

2014 | ANNUAL REPORT



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BOARD OF DIRECTORS



Eng. Mubarak bin Abdullah
Al Khafrah

Chairman



Mr. Mohammed Ali
Al Ammari

Vice President



Mr. Mohamed S.
Abanumay

Board Member



Mr. Abdulmohsen
M. Al-Saleh

Board Member



Dr. Abdulaziz Abdullah
Al-Galal

Board Member



Dr. Ghassan
Abdulrahman Al-Shibl

Board Member



Mr. Mohamed Abdulaziz
Al-Namla

Board Member



Mr. Ebeid Abdullah
Al-Rashid

Board Member

MESSAGE FROM THE CHAIRMAN



**Eng. Mubarak bin Abdullah
Al Khafrah**

Chairman of the Board

Messrs/ The shareholders of Malath Cooperative Insurance & Reinsurance Company

Honorable

Peace, mercy and blessings of Allah be upon you,

I am pleased on behalf of myself and on behalf of the Board of Directors to present to you the report of the Board of Directors attached with the audited financial statements of the auditors (KPMG Al Fozan & Al Sadhan and Ernst & Young) along with the notes for the financial year ended in December 31, 2014. The report also highlight the most important developments, achievements, financial results, operating activities, future plans, and disclosures in accordance with the rules and regulations issued by the Capital Market Authority, particularly article 43 of the Listing Rules and article (9) of the Regulations of Corporate Governance in the Kingdom of Saudi Arabia. Moreover, the report covers information about board of directors and its various committees, and other complementary information aiming at meeting the needs of the users of this report.

By the end of 2014, Malath Cooperative Insurance & Reinsurance Company ranked third rank among insurance companies with multi-activities in the Saudi insurance market in terms of sales volume. The market share of the company amounted to nearly 5% with sales hit over 1.4 billion Saudi riyals, exceeding several companies that operate in the Saudi market for decades, although the company avoid engaging into competition in cut prices as the company is fully committed to the price adequacy requirements. The company has also managed to become the largest car insurance company in the Kingdom with a volume of sales volume exceeded 1.15 billion Saudi riyals.

By the end of 2014, the subscribed total insurance premiums increased to 1.413 billion Saudi riyals, compared to 771 million Saudi riyals by the end of 2013 with a growth rate hitting 83%. The company's losses also fell to 6.2 million Saudi riyals (Before Zakat) by the end of 2014, compared to a loss hitting 29.8 million riyals in 2013.

During this year, the company hired a global strategy consultancy firm to help the teamwork in determining the strengths of the company in order to enhance them and in determining the weaknesses in order to correct them as well as putting forward a long-term strategy for the company and determining the required strategic projects to achieve the desired objectives. A private management company was founded to manage strategic projects.

In 2014, the global Standard & Poor's (S & P) has confirmed the credit rating of the company, which is (BBB +) with a stable condition. This rating reflects strong and safe performance of the company.

The company continued to work on increasing the effectiveness of infrastructure and raising the production efficiency. It also continued to support and enhance national human cadres in the insurance sector, where the percentage of Saudization in the company reached 64%. The Saudi nationals occupy the majority of leading positions in the company. Moreover, the company is committed to all laws and regulations issued by the Ministry of Labor. The company is currently classified in the excellent rank. Regarding the geographical spread, the company continued to expand the policy of geographical expansion inside the Kingdom and now the company has 30 branches and outlets of sale and service.

Finally, I would like to seize the moment on behalf of the members of the Board of Directors to extend thanks and appreciation to the company's shareholders, customers and all employees. We look forward to continue the process of success of the company and to achieve the aspirations of all.

Allah is the Arbiter of Success,

Eng. Mubarak bin Abdullah Al Khafrah

Chairman of the Board

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 2014



BOARD OF DIRECTORS REPORT

First: The most important developments in the market:

The Saudi insurance market has continued development in 2014, when the number of licensed cooperative insurance and reinsurance companies hit 35. In 2014, the Saudi Arabian Monetary Agency in its capacity as the body supervising and regulating the work of cooperative insurance companies issued a regulation of clients' protection. The agency also issued a comprehensive circular grouping the mechanisms for underwriting and pricing requirements in order to secure vehicles and health insurance. In 2014, the Cooperative Health Insurance Council issued an amendment to the executive regulations for cooperative health insurance, including amendments to the unified health insurance document. The amendments have come in to force as of July 2014.

Second: Company Profile:

A number of prominent Saudi investors established the company with a paid in capital hitting 300 million Saudi riyals. Nearly 47.48% of the capital was put for initial public offering. On April 9, 2007, Malath was founded as a joint stock company practicing the activity of cooperative Insurance issued by the Saudi Arabian Monetary Agency and in line with the systems and regulations of the Health Insurance Council. On May 5, 2010, the ban was lifted from the shares of foundation and the shareholders have become free to dispose their shares.

Third: The Company's activity:

The main activity of the company represents in providing cooperative insurance products in addition to the optional reinsurance. The company exercised all activities in accordance with the rules and regulations of the Cooperative Insurance in the Kingdom of Saudi Arabia.

The company has provided integrated products in the field of general cooperative insurance with its various forms, which include engineering insurance, fire and property insurance, marine insurance (Goods and structures), various insurance and vehicle insurance. The company also provides services in the cooperative health insurance for groups and individuals as well as the optional reinsurance activity. The company offers services to its customers via its head office in Riyadh and the three regional administrations in Central, Western and Eastern regions along with various branches across the kingdom, the customer service center, vehicle insurance compensation centers and a specialized administration in health insurance.

The most important insurance products in the company are:

Kind of Insurance	Product	Ratio of the total insurance premiums in 2014
Health insurance	Health insurance for groups	6.1%
	Health insurance for individuals and small groups	
Vehicle insurance	Compulsory third party insurance and Insurance against vehicles damage	82.0%
	Comprehensive insurance	
General Insurance	Property Insurance	11.9%
	Engineering Insurance	
	Miscellaneous Accident insurance	
	Marine Insurance	
	Provide protection for groups	

Fourth: The company strategy and future aspirations:

The company hired a global strategy consultancy firm to help the teamwork in determining the strengths of the company in order to enhance them and in determining the weaknesses in order to correct them as well as putting forward a long-term strategy for the company and determining the required strategic projects to achieve the desired objectives.

The Board of Directors adopted the main strategy and work plan of the company for the coming five years. The board and its concerned committees will periodically review the developments of work and compare the achievements with the set targets. A special administration was formed to manage the company's strategic projects.

The company aims at achieving a steady growth and maintaining a balanced insurance portfolio distributed to various market segments. The company is keen on offering its insurance products in all transparency bounded by an integrated protection and high service for both clients and brokers in the market.

The company's activity mainly aims at reaching to meaningful results that ensure reasonable returns for both customers and shareholders as well.

The company has clearly put forward its vision to be a "favorite insurance company in the Kingdom" through providing various, innovative insurance products with competitive prices coupled with the best services with high efficiency, which provides added value for customers and shareholders.

The company plans through its strategy to increase the geographical spread in the Kingdom through opening new branches and new outlets of sale in various cities and contracting with licensed insurance agents to assist the company to achieve geographical spread.

The company's work plan expects the continuation of revenue growth during the coming five years with a focus on service, quality and achieves meaningful results.

Fifth: The most important developments in infrastructure and business:

The most important achievements can be summarized as follows:

A) Branches and Sales Points

The company has obtained the approval of the Saudi Arabian Monetary Agency to open new outlets for sale in various areas of the Kingdom in 2011 gradually. In 2014, the number of branches and sale outlets in the country reached to 22 outlets, in addition to eight branches. The company also reached a deal in 2014 to work with Abdul Latif Jameel for Insurance (A subsidiary of Abdul Latif Jameel Co Ltd). Under the deal, Abdul Latif Jameel for insurance will promote and sell insurance products of Malath Company as an exclusive agent for a period of three years through branches licensed by Saudi Arabian Monetary Agency branches in Saudi Arabia. It worth mentioning that Abdul Latif Al-Jameel is licensed insurance company by the Saudi Arabian Monetary Agency and plans to promote the products of Malath Company through 100 branches of the agency spread across the Kingdom.

B) Human resources

The company has continued its ongoing support for the development of national cadres and work to attract the best scientific and practical experience in the field of insurance and cooperative reinsurance in order to build a homogeneous work team with a distinguished insurance expertise in all departments of insurance. In 2014, the Saudization reached 64% and the female represents 14% of the total number of employees. The company provides an appropriate and attractive working environment for Saudi women. A number of training courses and workshops for employees was held to enable them to acquire the practical skills and experience in the targeted professions. Other specialized courses were held to help staff to pass the exam of Insurance Certificate basics.

C) Sales and Marketing

During the financial year ended December 31, 2014, the company achieved total sales amounted to 1.413 billion Saudi riyals with a growth rate exceeding 83% compared to 2013. The company was able to maintain the most important accounts by offering insurance products and services carrying all the meanings of transparency, innovation and high quality to its customers. The company strategy focused on ensuring the credibility of safe services that grant peace of mind and reassurance to its clients.

D) The Technical Aspects

The Company entered into reinsurance agreements with a raft of the best global reinsurance companies with higher credit rating, as well as with a group of the best and reinsurance brokers. This enables the company to get the distinguished support and services from the global market and enables it to respond immediately to the requirements of the local market.

E) The Credit Rating of the Company

In 2014, the global Standard & Poor's (S & P) has confirmed the credit rating of the company, which

is (BBB +) with a stable condition. The rating of the solvency was stable with grade (BBB+) in 2014. This rating reflects strong and safe performance of the company.

F) Investments

The company's investments are divided between Islamic Murabaha, investment portfolios in the Saudi market, Islamic instruments (Sukuk) and founding shares in two companies, namely:

- 1- Najm for Insurance Services (Saudi limited liability company), from which Malath has nearly 1.923 million Saudi Riyals of the company's capital. The company's activities are "Inspection expert, losses valuer and specialist in settling insurance claims."
- 2- Saudi Reinsurance Company "Saudi Re" (A Saudi joint stock company, founded by a decision from the cabinet No. M/319 on 24/10/1428 AH) and licensed by the Saudi Arabian Monetary Agency as reinsurance. The market values of the company hit 860,000 Saudi Riyals on 31 December 2014 AH. The company owns 100,000 shares.

The company also invests in Islamic bonds (Sukuk) issued by General Authority of Civil Aviation and the National Industrialization Company (TASNEE) with a total amount of 60 million Saudi riyals. The company owns two investment portfolios in the Saudi stock market (limited to shares licensed by Shariah Board) with a market value reaching 49.58 million Saudi Riyals on December 31, 2014. In addition to a Sukuk portfolio with a capital market hitting 45.6 million as well as investment in real estate development fund, which is managed by NCB Capital and Derayah Fund to finance trading, which is managed by Derayah Financial with an amount of 67.13 million Saudi riyals. The remaining of investments is Islamic Murabaha at the local banks with an amount of 578 million riyals.

Sixth: The risks that may face the company:

1- Competition:

The number of insurance and reinsurance companies listed in the stock market has reached 35 companies by the end of 2014. This number leads to a difficult competitive environment that may affect the activity of the company and its opportunities of the future.

2- The ability to achieve satisfactory investment returns in the current economic conditions:

The financial results of Malath partially depend on its investment performance. The revenues of Malath may be negatively affected by investment from time to time as a result of conditions that affect on specific investments and in general as a result of market fluctuations and the current economic conditions that are beyond the company's control.

Hence, the activity of the company largely depends on the economic conditions in the Kingdom of Saudi Arabia and worldwide.

3- Regulatory and legal risks:

The insurance operations undertaken by the company is subjected to the supervision and monitoring by the Saudi Arabian Monetary Agency through the statute of the Cooperative Insurance Supervision

and its bylaws as well as the regulations of the Council of Cooperative Health Insurance with respect to the product of health insurance. In general, the regulation and supervision of insurance specifically set for serving the insured and investors. The future legislation and regulatory changes may affect the insurance or financial services industry and may have a negative impact on the work of Malath and its financial condition and results of operations.

4- Risks related to technology:

The company relies on its information technology systems. However, the company has been taken appropriate security measures, the information systems of the company may be exposed to unauthorized access or computer viruses or human or natural disasters or fires or loss of energy or errors in communication or subversive operations. If there is any large or frequent failure, the revenues may be negatively affected and the company may incur significant costs incurred as a result of such malfunctions or failures, a matter which may adversely affect the financial results or levels of capital expenditure.

5- Issues:

In the ordinary scope of business, Malath may filed lawsuits against third parties, and others may also raise claims against the company. These cases may adversely affect the financial situation of the company in the future.

Seventh: Financial indicators:

The key financial indicators of the company for the seventh financial year ended in December 31, 214 will be reviewed below as follows:

- 1- The net (loss) profit before "Zakat" in 2014 hit (6,212) thousand Saudi riyals, compared to a loss (29,834) thousand Saudi riyals during the previous year. The net loss after Zakat reached (13,712) thousand Saudi riyals, compared to (41,834) thousand Saudi riyals for the previous year.
- 2- The loss per share after Zakat in 2014 amounted to (0.46) Saudi riyals, compared to a loss hitting (1.4) Saudi riyals for the previous year.
- 3- The deficit of insurance operations less returns of policyholders Investments (Results of operations) in 2014 amounted (26,033) thousand Saudi riyals, compared to a deficit hitting (40,822) thousand Saudi riyals for the previous year.
4. The Gross Written Premiums (GWP) for the year 2014 hit 1,412,841 thousand Saudi riyals, compared to 770,901 thousand Saudi riyals for the previous year with an increase of 83%. The Net Written Premiums (NWP) in 2014 reached up to 1,265,754 thousand Saudi riyals, compared to 660,335 thousand Saudi riyals for the previous year with an increase hitting 92%.
5. The net incurred claims in 2014 amounted to 927,055 thousand Saudi riyals, compared to 559,101 thousand Saudi riyals for the previous year with an increase hitting 66%.
6. The net investment gains of policyholders for in 2014 amounted to 2,938 thousand Saudi riyals compared to 3,491 thousand riyals during the previous year with a decrease reaching 16%. The net

profits of investments of shareholders' funds hit 18,460 thousand Saudi riyals, compared to 8,965 thousand Saudi riyals for the previous year with an increase reaching 106%.

The decline of loss in 2014 compared with the same period of last year is attributed to the improvement of results of insurance operations due to the increase of the gross written premiums and the net earned premiums in addition to the high profit if shareholders' investments.

The details of the financial year results:

A) The written premiums: "In thousand Saudi Riyals"

Statement	2010	2011	2012	2013	2014
The gross written premiums	600,261	600,911	588,064	770,901	1,412,841
The net written premiums	423,534	446,362	464,343	660,335	1,265,754

B) Claims "In thousand Saudi Riyals"

Statement	2010	2011	2012	2013	2014
The net incurred claims	204,617	241,206	315,906	559,101	927,055

C) The commissions of re-insurance and other revenues: "In Thousand Saudi Riyals"

Statement	2010	2011	2012	2013	2014
The commissions of reinsurance	38,510	33,910	25,146	23,468	31,816
Other revenues	19,681	11,462	14,356	7,229	18,275

D) Underwriting costs and the premiums of excess of loss: "In Thousand Saudi Riyals"

Statement	2010	2011	2012	2013	2014
The underwriting costs of insurance policies	57,985	63,260	56,579	46,408	55,958
The premiums of excess of loss	9,122	9,702	5,664	13,303	22,574

E) The general and administrative expenses “In Thousand Saudi Riyals”

Statement	2010	2011	2012	2013	2014
Operation and management salaries	50,111	60,143	64,461	65,732	72,689
Other general and administrative expenses	36,260	47,292	34,981	49,342	31,331
Total	86,371	107,435	99,442	115,074	104,020

F) Technical allocations “In Thousand Saudi Riyals”

Statement	2010	2011	2012	2013	2014
Unearned premiums	204,606	252,759	254,416	252,384	484,655
Unearned reinsurance commissions	9,644	10,323	5,552	9,112	16,965
Deferred costs for subscription of insurance policies	33,025	29,961	20,615	21,877	

G) Surplus (Deficit) of insurance operations “In Thousand Saudi Riyals”

Statement	2010	2011	2012	2013	2014
Surplus (Deficit) of insurance operations	25,303	21,978	24,599	(37,331)	(23,095)

H) The statement of the results of insurance operations "In Thousand Saudi Riyals"

Statement	2010	2011	2012	2013	2014
Revenues					
The gross premiums	600,261	600,911	558,064	770,901	1,412,841
Less: the issues reinsurance premiums	(176,727)	(154,549)	(93,721)	(110,566)	(147,087)
The net written premiums	423,534	446,362	464,343	660,335	1,265,754
Change in unearned premiums	(98,507)	(48,153)	(1,656)	2,023	(232,271)
The net earned premiums	325,027	398,209	462,678	662,367	1,033,483
Reinsurance commission	38,510	33,910	25,146	23,468	31,816
Other revenues	19,861	11,462	14,356	10,720	21,213
Total revenues	383,398	443,581	502,189	696,555	1,086,512
Costs and expenses					
Total paid claims	231,528	356,434	392,401	511,346	811,098
Less: Reinsurers' share	(94,118)	98,960	(75,418)	(61,024)	(59,383)
Net paid claims	137,410	257,474	316,983	450,322	751,715
Change in pending claims	67,207	16,268	(1,076)	108,779	175,340
Net incurred claims	204,617	241,206	315,905	559,101	927,055
IPO of insurance documents costs	57,985	63,260	56,579	46,408	55,958
Premiums of excess of loss	9,122	9,702	5,664	13,303	22,574
Operation and management salaries	50,111	60,143	64,461	65,732	72,574
Other general and administrative expenses	36,260	47,292	34,981	49,342	31,331
Total costs and expenses	358,095	421,603	477,590	733,886	1,109,607
Net surplus / (deficit) in insurance operations	25,303	21,978	24,599	(37,331)	(23,095)
Net (surplus) / deficit transferred to shareholders' operations	(22,773)	19,780	(22,139)	(37,331)	(23,095)
The net result of the period	2,530	2,198	2,460	-	-

l) The statement of shareholders operations "In Thousand Saudi Riyals"

Statement	2010	2011	2012	2013	2014
Investment income	1,609	2,384	16,498	8,965	18,460
Unrealized gains from investments acquired for the purposes of trade	-	-	-	-	-
Losses of decrease of investment available for sale	-	-	-	-	-
General and administrative expenses	(901)	(1,309)	(1,170)	(1,468)	(1,577)
Income from shareholders operations	1,858	1,075	15,328	7,497	16,883
Net surplus transferred from insurance operations	22,773	19,780	22,139	(37,331)	(23,095)
Net pre-incorporation expenses	-	-	-	-	-
Profit before Zakat	23,481	20,844	37,467	(29,834)	(6,212)
Zakat Allocation	(5,407)	(6,763)	(7,000)	(12,000)	(7,500)
Net profit	18,074	14,092	30,467	(41,834)	(13,712)
Profit / (loss) per share	0.60	0.47	1.02	(1.39)	(0.48)

J) The financial position statement "In Thousand Saudi Riyals

Statement	2010	211	2012	2013	2014
Assets of insurance operations:					
Cash and cash equivalents	61,912	119,632	187,313	188,947	475,254
Short-term investments	169,560	119,628	20,235	85,000	50,621
Investments available for sale	10,125	15,250	34,383	35,778	35,303
Net accounts receivable	155,465	203,829	206,732	217,666	457,636
Other assets	323,903	281,768	245,402	582,490	629,282
Total assets of insurance operations	720,965	740,107	964,065	1,109,881	1,630,096
Shareholders' assets:					
Short-term investments	101,577	47,049		65,000	15,000
Investments available for sale	113,290	155,903	129,475	189,254	192,006
Other assets	53,840	85,299	202,700	89,732	109,985
Total shareholders' assets	268,707	288,251	332,175	343,986	316,991
Total Assets	989,672	1,028,358	1,026,240	1,453,867	1,947,087
Liabilities of insurance operations:					
Accounts reinsurers	49,572	46,973	15,199	33,185	37,690
Technical reserves	575,357	567,427	536,844	946,006	1,405,184
Other liabilities	96,036	125,707	142,022	130,690	187,222
Total liabilities of the insurance operations	720,965	740,107	694,065	1,109,881	1,630,096
Liabilities and equity of shareholders:					
Shareholders liabilities	6,096	7,717	9,640	53,006	40,772
Shareholders' equity	262,611	280,534	322,535	290,980	276,219
Total liabilities and equity of shareholders	268,707	288,251	332,175	343,986	316,991
Total liabilities and shareholders' equity	989,672	1,028,358	1,026,240	1,453,867	1,947,087

K) A statement of changes in shareholders' equity

Statement	Capital	Regular reserves	Accumulated deficit	change in fair value of investments available for sale	Total
Capital Financing	300,000		-	-	300,000
Total comprehensive loss for the period	-		(59,207)	(9,000)	(68,207)
Balance on December 31, 2008	300,000		(59,207)	(9,000)	231,793
Total comprehensive profit for the year	-		7,228	13,191	20,419
Balance on December 31, 2009	300,000		(51,979)	4,191	252,212
Total comprehensive profit for the year	-		18,075	(7,675)	10,399
Balance on December 31 2010	300,000		(33,905)	(3,484)	262,611
Total comprehensive profit for the year	-		14,092	3,831	17,923
Balance on December 31, 2011	300,000		(19,813)	347	280,534
Total comprehensive profit for the year	-		30,467	11,534	42,001
Transferred to reserve		2,131	(2,131)		-
Balance on December 31, 2012	300,000	2,131	8,523	11,881	322,535
Total comprehensive profit for the year	-	-	(41,834)	10,279	31,555
Balance on December 31, 2013	300,000	2,131	(33,311)	22,160	290,980
Total comprehensive profit for the year			(13,712)	(1,049)	(14,761)
Balance on December 31, 2014	300,000	2,131	(47,023)	21,111	276,219

L) Sectorial information and geographical distribution:

The administration has adopted as per the instructions of the Saudi Arabian Monetary Agency the business sectors for the activities of the company and its assets and liabilities as shown below.

Income statement:

Insurance operations	For the financial year ended in December 31, 2014 AD "In thousand Saudi Riyals					
	Properties	Engineering	Cars	Health	Others	Total
Gross written premiums	77,951	47,907	1,159,181	86,743	41,059	1,412,841
Net earned premiums	3,679	3,871	829,931	186,888	9,114	1,033,483
Reinsurance commissions	15,347	8,718	-	-	7,751	31,816
Other income	121	79	5,503	12,456	116	18,275
Net incurred claims	(401)	(49)	(843,682)	(80,439)	(3,484)	(927,055)
Other expenses	(6,226)	(2,835)	(45,116)	(21,513)	(2,842)	(78,532)
Consumption	(205)	(126)	(3,049)	(228)	(106)	(3,714)
Operational expenses and administrative salaries and other general and administrative expenses	(5,534)	(3,401)	(82,297)	(6,159)	(2,915)	(100,306)
Income / (loss) from insurance operations	6,781	6,257	(137,710)	91,005	7,634	(26,033)
Commissions on short-term Islamic investments						2,938
Surplus from insurance operations						(23,095)

Insurance operations

For the financial year ended in December 31, 2013 AD "In thousand Saudi Riyals

	Properties	Engineering	Cars	Health	Others	Total
Gross written premiums	65,541	37,313	434,705	212,878	20,554	770,901
Net earned premiums	3,717	1,841	397,434	252,193	7,182	662,367
Reinsurance commissions	12,860	5,950	-	603	4,055	23,468
Other income	614	350	4,076	1,996	193	7,229
Net incurred claims	(4,906)	(284)	(405,588)	(147,443)	(880)	(559,101)
Other expenses	(5,999)	(1,923)	(26,222)	(23,033)	(2,534)	(59,711)
Consumption	(365)	(208)	(2,427)	(1,189)	(115)	(4,304)
Operational expenses and administrative salaries and other general and administrative expenses	(9,405)	(5,361)	(62,463)	(30,588)	(2,953)	(110,770)
Income / (loss) from insurance operations	(3,484)	365	(95,190)	52,539	4,948	(40,822)
Commissions on short-term Islamic investments						3,491
Surplus from insurance operations						(37,331)

Financial position statement:
Insurance operations

As at December 31, 2014 "In Thousand Saudi Riyals

Assets of insurance operations	Properties	Engineering	Cars	Health	Others	Total
Reinsurers' share of unearned premiums	26,065	22,448	-	-	11,415	59,928
Reinsurers' share of pending settlement claims	408,157	34,367	6,755	-	19,788	748,067
Deferred costs for insurance policies subscription	2,139	1,699	36,294	1,989	1,616	43,737
Unclassified assets						1,048,463
Total Assets						1,630,096

Liabilities of insurance operations

Unearned premiums	26,632	23,597	422,000	36,259	16,095	544,583
Unearned reinsurance commissions	6,428	6,975	-	-	3,562	16,695
Pending-settlement Claims	412,952	46,948	338,710	19,112	25,614	843,636
Unclassified liabilities						224,912
Total liabilities						1,630,096

Insurance operations As at December 31, 2013 "In Thousand Saudi Riyals"

Assets of insurance operations	Properties	Engineering	Cars	Health	Others	Total
Reinsurers' share of unearned premiums	14,131	16,013	-	-	3,401	33,545
Reinsurers' share of pending settlement claims	392,167	48,173	2,383	432	17,581	460,736
Deferred costs for insurance policies subscription	853	983	10,418	9102	521	21,877
Unclassified assets						593,723
Total Assets						1,109,881

Liabilities of insurance operations

Unearned premiums	14,607	16,754	112,749	136,404	5,415	285,929
Unearned reinsurance commissions	3,429	4,422	-	-	1,261	9112
Pending-settlement Claims	397,858	52,333	135,401	42,162	23,211	650,965
Unclassified liabilities						163,8078
Total liabilities						1,109,103

Geographical distribution: "In Thousand Saudi Riyals"

Statement	Gross Premiums	Percentage
Central Region	785,264	55,6
Western Region	545,753	38,6
Easter Region	81,824	5,8
Total	1,412,841	100%

Eighth: Disclosure as per regulations**A) Corporate governance regulation:**

The company has prepared its corporate governance regulation, which set rules and standards that organize the performance of the company. The regulation is consistent with the pilot regulation issued by The Capital Market Authority and regulations issued in the Kingdom of Saudi Arabia.

The company's regulation commits to all provisions of the pilot regulation issued by the Capital Market Authority, except cumulative voting in choosing the members of board. The company's board submitted a request to the Saudi Arabian Monetary Agency to amend article 34 of the company's articles of association in order to apply the cumulative voting when voting to choose the members of the board. The Agency requested to adjourn considering the matter until the agency completed the study of this matter.

B) Forming the Board of Directors and Executive Management of the company:

As per article (13) of company's articles of association, a nine-member board shall assume the management of the company. The members shall be appointed by the ordinary general assembly for a period of not exceeding three years. This appointment was not prejudice to the right of the legal person to replace his representative in the board with the exception of the first board, who was appointed by the constituent assembly for a period of three years commencing from the date of the issuance of ministerial decree declaring the founding of the company.

A board of directors has been elected for the third session starting from April 6, 2013 for three years during the ordinary and extraordinary general assembly meeting dated on Jumada Al-Awwal 21, 1434 AH correspondent to April 02, 2013 AD. All board members are independent and non-executive. They were provided with regulations and systems related to the company and applicable in Saudi Arabia.

After accepting the resignation of the member /Abd El-Salam Abd El-Rahman Al-Aqeel (Independent) on November 28, 2013 AD, the Nominations and Remunerations Committee searched to find an alternative member with qualifications and experiences that compatible with the needs of the company. No alternative member has been appointed until the date of this report. Any progress in this issue will be announced later.

Name	Membership Type	Other Joint stock companies that members participate in its board	Number of owned stocks	Percentage of stocks
Mubarak bin Abdullah Al-Khafrah	Independent	Saudi Hollandi Bank Tasnee Gulf Chemicals and Industrial Oils Co	80,477	0.268%
Mohamed bin Ali Al-Amari		Tabuk Cement Company Tabuk Fisheries Company	1,767	0.005%
Mohamed bin Sulieman Abanmai		Alinma Bank	9,150	0.031%
Abdel Mohsen bin Mohamed Al-Saleh		Filling & Packing Materials Manufacturing Company (FIPCO) Saudi Industrial Export Company Warehousing & Logistics Services Company FALCOM Financial Services	66,150	0.221%
Abdul Aziz Abdullah Al Jalal			36,000	0.120%
Obaid Abdullah Al-Rasheed		Saudi Chemical Saudi Home Loans (SHL) Al-Arabi Heavy Equipment Lease Company (AHEL) Saudia Aerospace Engineering Industries	1000	0.003%
Ghassan Abdul Rahman Al-Shebl			30,000	0.100%
Mohammed Abdul Aziz Al-Namlah		Middle East Specialized Cables Company Eastern Industrial Company Gulf Insulation Group Abdulaziz M. Alnamlah Holding Group Company (Amnest Group) Eskan Company for Investment and Development	1,000	0.003%

The executive management consists of a distinguished group of qualified and experienced employees in the field of insurance as follows:

Name	Position	Number of owned stocks	Percentage of stocks
Naser Hashim Al-Bunni	Chief executive officer	-	-
Zeeb H. Al Odailah	First Deputy Chief Executive Officer	-	-
Abdullah Ali Al-Ajlan	Deputy Chief Executive for health insurance and protection insurance for groups	-	-
Rami Al Hoshan	Deputy Chief Executive for Sales and Marketing	-	-
Abdullah Mashari Al Qubaily	Deputy Chief Executive Officer for vehicle insurance	-	-
Sunil Wij Siri	Deputy Chief Executive for Technical Affairs	-	-
Abu Bakr Ahmed Shihab	Chief financial officer	-	-

C. Board Meetings

The board of directors held five meetings in 2014 as per what is recorded in the attendance record below:

Meeting Name	First	Second	Third	Four	Five
Mubarak bin Abdullah Al-Khafrah	Attended	Absent	Attended	Attended	Attended
Mohamed bin Ali Al-Amari	Attended	Attended	Attended	Attended	Attended
Mohamed bin Sulieman Abanmai	Attended	Attended	Attended	Attended	Absent
Abdel Mohsen bin Mohamed Al-Saleh	Attended	Attended	Attended	Attended	Attended
Abdulaziz Abdullah Al-Jalal	Attended	Attended	Attended	Attended	Attended
Obaid Abdullah Al-Rasheed	Attended	Attended	Attended	Absent	Absent
Ghassan Abdul Rahman Al-Shebl	Absent	Attended	Absent	Absent	Attended
Mohammed Abdul Aziz Al-Namlah	Attended	Attended	Attended	Attended	Attended

D- Forming committees of the Board

■ Audit Committee

The Board of Directors adopted the duties and responsibilities of the audit committee as follows:

- The committee shall supervise the company's internal audit department, and systematic control management, risk management system of the company to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
- The committee shall review the internal control system and risk management system, and prepare a written report about the opinion of the committee and its recommendations in this respect.
- The committee shall review the internal audit reports, systematic control, and reports of the risk management and follow-up the implementation of the corrective procedures that contained thereof.
- The committee shall issue recommendations to the Board of Directors to appoint chartered accountant and determine their fees along with not renewal their contracts. When the committee recommends the appointment of accountants, the board shall make sure they are independent.
- The committee shall follow-up the activities of the chartered accountants and shall approve any activity outside the scope of the audit assigned to them during the performance of audit.
- The committee shall review the audit plan with the chartered accountant, and discuss any notices.
- The committee shall consider the notices of the chartered accountant on the financial statements and follow up what happened in this respect.
- The committee shall review the applicable accounting policies and shall express opinion, and issue recommendations to the Board of Directors of in this regard.
- The committee shall approve the publication of the initial financial statements before submitting them to the board of directors for review; provided that the committee holds a meeting after the closure of the Saudi Stock Market. The statement shall be released before the opening of the market on the coming day. If the committee members fail to meet, the board of directors shall authorize a member of the board to approve the release of the results.
- The committee shall study the annual financial statements before submitting the statements to the board of directors to express opinion and issue its recommendation in this respect.
- The committee shall conduct periodical audit, and update the strategy of the risk management bearing in mind the internal and external variables of the company.

The audit committee consists of:

Name	Capacity	Membership Type
Abdel Mohsen bin Mohamed Al-Saleh	Head of Committee	Member of the Board
Fawaz Al-Fawaz	Member	Independent member (outside company)
Mohamed Al-Nader	Member	Independent member (outside company)

The committee held six meetings within the period from January 01, 2014 to December 31, 2014 to carry out its duties.

■ **Executive committee**

The Board of Directors adopted the duties and responsibilities of the executive committee follows:

The executive committee shall be responsible for reviewing and submitting recommendations to the board with regard to various matters such as: strategic plans and business plans. The committee has some executive powers granted by the board. The committee shall be responsible for coordinating with the investment committee to develop the investment strategy and plans of the company in consistent with the regulations and systems issued in this regard. The committee shall also monitor the performance of the company's investments.

Audit and recommendations

- The investment policy in coordination with the investment committee
- Strategies, business plans, and the annual balance sheet presented by the executive management of the company.
- Developments in operational matters and performance of the company
- Regulations and systems related to the workflow in the company
- Important matters and obstacles related to the Company's work progress

Authorities :

- Powers granted by the board to the committee related to the financial and technical matters, human resources, purchases in accordance with the limits and amounts granted in the approved regulations
- Any other powers the board shall grant to the committee based on decisions issued by the board.

The executive committee consists of:

Name	Capacity	Membership type
Mohamed bin Sulieman Abanmai	Head of Committee	Board Member
Mohamed bin Ali Al-Amari	Member	Board Member
Ghassan Abdul Rahman Al-Shebl	Member	Board Member
Mohammed Abdul Aziz Al-Namlah	Member	Board Member

The executive committee has held six meetings within the period from January 1, 2014 to December 31, 2014.

■ Nomination and Remuneration Committee

The Board of directors adopted the duties and responsibilities of the Commission as follows:

- Recommend the nomination for membership of the Board to the Board of Directors in accordance with the approved policies and standards, taking into account not to nominate any person previously convicted of any offense affecting honor or honesty.
- Annual review of the requirements of suitable skills for membership of the Board and the preparation of a description of the required capabilities and qualifications for membership of the board, including the time that a Board member should reserve for the activities of the Board
- Review the structure of the Board of Directors and submit recommendations regarding changes that can be made
- Determine the strengths and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest
- Annually make sure the independence of the independent members and lack of any conflict of interest in case a Board member acts as a member of the Board of Directors in another company.
- Set clear policies regarding the indemnities and remunerations of the Board members and senior executives, taking into account the use of standards related to performance in laying down such policies
- Review amendments to the organizational structure of the company
- Review the staff salaries, allowances, and motivation and retention programs and make recommendations thereon.
- Review the foundations of the distribution of annual bonuses to staff, propose the amount, and submit recommendation to the Board.

The Nomination and Remuneration Committee consists of:

Name	Capacity	Membership Type
Mohamed bin Ali Al-Amari	Head of Committee	Board Member
Abdul Aziz Abdullah Al Jalal	Member	Board Member
Ghassan Abdul Rahman Al-Shebl	Member	Board Member
Obaid Abdullah Al-Rasheed	Member	Board Member

The committee has held two meetings within the period from January 01, 2014 to December 31, 2014.

■ **The Investment Committee**

The board of directors adopted the duties and responsibilities of the committee as follows:

1. Determine the investment objectives and make the necessary plans, which include:
 - A. Development of the interim investment plans and policies, which is compliant with issued legislations and regulations.
 - B. Putting objectives and long-term plans that include the levels of risk, diversifying assets, diversifying currencies, and options of internal and external investment management
 - C. Method and duration of following-up and monitoring the investment performance
2. Recommend the appointment of investment managers, evaluate their performance on a regular basis, and set standards for that.
3. Prepare a written investment policy include the limits of risks, and assigned powers, taking into account fluctuations, risks, performance, liquidity, period, return, and all the other factors that the Committee deems appropriate. All risk limits and exposure cases in the investment activities shall be periodically reviewed to ensure suitability for the current conditions of the market and the company's ability to bear risks in general.
4. Quarterly review the implementation of the investment policy including the following but not limited to:
 - A. Review the performance of each asset class
 - B. Follow-up to the general risks of the investment policy
 - C. Issue report about investment portfolio performance
 - D. Set the technical standards for the approved activities of the investment.

5. Periodically evaluate the results of investments and submit the necessary reports to the Board including:
 - A. Review the current and future investment portfolio components
 - B. Ensure the commitment of those in charge of the management of funds to investment policy.
 - C. Review the sale and purchase decisions.
6. The Committee has the right, after the consent of the board, to appoint members from outside the board, and the company management, and make recommendation about their fees.
7. The Committee shall have the power to obtain assistance and legal advice, advisory services for investment (Internal or external), and to take other actions as it deems appropriate according to the granted powers.
8. Review the actuarial assumptions and reports as a part of the putting a system for asset distribution plan along with analysis.
9. Evaluate data and methodology used by the actuarial expert when putting inflation assumptions, and returns on investments.
10. Study the actuarial value of the assets and ensure taking data of the actuarial advisor along with the studies of management of assets and liabilities of the company.
11. Study and evaluate any particular investment out of policy
12. Do any other work assigned to the Committee by the Board.

The Investment Committee consists of:

Name	Capacity	Membership Type
Mohammed Abdul Aziz Al-Namlah	Head of Committee	Board Member
Abdel Mohsen bin Mohamed Al-Saleh	Member	Board Member
Abdul Aziz Abdullah Al Jalal	Member	Board Member
Nasir Hashim Al-Bonay	Member	Chief executive officer

The Committee has held five meetings during the period from January 1, 2014 to December 31, 2014

Chairman and members of the Board received a total of 189,000 Saudi riyals as allowances for attending the meetings of the board and its committees during the period from January 1, 2014 to December 31, 2014 (333,000 Saudi riyals in 2013).

Chairman and members of the Board received a sum of 1,140,000 Saudi riyals as a reward of fiscal year 2013, and after approval by the General Assembly, which was held on Jumada Al-Awwal 7, 1435 AH corresponding to April 7, 2014 AD.

The following table details the rewards and compensations received by the board members and senior executives:

Statement	Executives board members	Independent board members	Five of the senior executives who have received the highest remunerations and compensations (Including the Chief Executive Officer and Chief Financial Officer)
			"In Thousand Saudi Riyals"
Salaries and compensations	-	-	7,509
Allowances	-	189	14
Periodical and annual remunerations	-	1,140	1,080
Motivational plans	-	-	Saving program according to the company system
Any compensations or other benefits in kind paid monthly or yearly	-	-	Health insurance for the employee and his family and insurance for employees in case of death and personal accident according to the company system

Senior executives shall mean both chief executive officer, First Deputy Chief Executive Officer, Deputy Chief Executive for health insurance and protection insurance for groups and Deputy Chief Executive for Technical Affairs and Chief Financial Officer.

E. Saving system of the company staff:

The company is keen on maintaining its employees, who represent the mainstay of its success. Hence, the company has applied a saving system for its employees. The system is optional for all employees based on the deduction of part of the monthly salary of the participated employee. The company

saves such amount and invests it. To ensure the continuation of the employee with the company, the company contributes with an annual amount. The employee can take advantage of this amount after completing three year in this program. The program term is 10 years. The company has obtained the approval of the Ministry of Labor for this program.

F) Dealing with related parties: Amendment as in the declaration of assembly

The board of directors approved amendments on the policy of regulating conflict of interest for board members, executives and shareholders to be in consistent with the regulations and rules issued by the Capital Market Authority. Some transactions and contracts, which the company was a party, and has an interest for some of board members and senior executives, the company was not granted any special advantage for these transactions, as follows:

- NASCO for insurance broking in Saudi Arabia, in which His Excellency Eng. Mubarak Abdullah Al Khafra, chairman of the board, is a co-owner. They are contracts in accredited formats with all reinsurance intermediaries who deal with the company. The total transactions in 2014 amounted of 486 thousand Saudi riyals as reinsurance premiums, and an amount of 853 thousand Saudi riyals as refundable compensations. The transaction period is one renewable calendar year, and this is a period of the assigned documents. There are no special terms for contracting.
- Wajeef Company for Insurance Brokerage Services, in which two members of the board of directors: Mr. / Mohamed Ali Al Amary, and Mr. / Mohamed Suliman Abanmy are co-owned. It is a reinsurance contract in accredited format with all reinsurance intermediaries who deal with the company. The percentage of commission varies according to the type of insurance policy. The total transactions in 2014 amounted to 23.8 thousand Saudi riyals as paid commission. The period of transaction shall not exceed one renewable calendar year, which is the period of the insurance documents. There are no special terms for contracting.
- Personal insurance for Mr. / Mohamed Ali Al Amary with a total amount reached 24.9 thousand Saudi riyals as insurance premiums and paid compensations with an amount of 7.8 thousand Saudi riyals and its period is one year as per the approved documents of the company without special conditions or advantages.
- Abanmy Institution groups belonged to His Excellency Mr. / Mohamed Bin Soliman Abanmy, a board member. They are insurance documents according to the approved documents of the company without special conditions or benefits, and their period is one year. Their premiums amounted to 373 thousand Saudi riyals along with the consumption of compensation with an amount of 1.3 thousand Saudi riyals.
- Personal insurance for board member His Excellency Mr. / Abdul Mohsen Bin Mohamed Al Salih with an amount of 38.5 thousand Riyals for insurance premiums; The period is one year according to the approved documents of the company without special conditions or advantages.
- Isnad Company for insurance brokerage, which is co-owned by Mr. / Abdullah Al-Aglan, member of the executive management of the company; it is an insurance brokerage contract in accredited

format with all reinsurance intermediaries who deal with the company. The total transactions of 2014 amounted to 5.9 thousand Saudi riyals as paid commissions. The period of transaction shall not exceed one calendar year, which is the age of the documents. There are no special conditions for contracting.

The members of the Board, who obtained insurance documents from the company, fully paid their due premiums with the same advantages of the documents granted to all customers.

The company also expects to continue dealing with the abovementioned authorities during the coming year. The company cannot determine this in present due to the nature of the work and the volume of sales, which will be disclosed in the coming year.

Otherwise, during this period there are no contracts, in which the company is a party and includes any interest for the executive manager, financial manager or anyone related to them. There is no arrangement or agreement, under which a member of the board of directors of the company or a senior executive waived any salary or compensation.

G) Shares activities and debt instruments:

There are no debt instruments issued by the company during the period ended on December 31, 2014 AD. There is no interest in the category of votes, which are eligible to vote for any persons. There is no interest, option right and underwriting rights in the company's shares for the members of the Board of Directors and senior executives or their family members. There are also no convertible debt instruments into shares, or any option rights, underwriting rights memorandums or similar rights issued or granted by the company during this period. There is also no conversion or underwriting rights under the convertible debt instruments into shares, option rights or similar rights certificates issued or granted by the company during this period. There is no retrieval, purchase or cancellation by the Company of any refundable debt instruments. There is also no arrangement or agreement, under which no shareholders waived any rights of profits.

The following table shows the ownership ratios of the board members and senior executives in the company's shares:

Name	Position	Number of shares owned in the company at the beginning of year	Number of shares owned in the company at end of year	Net change in the company's shares	Rate of change in the company's shares
Mubarak Abdullah Al-Khafra	Chairman of the board	80,477	80,477	-	-
Mohammed Ali Al Amari	Vice chairman of the board	31,767	1,767	-30,000	%94.44-
Mohammed Suleiman Abanmi	Board member	9,150	9,150	-	-
Abdul Mohsen Mohamed Alsalih	Board member	66,150	66,150	-	-
Abdul Aziz Abdullah Al Jalal	Board member	81,000	36,000	-45,000	%55.56-
Obaid Abdullah Rasheed	Board member	1,000	1,000	-	-
Ghassan Abdulrahman Alshibl	Board member	30,000	30,000	-	-
Mohamed Abdulaziz Alnamla	Board member	1,000	1,000	-	-
Nasir Hashim Al-Bunni	Chief executive officer	-	-	-	-
Zeeb Hodiban Al Odailah	First deputy of chief executive	-	-	-	-
Abdullah Ali Al-Ajlan	EVP – Health & Life Insurance	-	-	-	-
Rami Al Hoshan	EVP Sales & Marketing	-	-	-	-
Abdullah Al Qubaily	EVP Moto	-	-	-	-
Sunil Wijesiri	EVP Technical	-	-	-	-
Abdulrahman Abdullah Al-Taweel	Main account manager	-	-	-	-
Abo Bakr Ahmed Shehab	Executive financial manager	-	-	-	-

The following table shows the ownership ratios of the board members and senior executives' wives and their minor children in the company's shares:

Name	Position	Number of shares owned in the company at the beginning of year	Number of shares owned in the company at end of year	Net change in the company's shares	Rate of change in the company's shares
Mubarak Abdullah Al-Khafrah	Chairman of the board	-	-	-	-
Mohammed Ali Al Amari	Vice chairman of the board	31,055	-	-31,055	%100-
Mohammed Suleiman Abanmi	Board member	-	-	-	-
Abdul Mohsen Mohamed Alsalih	Board member	-	-	-	-
Abdul Aziz Abdullah Al Jalal	Board member	-	-	-	-
Obaid Abdullah Rasheed	Board member	-	-	-	-
Ghassan Abdulrahman Alshibl	Board member	-	-	-	-
Mohamed Abdulaziz Alnamla	Board member	-	-	-	-
Nasir Hashim Al-Bunni	Chief executive officer	-	-	-	-
Zeeb Hodiban Al Odailah	Chief executive first deputy	-	-	-	-
Abdullah Ali Al-Ajlan	EVP – Health & Life Insurance	-	-	-	-
Rami Al Hoshan	EVP Sales & Marketing	-	-	-	-
Abdullah Al Qubaily	EVP Moto	-	-	-	-
Sunil Wijesiri	EVP Technical	-	-	-	-
Abdulrahman Abdullah Al-Taweel	Main account manager	-	-	-	-
Abo Bakr Ahmed Shehab	Executive financial manager	-	-	-	-

H) Zakat and systemic payments and indebtedness:

The company's accrued systemic payments as at December 2014 AD consists from Zakat accrued on hat shareholders and supervision fees by the Saudi Arabian Monetary Agency and the Warranty Council, in addition to an amount payable to the Social Insurance represents the subscriptions of employees, as well as the deduction tax for the department of Zakat and Income.

The following table shows the accrued systemic payments:

Entity	Account	Amount
		"In thousand Saudi riyals"
Saudi Arabian Monetary Agency	Supervision fees	3,082
The Council of Cooperative Health Insurance	Supervision fees	867
General Organization for Social Insurance	subscriptions	506
Department of Zakat and Income Tax	Zakat and deduction tax	6,016

An amount of 10.194 million Saudi riyals was calculated as end of service benefits for employees as per the conditions and terms of Saudi labor law. The end of service benefits for employees is calculated on the basis of the recent salaries of staff, their allowances and their accumulated years of service as shown in terms contained in the Saudi labor law.

I) Remuneration of the Board in 2014:

The remuneration of the board chairman and board members for the financial year 2014 AD amounting to 1,02 million Saudi riyals will be presented to the ordinary general assembly of the company in its coming meeting for approval. The Chairman of the board shall obtain a remuneration of 180 thousand Saudi Riyals, while each member shall obtain a remuneration of 120,000 Saudi Riyals.

J) The external auditors and accounting standards:

The ordinary general assembly of Malath shareholders, which was held in 7 Jumada Al-Thani 1435 AH corresponding to April 17, 2014 AD, approved the recommendation of the audit committee and the board of directors to appoint Messrs/ KPGM Al Fozan & Al Sadhan office, and Ernst & Young office for joint role as auditors for the company accounts for the financial year ended on December 31, 2014.

The general assembly will consider at its coming meeting reappointing or replacing them, along with determining their fees in return for auditing the company's accounts for the financial year ended on December 31,2015 after reviewing the recommendations of the audit committee and the board of directors in this regard.

The financial statements have been prepared in accordance with international standards as per the instructions of the Saudi Arabian Monetary Agency in its capacity as the authority supervising the insurance sector and as per the exemption by the Capital Market Authority for insurance companies from adhering to the standards issued by the Saudi Organization for Certified Public Accountants.

The external auditor's report set forth that the company prepared the financial statements in accordance with international accounting standard No. (34). The statements were not prepared according to the recognized accounting standards in Saudi Arabia. The company asserts that there are no significant differences or financial impact resulting from preparing the statements in accordance with the international standards, not accounting standards in Saudi Arabia.

The board of directors shall acknowledge that:

- The company accounting records were correctly prepared.
- There is no doubt in the company ability to continue its activity.
- There are no loans on the company.
- The internal control system was prepared on proper basis, and effectively implemented.
- There is no penalty, sanction or restriction imposed on the company from any supervisory regulatory or judicial authority.
- There is no contract, in which the company was a party, and there is or was a significant interest in it for a member of the board of directors, the chief executive, the chief financial officer or any person related to them, except for the previously mentioned in this regard.

K) Results of annual audit of the effectiveness of internal control procedures:

The internal audit is a confirmative, consultative, objective and independent activity. The internal audit aims at adding value and improving the company operations. The internal audit shall help the company to achieve its strategic objects by providing a regular basis to evaluate and improve the effectiveness and adequacy of the internal control system. Therefore, the internal audit department carried out a number of periodical and special Audit Operations that would verify the accuracy, effectiveness of performance, risk management processes, and regularity control, in addition to contribute in auditing the initial and final financial statements and coordinating the actions of the external control authorities.

The board was briefed on the audit committee reports regarding the audit results submitted to the board from the internal audit department, and reviewed some fundamental matters related to the internal control system with proposing specific corrective procedures to be implemented by the company's management.

L) Profits' distribution policy:

Since the company have not achieve any profits for this year, the company in the future will take the right decision about the distribution of profits to the shareholders when achieving profits,, according to the requirement of the articles of association in its article No. (44), which states:

The Shareholders' profits shall be distributed as follows:

1. Avoid the prescribed Zakat and income tax.
2. Avoid (20%) of the net profits to form a statutory reserve, and the Ordinary General Assembly may stop this amount when the said reserve reached to a total paid-up capital.
3. Based on the proposal of the Board, the ordinary general assembly has the right to retain a percentage of the annual net profit to form a reserve and allocate such reserve for purpose or purposes determined by the general assembly.
4. Thereafter, an initial payment not less than 5% of paid-up capital shall be distributed to the shareholders.
5. Thereafter, the rest of net profits shall be distributed to the shareholders as a share in the profits or shall be transferred to the retained earnings account.
6. A periodically earnings may be distributed by a decision of the board, provided that such earning shall be deducted from the annual earnings specified in the rules governing such and issued by the competent authorities.

INDEPENDENT AUDITORS' REPORT





KPMG Al Fozan & Al Sadhan



INDEPENDENT AUDITORS' REPORT

To the shareholders of Malath Cooperative Insurance & Reinsurance Company
(A Saudi Joint Company)

SCOPE OF AUDIT:

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

UNQUALIFIED OPINION:

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

- present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies and the Company's by-laws 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 the accounting standards issued by the Saudi Organization for Certified Public Accountants.

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18 February 2015
29 Rabi Thani 1436 H

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2014

	Notes	2014 In Thousand Saudi Riyals	2013
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	5	457,254	188,947
Short-term Murabaha deposits	6	50,621	85,000
Available for sale investments	7	35,303	35,778
Receivables, net	8	457,636	217,666
Reinsurers' share of unearned premiums	9	59,928	33,545
Reinsurers' share of outstanding claims	12.9	478,067	460,736
Deferred policy acquisition costs	9	43,737	21,877
Prepaid expenses and other assets	13	16,410	18,600
Property and equipment, net	14	8,045	10,401
Due from shareholders operations		23,095	37,331
TOTAL INSURANCE OPERATIONS' ASSETS		1,630,096	1,109,881
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	79,518	58,971
Short-term Murabaha deposits	6	15,000	65,000
Accrued commission receivable		467	761
Available for sale investments	7	192,006	189,254
Statutory deposit	15	30,000	30,000
TOTAL SHAREHOLDERS' ASSETS		316,991	343,986
TOTAL ASSETS		1,947,087	1,453,867

	Notes	2014 In Thousand Saudi Riyals	2013
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
INSURANCE OPERATIONS' LIABILITIES			
Reinsurers' balances payable		37,690	33,185
Unearned premiums	9	544,583	285,929
Unearned reinsurance commission	9	16,965	9,112
Gross outstanding claims and reserves	10.9	843,636	650,965
Claims payable, accrued expenses and other liabilities	16	178,618	121,611
Surplus distribution payable		8,301	8,301
TOTAL INSURANCE OPERATIONS' LIABILITIES		1,629,793	1,109,103
INSURANCE OPERATIONS' SURPLUS			
Fair value reserve for available for sale investments	7	303	778
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		1,630,096	1,109,881
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Zakat provision	17	17,121	15,119
Accrued expenses and other liabilities	16	556	556
Due to insurance operations		23,095	37,331
TOTAL SHAREHOLDERS' LIABILITIES		40,772	53,006
SHAREHOLDERS' EQUITY			
Share capital	18	300,000	300,000
Legal reserve	18	2,131	2,131
Accumulated deficit		(47,023)	(33,311)
Fair value reserve for available for sale investments	7	21,111	22,160
TOTAL SHAREHOLDERS' EQUITY		276,219	290,980
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		316,991	343,986
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		1,947,087	1,453,867

STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 In Thousand Saudi Riyals	2013
REVENUES			
Gross written premiums		1,412,841	770,901
Less: Reinsurance ceded premiums		(147,087)	(110,566)
Net written premiums	9	1,265,754	660,335
Changes in unearned premiums		(232,271)	2,032
Net earned premiums	9	1,033,483	662,367
Reinsurance commission	9	31,816	23,468
Investment income	11	2,938	3,491
Other income		18,275	7,229
TOTAL REVENUES		1,086,512	696,555
COSTS AND EXPENSES			
Gross paid claims	9	811,098	511,346
Less: Reinsurance share	9	(59,383)	(61,024)
Net paid claims	9	751,715	450,322
Changes in outstanding claims and reserves		175,340	108,779
Net incurred claims	9	927,055	559,101
Policy acquisition costs	9	55,958	46,408
Excess of loss expenses		22,574	13,303
Operating and administrative salaries	19	72,689	65,732
Other general and administrative expenses	20	31,331	49,342
TOTAL COSTS AND EXPENSES		1,109,607	733,886
Deficit from insurance operations		(23,095)	(37,331)
Shareholders' appropriation from deficit	2	23,095	37,331
SURPLUS FROM INSURANCE OPERATION AFTER SHAREHOLDERS' APPROPRIATIONS		-	-
Distribution of surplus to policyholders		-	-
ACCUMULATED SURPLUS, AT THE END OF THE YEAR		-	-

STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Notes</u>	<u>2014</u> <u>In Thousand Saudi Riyals</u>	<u>2013</u>
Net income/(loss) for the year		-	-
Other comprehensive income			
Will be reclassified subsequently to profit or loss when specific conditions are met:			
Transferred to statement of income insurance operations and accumulated surplus	7 (i)(b)	(475)	395
		(475)	395
Total comprehensive income / (loss) for the year		(475)	395

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 In Thousand Saudi Riyals	2013
Net deficit transferred from insurance operations	2	(23,095)	(37,331)
Investment income	11	18,460	8,965
General and administrative expenses		(1,577)	(1,468)
Loss before zakat		(6,212)	(29,834)
Provision for zakat	17	(7,500)	(12,000)
Net loss for the year		(13,712)	(41,834)
Other comprehensive income			
Will be reclassified subsequently to profit or loss when specific conditions are met:			
Change in fair value reserve for available for sale investments		12,639	15,209
Realized loss on sale of available for sale investments	7 (ii) (b)	(13,688)	(4,930)
		(1,049)	10,279
Total comprehensive loss for the year		(14,761)	(31,555)
Basic and diluted loss per share before zakat (in SR)	21	(0.207)	(0.994)
Basic and diluted loss per share after zakat (in SR)	21	(0.457)	(1.394)
Weighted average number of shares in issue throughout the year (in thousands)		30,000	30,000

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

	Share capital	Legal reserve	Retained earnings / (accumulated deficit)	Fair value reserve for available for sale investments	Total
	In Thousand Saudi Riyals				
Balance at January 1, 2013	300,000	2,131	8,523	11,881	322,535
Net loss for the year	-	-	(41,834)	-	(41,834)
Change in fair value reserve for available for sale investments	-	-	-	15,209	15,209
Realized loss on sale of available for sale investments	-	-	-	(4,930)	(4,930)
Total comprehensive loss / (gain) for the year	-	-	(41,834)	10,279	(31,555)
Balance at December 31, 2013	300,000	2,131	(33,311)	22,160	290,980
Balance at January 1, 2014	300,000	2,131	(33,311)	22,160	290,980
Net loss for the year	-	-	(13,712)	-	(13,712)
Change in fair value reserve for available for sale investments	-	-	-	12,639	12,639
Realized loss on sale of available for sale investments	-	-	-	(13,688)	(13,688)
Total comprehensive loss for the year	-	-	(13,712)	(1,049)	(14,761)
Balance at December 31, 2014	300,000	2,131	(47,023)	21,111	276,219

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	2013	2013
Note	In Thousand Saudi Riyals	In Thousand Saudi Riyals
Cash flows from operating activities		
Surplus for the year after shareholders' appropriation	-	-
Adjustments to reconcile surplus for the year after shareholders' appropriation to net cash provided by operating activities:		
Depreciation	3,715	4,304
(Gain)/loss on sale of available for sale investments	-	(800)
(Reversal) provision for doubtful receivables	(5,317)	16,567
Shareholders' appropriation from deficit	(23,095)	(37,331)
Operating deficit before changes in operating assets and liabilities	(24,697)	(17,260)
Changes in operating assets and liabilities:		
Receivables	(234,653)	(27,501)
Reinsurers' share of unearned premiums	(26,383)	(6,527)
Reinsurers' share of outstanding claims	(17,331)	(292,328)
Deferred policy acquisition costs	(21,860)	(1,262)
Prepaid expenses and other assets	2,190	(1,874)
Reinsurers' balances payable	4,505	17,986
Unearned premiums	258,654	4,495
Unearned reinsurance commission	7,853	3,560
Outstanding claims	192,671	401,107
Claims payable, accrued expenses and other liabilities	57,007	10,412
Due from (to) shareholders' operations	37,331	(22,139)
Net cash from operating activities	235,287	68,669
Cash flows from investing activities		
Additions to property and equipment, net	(1,359)	(2,070)
Purchase of available for sale investments	(10,000)	(20,000)
Proceeds from sales available for sale investments	10,000	19,800
Short-term Murabaha deposits, net	34,379	(64,765)
Net cash from (used in) investing activities	33,020	(67,035)
Net change in cash and cash equivalents	268,307	1,634
Cash and cash equivalents, beginning of the year	188,947	187,313
Cash and cash equivalents, end of the year	457,254	188,947
	5	
Non-cash supplemental information:		
Change in fair value of available for sale investments	(475)	395
Transfer from capital work in progress to property and equipment	475	(244)

STATEMENT OF SHAREHOLDERS' CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014 In Thousand Saudi Riyals	2013
Cash flows from operating activities			
Loss before zakat		(6,212)	(29,834)
Adjustments for:			
Gain on sale of available for sale investments		(13,688)	(4,930)
Shareholders' appropriation from deficit of insurance operations		23,095	37,331
Income before changes in operating assets and liabilities		3,195	2,567
Changes in operating assets and liabilities:			
Accrued commission receivable		294	(293)
Prepaid expenses and other assets		-	500
Due from insurance operations		-	22,139
Due to insurance operations		(37,331)	(160)
Zakat paid		(5,498)	(5,805)
Net cash (used in)/from operating activities		(39,340)	18,948
Cash flows from investing activities			
Short-term Murabaha deposits, net		50,000	(65,000)
Purchase of available for sale investments		(42,434)	(80,000)
Proceeds from sale of available for sale investments		52,321	35,430
Net cash from / (used in) investing activities		59,887	(109,570)
Change in cash and cash equivalents			
Cash and cash equivalents, beginning of the year		58,971	149,593
Cash and cash equivalents, end of the year	5	79,518	58,971
Non-cash supplemental information:			
Change in fair value reserve of available for sale investments		(1,049)	10,279

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

1. GENERAL

Malath Cooperative Insurance & Reinsurance Company (the "Company") is a Saudi joint stock company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/60 and incorporated on Rabi Al-Awal 21, 1428H corresponding to April 9, 2007 under Commercial Registration No. 1010231787. The Company's head office is at Mohammad Bin Abdelaziz Street, P.O. Box 99763, Riyadh 11625, Kingdom of Saudi Arabia.

The objectives of the Company are to engage in providing insurance and reinsurance and related services in accordance with its Articles of Association and the applicable regulations in the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of presentation

In accordance with Saudi Arabian Insurance Regulations, the Company is required to distribute 10% of the net annual surplus from the insurance operations to the policyholders and remaining 90% of the surplus to be transferred to shareholders' operations. Any deficiency arising on insurance operations is transferred to shareholders' operations in full.

Basis of measurement

These financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments.

Functional and presentation currency

The financial statements are presented in Saudi Riyals being the functional currency of the Company. All financial information presented in Saudi Riyals have been rounded to the nearest thousands, except otherwise indicated.

Fiscal year

The Company follows a fiscal year ending December 31.

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS:

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements as of and for the year ended December 31, 2013, except for the adoption of new standards, amendments and revisions to existing standards as mentioned below which had no significant financial impact on the financial statements of the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investment funds

applicable from January 1, 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.

- IAS 32 amendment applicable from January 1, 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable retrospectively from January 1, 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments. The 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 recognized or reversed.
- IAS 39 amendment applicable from January 1, 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

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

Standards issued but not yet effective

The 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:

- **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application is permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

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.

Annual improvements 2010-2012 Cycle

These improvements are effective from July 1, 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 July 1, 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.

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 January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

For the purpose of the statement of insurance operations and shareholders' cash flows, cash and cash equivalents comprise of bank current accounts and short term Murabaha deposits with an original maturity of three months or less at the date of acquisition.

Insurance contracts

Insurance contracts are defined as those containing insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance of the existence of insurance risk. This 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 year.

Insurance contracts with discretionary participation feature (DPF)

Premiums that have participated in the earnings of a financial year (January-December) qualify discretionarily for surplus distribution. However, in the case of marine cargo, the earned portion is the premium written between October of the previous year up to September of the current year while the unearned portion is the premium written during the last three months of the current financial year. Some policies with certain conditions are excluded from the distribution including those policies with a loss ratio of equal to or greater than 60%.

Distribution of surplus is calculated based on the earned premium after paid and outstanding claims have been deducted from each policy held by an insured in as much as the said earned premiums relates to the given financial year.

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets (including insurance receivables) may be impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

- for financial assets at amortized cost, the impairment loss is based on the difference between the present value of future anticipated cash flows and the carrying amount;
- for financial assets at fair value, the impairment loss is based on the decline in fair value; and
- for assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For presentation purposes, the resulting allowance is carried in the respective category within the statement of financial position and the related statements of income insurance operations and accumulated surplus or shareholders' comprehensive income are adjusted.

When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the event can be related objectively to an event occurring after the impairment was recognized then the previously recognized impairment loss is reversed through profit or loss.

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 becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- 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 flows 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.

Impairment of non-financial assets

Assets that have an indefinite useful life 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 recognized 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).

Deferred policy acquisition costs

Direct and indirect costs incurred during the financial year arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a pro-rata basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the cost incurred during the last quarter. Amortization is recorded in the statement of income insurance operations and accumulated surplus.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying values an impairment loss is recognized in the statement of income insurance operations and accumulated surplus. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.

Premium deficiency reserve

Estimation of the premium deficiency for medical and motor business is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratios for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to realize in future.

Based on the actuary's suggestion the management used different possibilities for projecting the expected trends in loss ratios. The key assumption used by the management is that claims and earned premiums are expected to increase at the same rate.

Salvage and subrogation reimbursement

Some insurance contracts permit the Company to sell (usually damaged) assets acquired in settling a claim (for salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Such investments are initially recognized at cost and subsequently measured at fair value. Cumulative changes in fair value of investments are shown as a separate component in the statement of financial position and shareholders' comprehensive income. Realized gains or losses on sale of these investments are reported in the related statements of insurance operations and accumulated surplus or shareholders' comprehensive income. Dividends, commission income and foreign currency gain/loss on available for sale investments are recognized in the statement of insurance operations and accumulated surplus or statement of shareholders' comprehensive income.

Any permanent decline in value of investments is adjusted for and reported in the related statements of insurance operations and accumulated surplus or shareholders' comprehensive income 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. Where the fair value is not readily determinable, such investments are stated at cost less allowance for impairment in value, if any.

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.

Property and equipment

Capital work in progress is not depreciated. All other property and equipment is stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. The estimated rates of depreciation of the principal classes of assets are as follows:

	Percentage
Leasehold improvements	20%
Computer hardware	25%
Computer software	10%
Furniture and fixtures	10%
Office equipment	20%-25%
Motor vehicles	25%

Provisions for obligations

Provisions are recognized when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is recognized 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 economic resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are included in the statement of income insurance operations and accumulated surplus or shareholders' comprehensive income.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contracts liabilities net of related deferred policy acquisition costs. 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) accordingly. In prior years the Company had a policy of initially writing off related deferred policy acquisition costs and subsequently charging the un-expired risk provision to the statement of insurance operations and accumulated surplus. The change in policy however does not have any impact on the prior year financial statements.

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.

Leases

Operating lease payments are recognized as an expense in the statement of insurance operations and accumulated surplus on a straight-line basis over the lease term.

Receivables

Accounts receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective commission rate method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of insurance operations and accumulated surplus. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

End-of-service benefits

Employees' end-of-service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labor Regulations on termination of their employment contracts. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Kingdom of Saudi Arabia.

Revenue recognition

Recognition of premium and commission revenue

Gross premiums and commissions on insurance contracts are recognized when the insurance policy is issued. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo shall be the premiums written during the last three months of the current financial year.

Investment income

Commission income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable.

Dividend income

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

Claims

Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses net of salvage recoveries.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position 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 (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of insurance operations and accumulated surplus for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

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.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of insurance operations and accumulated surplus and shareholders' comprehensive income unless required or permitted by any accounting standard or interpretation.

Zakat

The Company is subject to zakat in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is accrued and charged to statement of shareholders' comprehensive income.

Segment reporting

A segment is a distinguishable component of the Company 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. For management purposes, the Company is organized into business units based on their products and services and has five reportable segments as follows:

- Property provides coverage against fire insurance, and any other insurance included under this class of insurance.
- Engineering provides coverage for builders' risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance.

- Motor provides coverage against losses and liability related to motor vehicles.
- Medical provides coverage for health.
- Others include miscellaneous accident and marine.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

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

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 revenues 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 estimating uncertainty at the statement of financial position date are discussed below.

Further details of the specific estimate and judgments made by management are given in the relevant accounting policies notes:

(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 statement of financial position date, for which the insured event has occurred on or before the statement of financial position date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis (refer notes 9 and 10).

(ii) Impairment of available for sale equity financial assets

The Company determines that available for sale equity 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 flows. 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 (refer note 7).

(iii) Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized 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 (Refer note 8).

(iv) Deferred acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs and are amortized in the statement of income insurance operations and accumulated surplus over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income insurance operations and accumulated surplus.

(v) Going concern

The Company's management has made an assessment of its liability to continue as a going concern and is satisfied that it has the resources to continue on the 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.

5. CASH AND CASH EQUIVALENTS

i) Insurance operations:

Insurance operations' cash and cash equivalents comprise of the following:

	2014	2013
	<u>In Thousand Saudi Riyals</u>	
Cash in hand	38	15
Bank current accounts	24,716	41,468
Short-term Murabaha deposits having original maturities of less than three months	432,500	147,464
Total	<u>457,254</u>	<u>188,947</u>

ii) Shareholders' operations:

Shareholders' cash and cash equivalents comprise of the following:

	2014	2013
	<u>In Thousand Saudi Riyals</u>	
Bank accounts	18	1,471
Short-term Murabaha deposits having original maturities of less than three months	79,500	57,500
	<u>79,518</u>	<u>58,971</u>

Bank current accounts and short-term Murabaha deposits are placed with counterparties which have at least investment grade credit ratings.

Short-term Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The above short-term Murabaha deposits are subject to an average commission rate of 0.64% per annum as at December 31, 2014 (December 31, 2013: 1.61% per annum).

The carrying amounts disclosed above reasonably approximate fair value at the statement of financial position date.

6. SHORT TERM MURABAHA DEPOSITS

i) Insurance operations:

	2014	2013
	In Thousand Saudi Riyals	
Short-term Murabaha deposits	50,621	85,000

ii) Shareholders' operations:

	2014	2013
	In Thousand Saudi Riyals	
Short-term Murabaha deposits	15,000	65,000

The above short-term Murabaha deposits have an original maturity period of more than three months from the date of acquisition. These deposits are subject to an average commission rate of 1.09% per annum as at December 31, 2014 (December 31, 2013: 1.19% per annum).

The carrying amounts disclosed above are not materially different from their fair values at the reporting date.

7. AVAILABLE FOR SALE INVESTMENTS

i) Insurance operations

a) Available for sale investments are comprise of the following:

	2014	2013
	In Thousand Saudi Riyals	
<u>Quoted</u>		
Saudi Electric Company Sukuk (Matured July 2014)	-	10,225
HSBC - Sukuk portfolio holding	20,262	10,158
<u>Unquoted</u>		
General Authority of Civil Aviation Sukuk 2 (Maturing October 2023)	10,011	10,000
NCB Capital- Real Estate Development Fund	5,030	5,395
	35,303	35,778

The accumulated balance of changes in fair value of available for sale investments amounting to SR 0.30 million as at December 31, 2014 (December 31, 2013: SR 0.78 million) is reflected in the statement of financial position as a separate component under insurance operations' surplus.

The fair values of the unquoted mutual funds computed above are based on the latest reported net assets as at the reporting date. Further, the unquoted sukuku are carried at an amount which as per the management is the best estimate of the exit price i.e. fair value.

b) Movements in available for sale investments is as follows:

	Quoted securities	Unquoted securities	Total
	In Thousand Saudi Riyals		
Balance at December 31, 2012	10,005	24,378	34,383
Additions to available for sale investments	10,000	10,000	20,000
Proceeds from sale of available for sale investments	-	(19,800)	(19,800)
Available for sale reserve transferred to Statement of Income Insurance Operations and Accumulated Surplus	-	800	800
Net change in fair value reserve for available for sale investments	378	17	395
Balance at December 31, 2013	20,383	15,395	35,778
Additions to available for sale investments	10,000	-	10,000
Proceeds from sale of available for sale investments	(10,000)	-	(10,000)
Available for sale reserve transferred to Statement of Income Insurance Operations and Accumulated Surplus	-	-	-
Net change in fair value reserve for available for sale investments	(121)	(354)	(475)
Balance at December 31, 2014	20,262	15,041	35,303

ii) Shareholders' operations:

a) Available for sale investments comprise of the following:

	December 31, 2014	December 31, 2013
	In Thousand Saudi Riyals	
<u>Quoted</u>		
HSBC - Sukuk portfolio holding	25,327	25,394
HSBC - Shares portfolio holding	28,219	28,867
Jadwa Investment portfolio	21,363	21,106
Saudi Re-insurance Cooperative Company (Saudi Re) - Shares	860	13,145
FALCOM - Al Rabiya Fund	-	12,525
<u>Unquoted</u>		
General Authority of Civil Aviation Sukuk (Maturing January 2022)	30,034	30,000
General Authority of Civil Aviation Sukuk 2 (Maturing October 2023)	10,011	10,000
Derayah Trading Finance Fund	52,035	25,503
TASNEE Sukuk (Maturing May 2019)	10,011	10,000
NCB Capital-Real Estate Development Fund	10,061	10,791
Najm Company for Insurance Services - Shares	4,085	1,923
Total	192,006	189,254

The balance resulting from the change in fair value of available for sale investments amounting to SR 21.11 million as at December 31, 2014 (December 31, 2013: SR 22.16 million) is reflected under shareholders' equity in the statement of financial position.

b) Movements in available for sale investments is as follows:

	Quoted securities	Unquoted securities	Total
	In Thousand Saudi Riyals		
Balance at December 31, 2012	69,037	60,438	129,475
Additions to available for sale investments	45,000	35,000	80,000
Proceeds from sale of available for sale investments	(26,572)	(8,858)	(35,430)
Available for sale reserve transferred to Statement of Shareholders Comprehensive Income	4,572	358	4,930
Net change in fair value reserve for available for sale investments	9,000	1,279	10,279
Balance at December 31, 2013	101,037	88,217	189,254
Additions to available for sale investments	17,434	25,000	42,434
Proceeds from sale of available for sale investments	(52,321)	-	(52,321)
Available for sale reserve transferred to Statement of Shareholders Comprehensive Income	13,688	-	13,688
Net change in fair value reserve for available for sale investments	(4,069)	3,020	(1,049)
Balance at December 31, 2014	75,769	116,237	192,006

c) The analysis of available for sale investments by counter-party is as follows:

	2014	2013
	In Thousand Saudi Riyals	
<u>Insurance operations</u>		
Government and quasi government	16,714	21,782
Corporate	18,589	13,996
Total	35,303	35,778
<u>Shareholders' operations</u>		
Government and quasi government	48,424	43,893
Insurance	860	13,145
Corporate	142,722	132,216
Total	192,006	189,254

d) The credit quality of investment portfolio is as follows:

	2014	2013
	In Thousand Saudi Riyals	
<u>Insurance operations</u>		
A - to A+	30,273	30,383
Unrated	5,030	5,395
	35,303	35,778
<u>Shareholders' operations</u>		
A - to A+	114,954	115,367
BBB +	860	13,145
Unrated	76,192	60,742
Total	192,006	189,254

8. RECEIVABLES, NET

Receivables from insurance operations comprise due / from the following:

	2014	2013
	In Thousand Saudi Riyals	
Policyholders	452,708	212,988
Reinsurers	21,098	38,522
Insurance companies	10,030	2,248
Agents and brokers	8,400	3,825
	492,236	257,583
Provision for doubtful receivables	(34,600)	(39,917)
Total	457,636	217,666

The movements in the provision for doubtful receivables were as follows:

	2014	2013
	In Thousand Saudi Riyals	
At the beginning of the year	39,917	23,350
(Reversal) Charge for the year	(5,317)	16,567
At the end of the year	34,600	39,917

As at December 31, the ageing of receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Past due and impaired
			Less than 60 days	61-90 days	Above 90 days	
In Thousand Saudi Riyals						
2014	492,236	217,151	200,091	12,110	-	62,884
2013	257,583	18,842	150,760	9,476	-	78,505

Receivables comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period.

With the exception of amounts due from companies wholly owned by Government agencies of SR 11.66 million (2013: SR 108.50 million), no individual or company accounts for more than 54% (2013: 7%) of the receivables as at December 31, 2014. In addition, the five largest non-Government customers account for 72% of outstanding accounts receivable as at December 31, 2014 (2013: 23%).

9. MOVEMENTS IN UNEARNED PREMIUM, UNEARNED REINSURANCE COMMISSION, OUTSTANDING CLAIMS AND DEFERRED POLICY ACQUISITION COSTS

a) Unearned premiums

	2014	2013
In Thousand Saudi Riyals		
At the beginning of the year	252,384	254,416
Net written premiums	1,265,754	660,335
Net earned premiums	(1,033,483)	(662,367)
At the end of the year	484,655	252,384
Reinsurers' share of unearned premiums	59,928	33,545
	544,583	285,929

b) Unearned reinsurance commission

	2014	2013
In Thousand Saudi Riyals		
At the beginning of the year	9,112	5,552
Commission received during the year	39,669	27,028
Commission earned during the year	(31,816)	(23,468)
At the end of the year	16,965	9,112

c) Outstanding claims

Movement of outstanding claims

	2014			2013		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	In Thousand Saudi Riyals			In Thousand Saudi Riyals		
Outstanding claims	468,279	(402,565)	65,714	203,438	(147,669)	55,769
Realizable value of salvage	(4,948)	-	(4,948)	(2,666)	-	(2,666)
Incurred but not reported	179,122	(58,171)	120,951	49,086	(20,739)	28,347
Premium deficiency reserve	8,512	-	8,512	-	-	-
Total at the beginning of the year	650,965	(460,736)	190,229	249,858	(168,408)	81,450
Claims paid	(811,098)	59,383	(751,715)	(511,346)	61,024	(450,322)
Claims incurred	1,003,769	(76,714)	927,055	912,453	(353,352)	559,101
Total at the end of the year	843,636	(478,067)	365,569	650,965	(460,736)	190,229

Composition of outstanding claims

Outstanding claims	500,288	(420,032)	80,256	468,279	(402,565)	65,714
Realizable value of salvage	(23,209)	-	(23,209)	(4,948)	-	(4,948)
Incurred but not reported	366,557	(58,035)	308,522	179,122	(58,171)	120,951
Premium deficiency reserve	-	-	-	8,512	-	8,512
Total at the end of the year	843,636	(478,067)	365,569	650,965	(460,736)	190,229

d) Deferred policy acquisition costs

	2014	2013
	In Thousand Saudi Riyals	
At the beginning of the year	21,877	20,615
Incurred during the year	77,818	47,670
Amortized during the year	(55,958)	(46,408)
At the end of the year	43,737	21,877

10. 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 is by accident years spanning a number of financial years.

2014

Accident year	2011 and earlier	2012	2013	2014	Total
In Thousand Saudi Riyals					
Estimate of ultimate claims cost:					
At the end of accident year	949,842	417,818	919,046	1,054,709	3,341,415
One year later	987,128	410,749	868,163	-	2,266,040
Two years later	921,896	410,249	-	-	1,332,145
Three years later	916,633	-	-	-	916,633
Current estimate of cumulative claims	916,633	410,249	868,163	1,054,709	3,249,754
Cumulative payments to date	(835,891)	(399,756)	(526,870)	(643,601)	(2,406,118)
Liability recognized in statement of financial position	80,742	10,493	341,293	411,108	843,636
Total liability included in statement of financial position	-	-	-	-	843,636

2013

Accident year	2010 and earlier	2011	2012	2013	Total
In Thousand Saudi Riyals					
Estimate of ultimate claims cost:					
At the end of accident year	612,632	337,210	417,818	919,046	2,286,706
One year later	638,974	348,154	410,749	-	1,397,877
Two years later	574,439	347,457	-	-	921,896
Three years later	568,734	-	-	-	568,734
Current estimate of cumulative claims	568,734	347,457	410,749	919,046	2,245,986
Cumulative payments to date	(491,683)	(329,509)	(382,988)	(390,841)	(1,595,021)
Liability recognized in statement of financial position	77,051	17,948	27,761	528,205	650,965
Total liability included in statement of financial position	-	-	-	-	650,965

11. INVESTMENT INCOME**i) Insurance operations:**

	2014	2013
In Thousand Saudi Riyals		
Commission income on short-term Murabaha deposits	1,987	2,473
Commission income on available for sale investments	951	218
Gain on sale of investments	-	800
Total	2,938	3,491

ii) Shareholders' operations:

	2014	2013
In Thousand Saudi Riyals		
Gain on sale of investments	13,688	4,930
Commission income on available for sale investments	2,288	546
Dividend income from available for sale investments (quoted)	1,880	1,060
Commission income on short-term Murabaha deposits	604	2,429
Total	18,460	8,965

12. REINSURERS' SHARE OF OUTSTANDING CLAIMS

	2014	2013
	In Thousand Saudi Riyals	
Reinsurers' share of outstanding claims	478,067	460,736

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

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (note 8).

13. PREPAID EXPENSES AND OTHER ASSETS

i) Insurance operations:

	2014	2013
	In Thousand Saudi Riyals	
Prepaid employee benefits and others	6,106	4,787
Deferred expenses	4,107	3,453
Prepaid rent	3,374	2,912
Advances to employees	676	569
Advances to suppliers	550	294
Accrued commission receivable	380	733
Guarantee deposits	300	300
Others	917	5,552
Total	16,410	18,600

14. PROPERTY AND EQUIPMENT, NET

Property and equipment, net as of December 31, 2014:

	Leasehold improvements	Computer hardware	Computer software	Furniture and fixtures	Office equipment	Motor vehicles	Work in progress	Total 2014
In Thousand Saudi Riyals								
Cost								
At the beginning of the year	12,373	8,152	3,323	3,543	2,341	84	475	30,291
Additions	64	927	2	123	72	-	171	1,359
Transfers	143	221	-	-	111	-	(475)	-
At the end of the year	12,580	9,300	3,325	3,666	2,524	84	171	31,650
Accumulated depreciation								
At the beginning of the year	8,601	6,449	1,296	1,489	1,971	84	-	19,890
Charge during the year	1,611	1,167	332	362	243	-	-	3,715
At the end of the year	10,212	7,616	1,628	1,851	2,214	84	-	23,605
Net book value								
December 31, 2014	2,368	1,684	1,697	1,815	310	-	171	8,045

Property and equipment, net as of December 31, 2013:

	Leasehold improvements	Computer hardware	Computer software	Furniture and fixtures	Office equipment	Motor vehicles	Work in progress	Total 2013
In Thousand Saudi Riyals								
Cost								
At the beginning of the year	11,743	7,545	2,847	3,501	2,257	84	475	28,221
Additions	626	578	265	42	84	-	171	2,070
Transfers	4	29	211	-	-	-	(475)	-
At the end of the year	12,373	8,152	3,323	3,543	2,341	84	171	30,291
Accumulated depreciation								
At the beginning of the year	6,698	5,053	978	1,136	1,637	84	-	15,586
Charge during the year	1,903	1,396	318	353	334	-	-	4,304
At the end of the year	8,601	6,449	1,296	1,489	1,971	84	-	19,890
Net book value								
December 31, 2013	3,772	1,703	2,027	2,054	370	-	171	10,401

15. STATUTORY DEPOSIT

In compliance with Article 58 of the Implementing Regulations of the Saudi Arabian Monetary Agency ('SAMA'), the Company has deposited 10 percent of its share capital, amounting to SR 30 million in a bank designated by SAMA. The statutory deposit is maintained with a local bank and can be withdrawn only with the consent of SAMA. The Company is not entitled to receive the commission income on this deposit.

16. CLAIMS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

i) Insurance operations:

Claims payable, accrued expenses and other liabilities of the insurance operations comprise of the following:

	2014	2013
	In Thousand Saudi Riyals	
Claims payable	63,897	34,474
Commissions payable	49,909	26,950
Provision for reinsurance withholding tax	13,307	12,426
Accrued employees' salaries and other benefits	10,912	7,813
Accrued end-of-service benefits	10,194	6,794
Accrued vacation allowance	4,872	3,819
Accrued SAMA inspection fees	3,082	984
Advances received from customers	2,603	3,357
Accounts payable - GOSI and others	1,172	1,007
Other accrual	1,077	1,057
Accrued CCHI inspection fees	867	2,129
Accrued professional fees	320	375
Accounts payable – administrative	228	320
Accrued advertisement expense	220	231
Unearned claim administrative fee	218	11,346
Other liabilities	15,740	8,529
Total	178,618	121,611

ii) Shareholders' operations:

Accrued expenses and other liabilities related to the shareholders' operations are comprised of the following:

	2014	2013
	In Thousand Saudi Riyals	
Due to founding shareholders	256	256
Others	300	300
Total	556	556

17. ZAKAT

The estimated zakat base of the company, which is subject to adjustments under zakat regulations, consists of the following:

	2014	2013
	In Thousand Saudi Riyals	
Share capital	300,000	300,000
Loss before zakat	(6,212)	(29,834)
Property and equipment, net	(16,738)	(16,998)
Adjusted available for sale investments	(19,230)	(93,752)
Statutory deposit	(30,000)	(30,000)
(Accumulated losses) retained earnings	(9,071)	8,523
Provision for reinsurance withholding tax	13,307	12,426
Provision for doubtful receivables	34,600	39,917
Accrued end-of-service benefits	10,194	6,794
Estimated zakat base	276,850	197,076

The movement in the zakat provision is as follows:

	2014	2013
	In Thousand Saudi Riyals	
At the beginning of the year	15,119	8,924
Charge for the year	7,500	5,500
Additional provision during the year	-	6,500
Paid during the year	(5,498)	(5,805)
At the end of the year	17,121	15,119

Status of assessments

The Company has filed the zakat declarations for the years up to 2013 with the Department of Zakat and Income Tax (DZIT); however, the related assessments have not yet been finalized

18. SHARE CAPITAL AND LEGAL RESERVE

The share capital of the Company is SR 300 million divided into 30 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for SR 157,555,350 (15,755,535 shares) with a nominal value of SR 10 each, which represent 52.52% of the shares of the Company and the remaining SR 142,444,650 (14,244,465 shares) with a nominal value of SR 10 each have been subscribed by the public. At December 31, 2014 and 2013, the Company is owned 100% by Saudi shareholders.

In accordance with the Company's Articles of Association and in compliance with Article 70 (2g) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of its net income each year to the legal reserve until it has built up a reserve equal to the capital. The legal reserve is not available for distribution to shareholders until liquidation of the Company. No amount has been allocated to reserve as the Company has incurred a loss for the year.

19. OPERATING AND ADMINISTRATIVE SALARIES

	2014	2013
	In Thousand Saudi Riyals	
Basic salaries	35,926	34,710
Housing allowances	8,752	7,549
Staff bonus	6,000	4,700
Transportation allowances	5,791	4,813
Insurance	4,678	4,302
End-of-service benefits	4,005	2,212
Social security charges	3,053	2,808
Others	4,484	4,638
	72,689	65,732

20. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
	In Thousand Saudi Riyals	
Occupancy charges	6,839	6,173
Inspection fees	6,618	5,947
Professional fees	4,136	1,703
Depreciation expense (note 14)	3,715	4,304
Advertisement and promotion	1,778	1,565
Withholding tax	2,275	2,538
Office supplies	1,403	1,563
Communication expenses	1,351	2,714
Training and development	1,979	1,949
(Reversal) charge for bad debt (note 8)	(5,317)	16,567
Others	6,554	4,319
	31,331	49,342

21. LOSS PER SHARE

Loss per share have been calculated by dividing the net loss income for the year by the weighted average number of issued and outstanding shares for the years.

Diluted loss per share are the same as basic loss per share as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

22. REINSURANCE ASSETS

The reinsurers' share of insurance liabilities includes reinsurers' share of unearned premiums and outstanding claims amounting to SR 538 million (2013: SR 494 million). The Company's accounting policies prohibit recognition of reinsurance gains on purchase of retroactive reinsurance contracts and require the recognition of the gain on a systematic and rational basis consistent with the development of the underlying reinsured liabilities. Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in receivables (note 8).

23. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are mutually agreed and are approved by the Company's management.

The transactions with related parties and the related amounts are as follows:

	2014	2013
	In Thousand Saudi Riyals	
Gross premiums written to companies owned by Board of Director (BOD) members	373	494
Commission charged by a brokerage firm related to a BOD member	24	49
Commission charged by a brokerage firm related to key management personnel	6	3
Gross premiums received from BOD members	63	121
Gross claims paid to companies owned by BOD members	(1)	103
Gross claims paid to BOD members	8	5
Board of Directors' and committees meeting fees	189	291
Purchase of stationery from an establishment related to a BOD member	-	346
Net reinsurance premiums paid to a reinsurance brokerage firm related to a BOD member	486	3,971
Net reinsurance claims received from a reinsurance brokerage firm related to a BOD member	853	626
Board of directors' remuneration	1,140	1,140

Due to/from related parties as at December 31, 2014 and December 31, 2013 comprise of the following:

	2014	2013
	In Thousand Saudi Riyals	
Net reinsurance balance receivable from a reinsurance brokerage firm related to a BOD member	621	517
Premiums receivable from companies owned by BOD members	96	7
Commission receivable (payable) to a brokerage firm owned by a BOD member	12	(65)
Commission receivable (payable) to a brokerage firm owned by a member of key management personnel	9	(2)
Premium receivables from a BOD member	39	-

23.1 Remuneration and compensation of BOD members and key management personnel

	Board of Director members (Non- executives)	Key management personnel including the CEO and CFO
2014		
	In Thousand Saudi Riyals	
Salaries and compensation	-	7,509
Allowances	189	14
Annual remuneration	1,140	1,080
Total	1,329	8,603
2013		
Salaries and compensation	-	8,011
Allowances	291	24
Annual remuneration	1,140	2,630
Total	1,431	10,665

24. CONTINGENT LIABILITIES

As at December 31, 2014, the Company had contingent liabilities in the form of letters of guarantee amounting to SR 11.91 million (December 31, 2013: SR 12.84 million).

25. 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 between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The Company's financial assets consist of cash and cash equivalents, receivables, investments, accrued income and financial liabilities consisting of payables and accrued expenses.

The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position date.

Determination of fair value and fair value hierarchy

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

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

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

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

The table below presents the financial instruments at their fair values as at December 31, 2014 and December 31, 2013 based on the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2014	In Thousand Saudi Riyals			
	Level 1	Level 2	Level 3	Total
Available for sale financial assets				
- Insurance operations	20,262	10,011	5,030	35,303
- Shareholders' operations	75,769	50,056	66,181	192,006
Total	96,031	60,067	71,211	227,309
2013				
Available for sale financial assets				
- Insurance operations	20,225	10,158	5,395	35,778
- Shareholders' operations	88,512	62,525	38,217	189,254
Total	108,737	72,683	43,612	225,032

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

Level 3 investments comprise investment in private equity funds, debt instruments and unquoted equities. The fair value of private equity funds computed is based on the funds latest reported net asset value as at the financial position date. Further, the debt instruments are carried at an amount which as per the management is the best estimate of the exit price i.e. fair value. The carrying values as at December 31, 2014 and December 31, 2013 approximate their fair value.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurement in level 3 of the fair value hierarchy in respect of the financial assets designated as available for sale.

In Thousand Saudi Riyals

December 31, 2014	Balance January 1	Purchases	Sales	in profit or loss	<u>Total gain or loss</u> in other comprehensive income	Balance December 31
Insurance operations	5,395	-	-	-	(365)	5,030
Shareholders' operations	38,217	25,000	-	-	2,964	66,181
Total	43,612	25,000	-	-	2,599	71,211

In Thousand Saudi Riyals

December 31, 2013	Balance January 1	Purchases	Sales	in profit or loss	in other comprehensive income	Balance December 31
Insurance operations	24,378	-	(19,800)	800	17	5,395
Shareholders' operations	20,438	25,000	(8,858)	358	1,279	38,217
Total	44,816	25,000	(28,658)	1,158	1,296	43,612

26. SEGMENT 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. Information disclosed in the note is based on current reporting to the chief executive officer.

Segment results do not include commission on short-term Murabaha deposits.

Segment assets do not include insurance operations' cash and cash equivalents, short-term Murahaba deposits, available for sale investments, receivables, prepaid expenses and other assets and property and equipment.

Segment liabilities do not include reinsurers' balances payable, accrued expenses and other liabilities, surplus distribution payable and due to shareholders.

These unallocated assets and liabilities are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

In Thousand Saudi Riyals

Operating segments	Property	Engineering	Motor	Medical	Others	Total
Insurance operations						
Gross written premiums	77,951	47,907	1,159,181	86,743	41,059	1,412,841
Reinsurance ceded premiums	(74,181)	(43,627)	-	-	(29,279)	(147,087)
Net written premiums	3,770	4,280	1,159,181	86,743	11,780	1,265,754
Net earned premiums	3,679	3,871	829,931	186,888	9,114	1,033,483
Reinsurance commissions	15,347	8,718	-	-	7,751	31,816
Other income	121	79	5,503	12,456	116	18,275
Net incurred claims	(401)	(49)	(842,682)	(80,439)	(3,484)	(927,055)
Other costs	(6,226)	(2,835)	(45,116)	(21,513)	(2,842)	(78,532)
Depreciation	(206)	(126)	(3,049)	(228)	(106)	(3,715)
Operating and administrative salaries and other general and administrative expenses	(5,533)	(3,401)	(82,297)	(6,159)	(2,915)	(100,305)
Surplus / (deficit) from insurance operations	6,781	6,257	(137,710)	91,005	7,634	(26,033)
Commission on short Murabaha deposits						2,938
Deficit from insurance operations						(23,095)

For the year ended December 31, 2013

In Thousand Saudi Riyals

Operating segments	Property	Engineering	Motor	Medical	Others	Total
Insurance operations						
Gross written premiums	65,451	37,313	434,705	212,878	20,554	770,901
Reinsurance ceded premiums	(61,717)	(35,445)	-	178	(13,582)	(110,566)
Net written premiums	3,734	1,868	434,705	213,056	6,972	660,335
Net earned premiums	3,717	1,841	397,434	252,193	7,182	662,367
Reinsurance commissions	12,860	5,950	-	603	4,055	23,468
Other income	614	350	4,076	1,996	193	7,229
Net incurred claims	(4,906)	(284)	(405,588)	(147,443)	(880)	(559,101)
Other costs	(5,999)	(1,923)	(26,222)	(23,033)	(2,534)	(59,711)
Depreciation	(365)	(208)	(2,427)	(1,189)	(115)	(4,304)
Operating and administrative salaries and other general and administrative expenses	(9,405)	(5,361)	(62,463)	(30,588)	(2,953)	(110,770)
(Deficit) / surplus from insurance operations	(3,484)	365	(95,190)	52,539	4,948	(40,822)
Commission on short Murabaha deposits						3,491
Deficit from insurance operations						(37,331)

As at December 31, 2014

	In Thousand Saudi Riyals					
	Property	Engineering	Motor	Medical	Others	Total
Insurance operations' assets						
Reinsurers' share of unearned premiums	26,065	22,448	-	-	11,415	59,928
Reinsurers' share of outstanding claims	408,157	43,367	6,755	-	19,788	478,067
Deferred policy acquisition costs	2,139	1,699	36,294	1,989	1,616	43,737
Unallocated assets	-	-	-	-	-	1,048,364
Total assets						1,630,096
Insurance operations' liabilities						
Unearned premiums	26,632	23,597	442,000	36,259	16,095	544,583
Unearned reinsurance commission	6,428	6,975	-	-	3,562	16,965
Outstanding claims	412,952	46,948	338,710	19,112	25,914	843,636
Unallocated liabilities	-	-	-	-	-	224,912
Total liabilities						1,630,096

As at December 31, 2013

	In Thousand Saudi Riyals					Total
	Property	Engineering	Motor	Medical	Others	
Insurance operations' assets						
Reinsurers' share of unearned premiums	14,131	16,013	-	-	3,401	33,545
Reinsurers' share of outstanding claims	392,167	48,173	2,383	432	17,581	460,736
Deferred policy acquisition costs	853	983	10,418	9,102	521	21,877
Unallocated assets	-	-	-	-	-	593,723
Total assets						1,109,881
Insurance operations' liabilities						
Unearned premiums	14,607	16,754	112,749	136,404	5,415	285,929
Unearned reinsurance commission	3,429	4,422	-	-	1,261	9,112
Outstanding claims	397,858	52,333	135,401	42,162	23,211	650,965
Unallocated liabilities	-	-	-	-	-	163,875
Total liabilities						1,109,881

27. RISK MANAGEMENT**Risk governance**

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

Risk management structure

A cohesive organizational 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 centralized 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.

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

27.1 Insurance risk

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

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

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

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

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

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and net income.

December 31, 2014

In Thousand Saudi Riyals		
Change in assumptions	Impact on net liabilities	Impact on net income
+ 10%	103,348	(103,348)
- 10%	(103,348)	103,348

December 31, 2013

In Thousand Saudi Riyals		
Change in assumptions	Impact on net liabilities	Impact on net income
+ 10%	66,237	(66,237)
Ultimate loss ratio - 10%	(66,237)	66,237

27.2 Reinsurance risk

Similar to other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.

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

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

- a. Minimum acceptable credit rating by recognized rating agencies that is not lower than BBB.
- b. Reputation of particular reinsurance companies.
- c. Existing or past business relationship with the reinsurer.

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

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

27.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations and, consequently, the Company does not hedge its foreign currency exposure.

27.4 Commission rate risk

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates in the currencies in which its cash and cash equivalents and investments are denominated.

A hypothetical 100 basis points change in the effective commission rates of the floating rate financial assets balances at December 31, 2014 for the policyholders and shareholders would impact commission income annually by approximately SR 4.93 million (2013: SR 2.53 million) and SR 1.45 million (2013: SR 1.73 million) respectively, in aggregate.

Maturities of the Company's investments as at December 31, 2014 and December 31, 2013 are as follows:

2014

	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Over 5 years		
	In Thousand Saudi Riyals				
Insurance operations					
Cash and cash equivalents	432,500	-	-	24,754	457,254
Short term Murahaba deposits	50,621	-	-	-	50,621
Available for sale investments	-	-	10,011	25,292	35,303
December 31, 2014	483,121	-	10,011	50,046	543,178
Shareholders' operations					
Cash and cash equivalents	79,500	-	-	18	79,518
Short term Murahaba deposits	15,000	-	-	-	15,000
Available for sale investments	-	-	50,056	141,950	192,006
December 31, 2014	94,500	-	50,056	141,968	286,524

2013

	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Over 5 years		
	In Thousand Saudi Riyals				
Insurance operations					
Cash and cash equivalents	147,464	-	-	41,483	188,947
Short term Murahaba deposits	85,000	-	-	-	85,000
Available for sale investments	10,225	-	10,000	15,553	35,778
December 31, 2013	242,689	-	10,000	57,036	309,725
Shareholders' operations					
Cash and cash equivalents	57,500	-	-	1,471	58,971
Available for sale investments	65,000	-	-	-	65,000
	-	-	50,000	139,254	189,254
December 31, 2013	122,500	-	50,000	140,725	313,225

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

27.5 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 balance sheet.

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 recognized, 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's investment portfolio is managed by the investment officer in accordance with the investment policy established by the board of directors.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks, private banking and counterparties having strong balance sheets and credit ratings.
- There are no significant concentrations of credit risk within the Company except as disclosed in note 8.

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

	2014	2013
	In Thousand Saudi Riyals	
Insurance operations' assets		
Cash and cash equivalents	457,254	188,947
Short term Murabaha deposits	50,621	85,000
Available for sale investments	35,303	35,778
Receivables, net	457,636	217,666
Reinsurers' share of outstanding claims	478,067	460,736
	1,478,881	988,127
Shareholders' assets		
Cash and cash equivalents	79,518	58,971
Short term Murabaha deposits	15,000	65,000
Available for sale investments	187,061	174,186
Statutory deposit	30,000	30,000
Accrued commission receivable	467	761
	312,046	328,918

27.6 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturities of the Company's undiscounted contractual obligations. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

	2014		
	In Thousand Saudi Riyals		
	Less than 12 months	More than 12 months	Total
Insurance operations' liabilities			
Surplus distribution payable	8,301	-	8,301
Reinsurers' balances payable	37,690	-	37,690
Outstanding claims	843,636	-	843,636
Claims payable, accrued expenses and other liabilities	168,424	10,194	178,618
	1,058,051	10,194	1,068,245
Shareholders' liabilities			
Accrued expenses and other liabilities	556	-	556
	556	-	556
	2013		
	In Thousand Saudi Riyals		
	Less than 12 months	More than 12 months	Total
Insurance operations' liabilities			
Surplus distribution payable	8,301	-	8,301
Reinsurers' balances payable	33,185	-	33,185
Outstanding claims	650,965	-	650,965
Claims payable, accrued expenses and other liabilities	114,817	6,794	121,611
	807,268	6,794	814,062
Shareholders' liabilities			
Accrued expenses and other liabilities	556	-	556
	556	-	556

27.7 Market price risk

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

The Company's available for sale quoted investments amounting to SAR 96.0 million (December 31, 2013: SR 121.4 million) are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

A hypothetical 10 percent change in market prices of available for sale quoted investments would impact the net results and shareholders' equity as follows:

	Price change	Fair value	Effect on net results	Effect on shareholders' equity
In Thousand Saudi Riyals				
December 31, 2014	10% increase	105,634	-	9,603
	10% decrease	86,428	-	(9,603)
December 31, 2013	10% increase	133,562	-	12,142
	10% decrease	109,278	-	(12,142)

The sensitivity analysis presented is based upon the portfolio position as at December 31, 2014. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

27.8 Capital management

The Company manages its capital to ensure that it is able to continue as going concern and comply with the SAMA's capital requirements while maximizing the return to stakeholders through the optimization of the debt and equity balances. The capital structure of the Company consists of equity attributable to equity holders comprising paid capital, reserves net of accumulated losses.

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

- Minimum Capital Requirement of SR 200 million
- Premium Solvency Margin
- Claims Solvency Margin

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

27.9 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 reinsurance companies and to enable them to meet unforeseen liabilities as these arise.

27.10 Geographical concentration of risk

All of the Company's insurance risk relates to insurance policies are written in the Kingdom of Saudi Arabia.

27.11 Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in motor. Approximately 57% of the gross written premiums arises from two major customers.

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

The Company operates in the Kingdom of Saudi Arabia and substantially all of the insurance risk relate to policies written in the Kingdom of Saudi Arabia.

27.12 Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of claim related reserves are given under note 4.

27.13 Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral reasonable estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate

cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve arising as a result of the liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable. The details of estimation of premium deficiency reserve are given under notes 2 and 4.

28. APPROVAL OF THE FINANCIAL STATEMENTS

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

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