
	SR '000
Insurance Operations	
Cash at bank	**19,318**
Shareholders' Operations	
Cash at bank	**6,666**

Cash at bank is held with a founding shareholder.

4. INVESTMENTS HELD-TO-MATURITY

Held-to-maturity investments amounting to SR 271.2 million represents Murabaha deposits held with a founding shareholder (having maturity of more than one year).

5. AVAILABLE-FOR-SALE INVESTMENTS HELD TO COVER UNIT-LINKED LIABILITIES

	Initial value	*Change in fair value*	*31 December 2014*
	SR '000	*SR '000*	*SR '000*
Insurance Operations			
Al Jazira Diversified Aggressive Fund	9,881	(129)	9,752
Al Jazira Diversified Balanced Fund	1,066	(6)	1,060
Al Jazira Diversified Conservative Fund	139	2	141
	11,086	(133)	10,953

Investment of Insurance operation comprises units of mutual funds dominated in Saudi Riyal managed by a founding shareholder.

The Company uses the following hierarchy methods for determining and disclosing the fair value of available for sale investments at the reporting period end:

Level 1: Fair value instruments using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The Company's available-for-sale investments are classified under Level 1 hierarchy.

6. FVIS INVESTMENTS

Movement in investments classified as fair value through income statement ("FVIS") is as follows:

	For the period from 3 July 2013 to 31 December 2014 SR'000
Purchases during the period	303,750
Disposals during the period	(263,243)
Changes in fair value during the period	216
Balance at end of the period	40,723

During the period ended 31 December 2014, the Company invested SR 40.51 million in the 'Al Qawafel Fund' managed by a founding shareholder.

The Company's FVIS investments are classified under Level 1 hierarchy.

7. STATUTORY DEPOSIT

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 35 million in a bank designated by the Saudi Arabian Monetary Agency (SAMA). The Company cannot withdraw this deposit without SAMA's approval. This deposit is held with a founding shareholder.

8. RESERVE FOR INSURANCE ACTIVITIES

Reserve for Insurance activities is created, as per the report received from the Actuary, as detailed below:

	31 December 2014
	SR '000
Investible contributions	10,214
Technical reserve for insurance activities	1,430
Mathematical reserve – net	480
	1,910
Change in fair value of available-for-sale investments (note 5)	(133)
	11,991

9. OUTSTANDING CLAIMS INCLUDING IBNR

	31 December 2014		
	Gross SR '000	*Reinsurers' share SR '000*	*Net SR '000*
Outstanding claims	450	(350)	100
Add: Incurred but not reported (IBNR) reserve	4,087	(1,648)	2,439
Total outstanding claims including IBNR	4,537	(1,998)	2,539

10. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 350 million at period end consisting of 35 million shares of SR 10 each and subscribed by the following:

	31 December 2014	
	% holding	*SR '000*
Founding Shareholders	70	245,000
General public	30	105,000
	100	350,000

The Company incurred a sum of SR 4.5 million as transaction costs to raise capital of SR 105 million through an Initial Public Offer (IPO) and has deducted from equity. The part of transaction cost amounting to SR 3 million have been paid by a founding shareholder (note 13).

11. STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital.

12. PRE-INCORPORATION INCOME, NET

Profit on Murabaha deposits from the date of Ministerial Decree No. 137 dated 27 Rabi' Al-Thani 1431H (corresponding to 12 April 2010) up to the date of Ministerial Resolution dated 24 Sha'baan 1434H corresponding to 3 July 2013, has been recorded as pre-incorporation income of the Company. Pre-incorporation income, net for the period from 3 July 2013 to 31 December 2014 comprises of:

	For the period from 3 July 2013 to 31 December 2014
	SR '000
Profit on Murabaha deposits (note 13)	2,259
Less: *pre-incorporation expenses*	
License fee	100
Legal and professional fees	110
Product development fees	400
Advertisement	42
Others	10
	662
	1,597

Pre-incorporation expenses include SR 411 thousand, cost incurred by a founding shareholder on behalf of the Company, and subsequently recharged to the Company, for the period up to 3 July 2013 being the date of issuance of Ministerial Resolution declaring the incorporation of the Company (note 13).

13. TRANSACTIONS WITH RELATED PARTIES

a) In addition to the disclosures set out in Notes 1, 3, 4, 5, 6,7,10 and 12, following are the details of major related party transactions during the period from 3 July 2013 to 31 December 2014:

Related party	*Nature of transaction*	*Amount of transaction for the period from 3 July 2013 to 31 December 2014*
Shareholders' Operations		*SR '000*
Shareholder	Transaction costs paid on behalf of the Company and recharged to the Company	3,008
Shareholder	Pre-incorporation expenses paid on behalf of the Company and recharged to the Company	411
Shareholder	Profit earned from Murabaha deposits (pre-incorporation) (note 12)	2,259
Shareholder	Profit earned from held-to-maturity investments	5,485
Shareholder	Profit earned from Mutual funds	723

13. TRANSACTIONS WITH RELATED PARTIES - (Continued)

Insurance Operations		
Shareholder	Gross written contribution	**16,025**
Shareholder	Portfolio management fee	**3,328**
Key management personnel	Salaries, benefits and allowances	**5,330**

b) Amount due from a related party represents receivable from Bank AlJazira (founding shareholder).

c) Contribution receivable includes SR 438 thousands from a related party.

14. GENERAL AND ADMINISTRATIVE EXPENSES, NET

Insurance Operations	*For the period from 3 July 2013 to 31 December 2014 SR'000*
Staff cost	**23,082**
Advertising and marketing	**2,670**
Repair and maintenance	**2,525**
Rent for use of fixed assets	**1,795**
Utilities and postage	**1,306**
Rent	**1,229**
Legal and professional fee	**648**
Travelling, hotel and conveyance	**598**
Computer expenses	**438**
Stationery	**292**
Other expenses	**703**
Total expenses	**35,286**
Allocated to a founding shareholder	**(29,288)**
	5,998

Shareholders' Operations	*For the period from 3 July 2013 to 31 December 2014 SR'000*
Board remuneration	**1,040**
Board attendance fee	**154**
Committees' expenses	**800**
Legal and professional fees	**688**
Total expenses	**2,682**
Allocated to a founding shareholder	**(371)**
	2,311

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

b) Board attendance fee represents allowances for attending board meetings and committee meetings

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

15. OTHER INCOME

	For the period from 3 July 2013 to 31 December 2014 *SR'000*
Subsidy from Human Resources Development Fund	1,304
Surrender charges	130
	1,434

16. ZAKAT & INCOME TAX

The Zakat and income tax payable by the Company has been calculated in accordance with Zakat regulations in Kingdom of Saudi Arabia.

The movement in the Zakat and Income tax payable is as follows:

	31 December 2014 *SR '000*
Zakat for the period	409
Income tax for the period	41
Zakat and income tax for the period	450
Zakat and income tax paid during the period	(437)
Zakat and income tax payable	13

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

17. EARNINGS PER SHARE

Earnings per share for the period has been calculated by dividing the net income for the period by thirty five million shares, the weighted average number of issued and outstanding shares for the period. Diluted earnings per share are not applicable to the Company.

18. CONTINGENT LIABILITIES AND COMMITMENTS

As at the statement of financial position date, the Company had no contingent liabilities and commitments.

19. SEGMENT INFORMATION

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities. The Company's gross written contributions, net insurance contributions, net written contribution, net insurance revenue, gross claims paid, net paid claims; net claims incurred, policy acquisition costs, supervision and inspection fees, underwriting surplus, general and administrative expenses, portfolio management fee, other income, net surplus / (deficit) from Insurance Operations, available-for-sale investments, contributions receivables, unearned contributions, outstanding claims, reserve for insurance activities, advance contributions, contribution deposit, reinsurance balances payable, total assets and total liabilities, by business segment, are stated below.

The activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under two business units, as detailed below:

Insurance - individual segment offers life Insurance products on an individual basis including unit linked investment oriented products.

Insurance - group segment offers life protection programs to the members of organizations on a group basis.

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

For the period from 3 July 2013 to 31 December 2014	Individual SAR'000	Group SAR'000	Total SAR'000
INSURANCE REVENUE			
Gross written contributions	14,039	16,167	**30,206**
Investible contributions, net	(10,214)	-	**(10,214)**
Net Insurance contributions	3,825	16,167	**19,992**
Contributions ceded	(116)	(2,217)	**(2,333)**
Net written contributions	3,709	13,950	**17,659**
Unearned contributions – net	-	(9,706)	**(9,706)**
Reserve for insurance activities	(1,910)	-	**(1,910)**
Net Insurance revenue	1,799	4,244	**6,043**
CLAIMS AND EXPENSES			
Gross claims paid	-	(716)	**(716)**
Reinsurance share of claims paid	-	596	**596**
Net paid claims	-	(120)	**(120)**
Outstanding claims including IBNR, net	(100)	(2,439)	**(2,539)**
Net claims incurred	(100)	(2,559)	**(2,659)**
Policy acquisition costs	(731)	-	**(731)**
Supervision and inspection fees	(70)	(81)	**(151)**
Total claims and expenses	(901)	(2,640)	**(3,541)**
Underwriting surplus for the period	898	1,604	**2,502**
General and administrative expenses			**(5,998)**
Portfolio management fee			**3,328**
Other income			**1,434**
Surplus for the period from Insurance Operations			**1,266**

19. SEGMENT INFORMATION – (continued)

As at 31 December 2014	Individual	Group	Total
	SAR'000	SAR'000	SAR'000
INSURANCE OPERATIONS' ASSETS			
Available-for-sale investments held to cover unit link liabilities	10,953	-	10,953
Contributions receivable	-	442	442
Reinsurance share of unearned contributions	-	156	156
Reinsurance share of outstanding claims including IBNR	350	1,648	1,998
Unallocated assets			21,540
TOTAL INSURANCE OPERATIONS' ASSETS			35,089
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Reserves for Insurance activities	11,991	-	11,991
Unearned contributions	-	9,862	9,862
Outstanding claims including IBNR	450	4,087	4,537
Advance contributions	219	-	219
Contributions deposit	185	-	185
Reinsurance balances payable	121	1,615	1,736
Unallocated liabilities			6,432
Surplus from insurance operations			127
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			35,089

20. RISK MANAGEMENT

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

The strategy considers the impact of market conditions and available expertise on inherent risks to which the company is exposed.

Risk management structure

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

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

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

20. RISK MANAGEMENT – (continued)

Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. The Company manages this risk through the implementation of well documented, sound underwriting and claims management policies and procedures and by ensuring that adequate reinsurance cover is in place to restrict the maximum loss payable for any individual claim.

Individual Protection & Saving

For individual protection & saving portfolio, the main risk is the mortality and morbidity of the insured and the risk of anti-selection associated with this. In addition, higher than anticipated cancellation rates may result in expense overruns and may extend the time period that it will take for the portfolio to attain a critical mass. Mortality and morbidity risk is managed through an effective and clearly defined underwriting strategy as well as claims assessment procedures. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also conducts financial, lifestyle and occupational underwriting to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

Group Protection & Saving

For group Protection & Saving portfolio, the main risks are mortality and morbidity of the insured. The mortality risk is compounded due to the concentration of lives, for e.g. employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual and group Protection & Saving portfolio is protected through an efficient reinsurance arrangements. This protects the Company from adverse mortality/morbidity experience. There is a maximum retention per life under the reinsurance arrangement which protects the Company from single large losses.

Geographical concentration of risks

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

Reinsurance risk

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

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

20. RISK MANAGEMENT – (continued)

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

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

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

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

Capital management (solvency) risk
Capital requirements are set and regulated by SAMA. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' values.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities.

Financial risk
The Company's principal financial instruments are cash and cash equivalent, available-for-sale investments held to cover unit-linked liabilities, contribution receivable, reinsurance share of outstanding claims, other receivables, investments held-to-maturity, FVIS investments, due from insurance operations, reinsurance balances payable, accrued expenses and other liabilities, due to Shareholders' operations and other payables. The Company does not enter into derivative transactions.

The main risks arising from the financial instruments of Insurance Operations and Shareholders' Operations are credit risk, liquidity risk and fund price risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

20. RISK MANAGEMENT – (continued)

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.

The Company issues unit linked investment policies. In unit linked business the plan holder bears the investment risk on the assets held in the unit linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on the unit linked financial assets.

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

- To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- Contributions receivable are only receivable from corporate customers. The Company seeks to limit the credit risk by setting credit limits and monitoring outstanding receivables.
- The Company's investments comprise of term securities and mutual funds. The Company limits its credit risk on investments by setting out a minimum acceptable security rating level affirming their financial strength.

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

	31 December 2014 SR '000
INSURANCE OPERATIONS' ASSETS	
Cash and cash equivalents	19,318
Contributions receivable	442
Reinsurance share of outstanding claims including IBNR	1,998
Due from a related party	2,142
Other receivables	80
	23,980
SHAREHOLDERS' ASSETS	
Cash and cash equivalents	6,666
Investments held-to-maturity	271,215
FVIS investments	40,723
Statutory deposit	35,000
	353,604

20. RISK MANAGEMENT – (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a timely basis and management ensures that sufficient funds are available to meet any commitments as they arise.

All assets of insurance operations and shareholders' operations are current, except for investment held to maturity and statutory deposit which are non-current nature.

The insurance operations' current financial liabilities consist of outstanding claims, contribution deposit, reinsurance balances payable, accrued expenses & other liabilities and the shareholders' financial liabilities consist of accrued expenses. All these financial liabilities are expected to be settled within 12 months from the date of statement of financial position.

Fund price risk

Fund price risk is the risk that the fair value of future cash flows of a fund will fluctuate because of changes in the net asset value (NAV) being determined by fund managers.

The insurance operations are not exposed to fund price risk since any change in the NAV of the funds will affect the change in Reserve for insurance activities and the change in the fair value of the unit linked investments by the same amount.

The shareholders' operations, fund price risk exposure relates to FVIS investment, whose values will fluctuate as a result of change in NAV. The Company limits fund price risk by maintaining a diversified portfolio and by monitoring the developments in financial markets.

A 1% change in the NAV of the shareholders' operations, with all other variables held constant, would impact net equity by increase / decrease of SR 407 thousand.

21. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Chairman of the Board of Directors on behalf of the Board of Directors on 23 February 2015 corresponding to 4 Jumada Al Awal 1436H.