



Annual Report
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Saudi Re

Saudi Reinsurance Company
"Saudi Re"

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CHAIRMAN'S MESSAGE



On behalf of the board of directors of Saudi Re, I am pleased to present to the valued shareholders the annual report including the directors' report along with the audited financial statements and accompanying notes for the financial year ended 31 December 2014.

2014 marked another year on the course of building a strong multiregional reinsurer, but was too a year of reform. On the heels of 2013 results, Saudi Re focused on strengthening its underwriting and risk selection practices in order to achieve better technical performance that meets its shareholders' expectations.

Our performance has shown improvement in 2014 and recorded net profit before zakat of SAR 10.8 million compared to a loss of SAR 99.6 million in 2013. Yet, emphasis continues to be placed on improving the technical results further, and to achieve this, Saudi Re moved ahead with a number of measures in 2014 such as refining the underwriting strategy for Fire class of business especially in the Saudi market, restructuring of the underwriting division, strengthening underwriting processes, , developing in-house actuarial capabilities and updating pricing tools.

Saudi Re has always been keen to maintain a rational balance in its book of business in terms products and geographical spread. Our business has well developed across all geographical segments in 2014, and currently the Saudi business represents only half of Saudi Re portfolio which compares to 80% four years ago. This was achieved through the planned and careful diversification in more than 35 markets in the Middle East, Asia and Africa. This very fact was reflected in the growth of our gross written premiums by 32% when compared with 2013, growing from SAR 420 million to SAR 556 million, despite competitive market conditions. Moreover, most of the classes of business have registered positive growth, more noticeably in Life and General Accident.

We eye further growth opportunities that can enable Saudi Re to strengthen its competitive position. For example in 2014 Saudi Re finalized the arrangements to participate in a reinsurance syndicate program in the Lloyd's market starting in 2015 underwriting year. Also, the board of directors approved a plan to open a representative office in Morocco to have more proximity to our clients in Africa, which is subject to regulatory approvals.

We are now better positioned to operate within a reasonable economic scale, rendering our portfolio more resilient in the face of single loss effect. It is also evident by the improved expense ratio being 8% in 2014 compared to 11% in 2013.

Our pursuit for better financial standing goes on and the financial position of the company has been further reinforced with total assets of the company is now SAR 1.9 billion increased from SAR 1.7 billion, while the technical reserves reaching SAR 678 million and SAR 504 million, 2014 and 2013. This has contributed to maintaining our rating of BBB+ by Standard and Poor's with a stable outlook. As for investments, Saudi Re portfolio was subject to the decline of the financial market performance, however achieved a return of 4.2% on the overall investment portfolio yielding SAR 43 million of income.

It is worth noting that the reinsurance market around the world is faced with a myriad of challenges manifesting themselves in geopolitical, financial, regulatory, and competitive factors. Saudi Re is not in isolation of these conditions especially the change of oil prices and its influence on the financial markets, however our business plan takes into account the factors that could influence our operations and sets out mitigation controls for optimal response.

In 2014, the general assembly elections took place for a new term for the board of directors, who will work towards maximizing the shareholders' value. On this occasion, I would like to express the board's gratitude to Dr. Salman Alsudairy who opted to step down after four

years full of active contribution. At the same time, the board welcomes Mr. Mahmoud Jameel Hassoubah who joined the board of directors in 2014 and brings on a rich experience in the financial services industry.

Finally, I would like to thank those who have contributed to the continued success of Saudi Re, including our shareholders, clients and business partners for their continued confidence in the company, as well as all regulating bodies, the board of directors, management and our employees.

Hesham Al-Sheikh
Chairman of The Board

BOARD OF DIRECTORS



Mr. Hesham Al Sheikh
Chairman of The Board



Mr. Ahmad Al Sabbagh
Member of The Board



Mr. Mishari Al Mishari
Member of The Board



Mr. Ismail Mahbob
Member of The Board



Dr. Salman Al Sudairi
Member of The Board*



Mr. Hammam Badr
Member of The Board



Mr. Mansour Al Busaily
Member of The Board



Mr. Jean-Luc Gourgeon
Member of The Board



Mr. Mahmood Jameel Hasobah
Member of The Board**



Mr. Fahad Al Hesni
Managing Director-CEO

*Board membership ended 11/05/2014
**Joined the board in 11/05/2014



DIRECTORS' REPORT 2014

Significant plans, resolutions,
operating activities, prospects and risks

SIGNIFICANT PLANS, RESOLUTIONS, OPERATING ACTIVITIES, PROSPECTS AND RISKS

a. Significant board resolutions

- Approval of relocating the Head Office to a new building in Riyadh.
- Appointment of Chairman of the Board of Directors, Vice Chairman, and Board Committees following the General Assembly Meeting.
- Approval of restructuring of the underwriting division.
- Approval of the underwriting authority matrix.
- Approval of the of the retrocession program for 2014/2015.
- Approval of participation in a selected syndicate reinsurance program in the Lloyd's market.
- Approval of opening a representative office in the Casablanca Financial City (CFC) after obtaining the related regulatory approval.
- Approval of the business plan of 2015.

b. Operating activities

b-1 Marketing and Sales

Saudi Re continued its growth-focused efforts throughout 2014 and was able to achieve an annual growth rate of 32%, recording gross written premium of SAR 556 million compared to SAR 420 million in the previous year. Progressing on its expansion and diversification strategy, Saudi Re business development activities resulted in achieving growth in all of the targeted markets which includes Saudi Arabia, MENA, Asia and Africa. Coupled with the geographic expansion, Saudi Re also registered reasonable growth in most of its lines of business especially in Life and General Accidents, rendering a rational portfolio balance in terms of geographic and product diversification. Moreover, the steady growth Saudi Re witnesses reinforces its competitive position and contributes to developing a solid book of business that is resilient to the fluctuation that could result from unforeseen large losses and increase in operational expenses.

Saudi Re focused on strengthening its client management approach with clients and brokers which resulted in expanding its client base from 212 in 2013 to 250 in 2014 across 30 countries. Furthermore, a number of market seminars were conducted in addition to sponsoring industry conferences such as the GAIF 30th General Conference as well as Multaqa Qatar.

b-2 Underwriting & Claims

During 2014, Saudi Re performed a set of technically driven initiatives geared towards improving the underwriting and claims management approach, instilling proper risk selection policies, and maintaining the optimal portfolio balance, all aiming at achieving positive technical performance. Among these initiatives was updating the organizational structure of the underwriting division, establishing the underwriting support department, updating the underwriting authorities and procedures, in addition to utilizing actuarial methods in pricing with the use of advanced tools. Saudi Re also conducted a comprehensive review of its reserving position to assure the soundness of the technical reserves and claims provisions while introducing new measures to better manage the accumulation and concentration of written risks. Also, as part of 2014/2015 retrocession program renewal, the underwriting capacity was extended to allow writing larger risks within a reasonable protection level. With all these initiatives, Saudi Re was successful in improving the overall performance of the company, nevertheless the fierce competition in the reinsurance market in addition to the frequency of major losses especially in Fire class of business had an overshadow on 2014 performance. Saudi Re however is mindful of these challenges and holds its course in adopting a prudent underwriting policy and progressing in the implementation of pricing models based on technical factors which all will contribute to achieving marked improvements in the future.

b-3 Manpower and Training

Saudi Re recognizes the strategic role its human capabilities play in service delivery and client management. During 2014, Saudi Re continued to invest in developing its manpower through the execution of training and technical qualifications programs for employees which are aimed at improving their knowledge and skills. Furthermore, national and international talents were attracted to join Saudi Re team. As part of Saudi Re endeavors to actively engage on the development of the local reinsurance industry, Saudi Re achieved a Saudization rate of 58% in 2014.

On the organizational efficiency front, the organizational structure was updated in 2014 featuring the creation of a number of new roles in a number of divisions which comes in line with the business expansion plans and productivity improvement objectives.

b-4 Information Systems

During 2014, Saudi Re performed a number of initiatives to develop the technology infrastructure of the company with the aim of improving its operational efficiency and productivity, enhancing service delivery to clients, and reinforcing security.

Among these initiatives is building the IT and communications networks and Data Center for the new Head Office in Riyadh city. Also, Phase II of the core business system was launched along with the development of an advanced authorization and workflow application. Saudi Re also adopted a new web-enabled system to allow for secure remote access.

b-5 General Developments

- The General Assembly of Saudi Re convened on May 11th 2014 and elected a new board of directors for a new three-year term, following which the new board of directors appointed its chairman and vice chairman, and restructured the board committees.
- Saudi Re renewed its operation license for three years which is issued from the Saudi Arabian Monetary Agency (SAMA).
- Saudi Re maintained its rating of BBB+ with a stable outlook in addition to obtaining gcAA+ Gulf Cooperation Council (GCC) regional scale rating with a stable outlook from Standard & Poor's.
- To serve the business expansion requirements, Saudi Re Head Office relocated to the new company-owned building in Riyadh.

c. Business prospects

Saudi Re continues to embrace a strategy of steady expansion with emphasis on diversification to maintain risk and geographical balance which is governed by a conservative underwriting policy that ensures the adherence to highest technical standards. However, the reinsurance business environment is naturally influenced by the change that undergoes the global and regional economies including the oil prices dynamics and its reflection on the financial markets. Despite that a number of markets in which Saudi Re operates show growth potential especially in the Saudi market and some markets in Asia and Africa, the marketplace is still characterized by fierce competition and abundance of capacity. These factors are joined by the slow improvement of technical results, and all combined, increase the pressure on the company's ability to improve its performance. Yet, Saudi Re exerts all possible mitigation efforts including regular and structured manner of risk review and acceptance procedures, utilizing actuarial analysis in pricing and reserving, and continuous development of the technical capabilities.

SIGNIFICANT PLANS, RESOLUTIONS, OPERATING ACTIVITIES, PROSPECTS AND RISKS

d. Current and future risks

The Board of Directors sets the overall risk appetite and ensures that appropriate risk governance is in place. Saudi Re manages its risks through Enterprise Risk Management system (ERM) which avails a set of processes for identifying, assessing and mitigating risks.

As per the external auditors note 31 of the financial statements, the company is exposed to risks relating to insurance, retrocession, special commission rate, credit, liquidity, currency, fund price, capital management, fair value of financial instruments, and regulatory framework.

The internal annual review of the risks in 2014 identified the following current risks:

Reinsurance Risk

Reinsurance risks include accumulation, concentration, catastrophe exposure, and increased frequency and severity of claims. It can be mitigated through the diversification of accepted risks, implementation of underwriting guidelines, and the use retrocession protection.

Retrocession Risk

It refers to the failure of retrocessionaires to fulfill their obligations including defaulting the claims payments due from them. Retrocession risk is controlled by a robust selection process that considers diversification of reinsurance sources as well as the financial position and credit rating of the reinsurers.

Credit Risk

This risk arises from the default of counterparties such as retrocessionaires, cedents, brokers and asset managers. This risk is controlled through a set of measures including selection process, financial position, legal status, etc. Also, it is controlled through establishing close relationships, continuous monitoring and follow up.

Liquidity Risk

It refers to the unavailability of funds required to meet the company financial obligations, and also loss due to the liquidation of investments. To limit the impact of this risk, the company periodically monitors the liquidity requirements and also adapts an investment policy that sets out controls to manage the liquidity risk.

Currency Risk

The company is exposed to the currency risk due to fluctuation in exchange rates of foreign currencies in relation to investments or underwriting commitments in foreign currencies. As per the regulations applied in the kingdom, at least 50 per cent of the investments are to be made in instruments denominated in Saudi riyal, which limits this risk.

SIGNIFICANT PLANS, RESOLUTIONS, OPERATING ACTIVITIES, PROSPECTS AND RISKS

Market Risk

Market risk refers to the likelihood of losses which could result from the operation of market forces and result in shrinkage in the capital. Market risk exposure for Saudi Re arises mainly from the investment portfolio, Interest Rate Risk & Equity risk. Risks arising from the above are managed by the Investment Policy Statement that is approved by the Board.

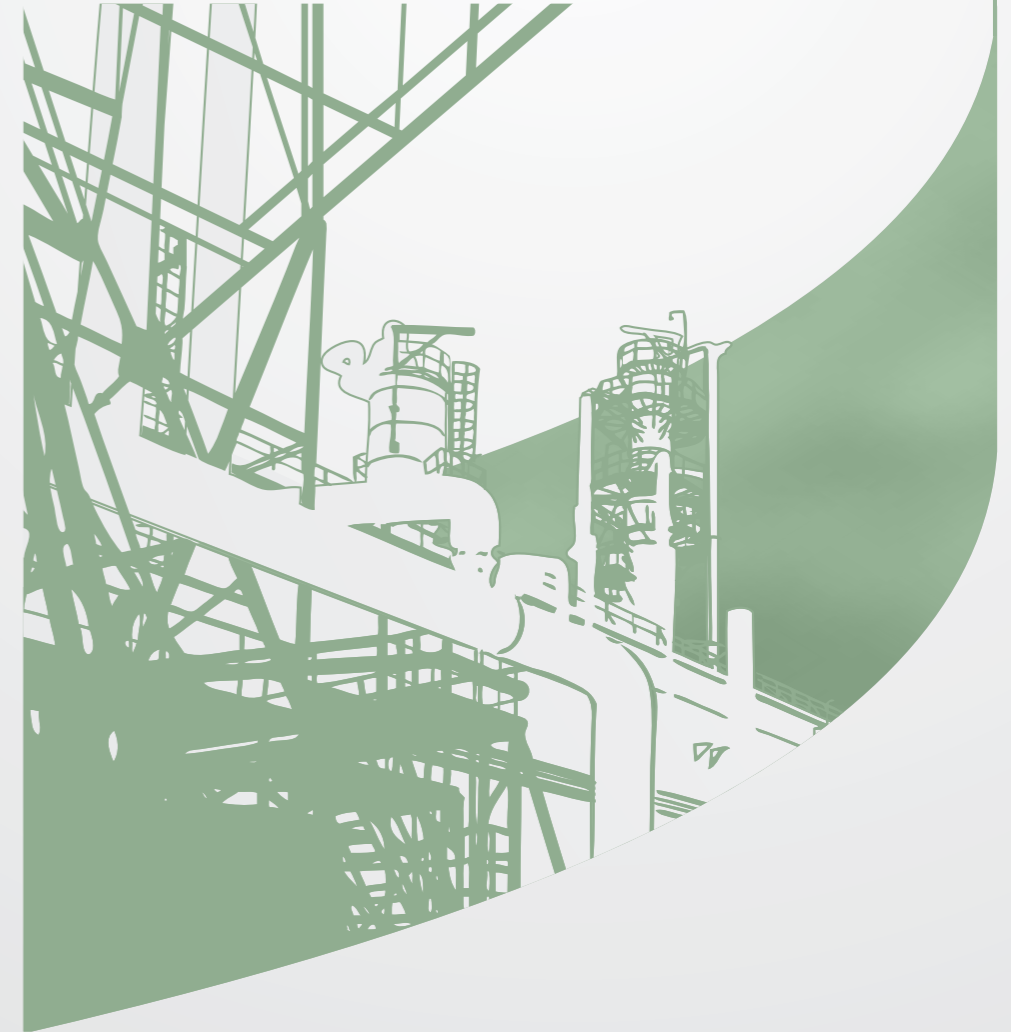
Regulatory Compliance Risks

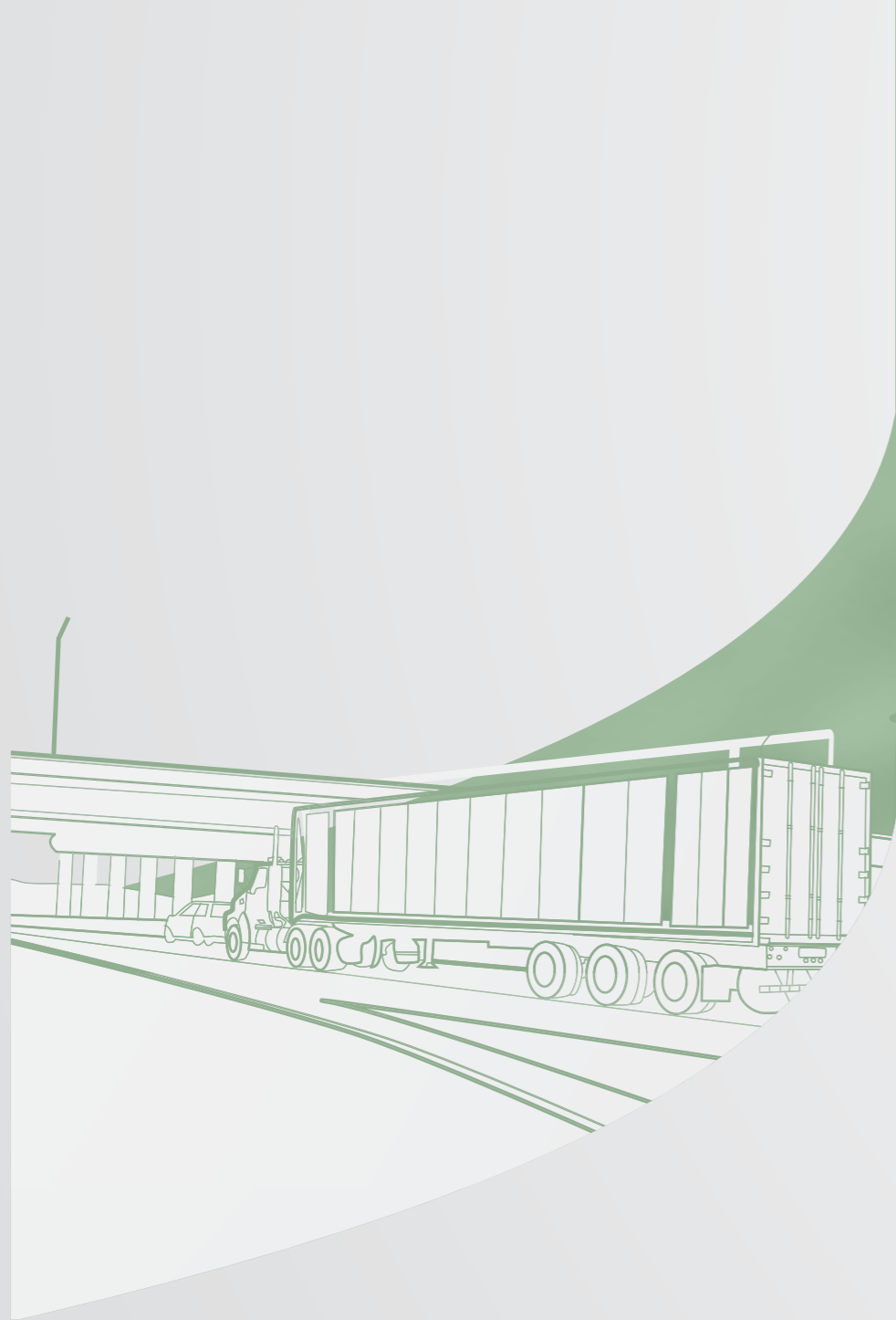
The company is required to be in compliance with legal and regulatory requirements for regulatory bodies like, Saudi Arabian Monetary Agency, Saudi Capital Market Authority and the Ministry of Commerce and Industry.

The company applies a strict compliance policy and has in place a dedicated compliance department reporting to the Audit Committee.

Also, the company expects to face a number of future risks most importantly the following:

- Risks arising from natural catastrophes and single large losses resulting from the business expansion.
- Risks emanating from the change of oil prices and the impact on the company investments.





DIRECTORS' REPORT 2014

Operating Results and Significant Differences

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES

a. Statement of financial position for the past five years

	In Thousand Saudi Riyals				
	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010
REINSURANCE OPERATIONS ASSETS					
Cash and banks balances	1,455	5,269	583	8,294	3,935
Time deposits	13,125	-	-	-	-
Investments held at fair value through income statement	124,912	95,329	83,244	44,645	-
Premiums receivable	112,739	70,493	27,608	19,127	10,642
Accrued insurance premiums	220,186	164,869	91,901	53,148	28,751
Retroceded share of unearned premiums	2,080	2,344	5,755	24,836	34,253
Retroceded share of outstanding claims	105,140	104,888	42,123	86,634	39,411
Deferred acquisition costs	63,512	54,446	32,506	19,842	14,352
Deferred excess of loss premiums	17,312	15,717	11,593	10,316	1,105
Prepaid expenses and other assets	28,113	1,069	968	238	330
Due from shareholders' operations	188,020	173,316	6,385	14,018	26,734
Property and equipment, net	6,269	7,337	5,303	2,333	2,346
Total Reinsurance Operations Assets	882,863	695,077	307,969	283,431	161,859
SHAREHOLDERS' ASSETS					
Cash and banks balances	2,568	85,674	615	140,054	1,168
Time deposits	24,000	37,500	187,500	258,439	403,925
Accrued special commission income from time deposits	70	1,040	478	1,900	5,697
Accrued special commission income from bonds and Sukuk	3,704	3,295	3,280	2,987	2,996
Investments held at fair value through income statement	732,672	595,180	445,743	256,001	307,400
Held to maturity investments	145,470	173,995	209,047	209,792	211,322
Prepaid expenses and other assets	7,101	5,738	4,283	3,037	1,758
Statutory deposit	100,000	100,000	100,000	100,000	100,000
Property and equipment	33,521	32,992	29,784	-	-
Total Shareholders' Assets	1,049,106	1,035,414	980,730	972,210	1,034,266
Total Assets	1,931,969	1,730,491	1,288,699	1,255,641	1,196,125

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

	In Thousand Saudi Riyals				
	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010
REINSURANCE OPERATIONS LIABILITIES					
Accounts Payable	22,618	8,143	4,768	2,486	-
Retrocession balances payable	4,173	7,615	3,266	22,236	15,362
Accrued retroceded premiums	1,129	4,463	4,243	14,197	16,025
Gross unearned premiums	238,458	215,025	122,379	81,351	54,120
Gross outstanding claims	609,842	424,277	159,413	146,505	57,170
Premium Deficiency Reserve	-	26,167	-	-	-
Unearned commission income	750	811	1,581	6,926	10,409
Surplus distribution payable	932	932	932	-	-
Accrued expenses and other liabilities	2,480	5,923	10,025	8,791	7,826
Employees' end of service benefits	2,481	1,721	1,362	939	947
Total Reinsurance Operations Liabilities	882,863	695,077	307,969	283,431	161,859
Shareholders' Liabilities And Equity					
SHAREHOLDERS' LIABILITIES					
Accounts Payable	-	500	1,000	-	-
Provision for zakat and income tax	35,442	33,185	30,087	25,163	21,359
Due to reinsurance operations	188,020	173,316	6,385	14,018	26,734
Other liabilities	8,219	6,641	4,283	3,037	1,758
Total Shareholders' Liabilities	231,681	213,642	41,755	42,218	49,851
SHAREHOLDERS' EQUITY					
Share capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Statutory reserve	6,071	6,071	6,071	6,071	6,071
Accumulated deficit/retained Earnings	(188,646)	(184,299)	(67,095)	(76,079)	(21,656)
Total Shareholders' Equity	817,425	821,772	938,976	929,992	984,415
Total Shareholders' Liabilities And Equity	1,049,106	1,035,414	980,731	972,210	1,034,266
Total Reinsurance Operations Liabilities, Shareholders' Liabilities and Equity	1,931,969	1,730,491	1,288,700	1,255,641	1,196,125

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

b. Results of operations for the past five years

	In Thousand Saudi Riyals				
	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010
Gross premiums written	556,290	420,086	245,032	159,609	107,475
Retroceded premiums	(6,101)	(6,449)	(3,319)	(55,085)	(66,982)
Excess of loss expenses	(35,595)	(27,817)	(22,427)	(12,990)	(1,623)
Net premiums written	514,594	385,820	219,286	91,534	40,492
Change in net unearned premium	(23,697)	(96,057)	(60,110)	(36,648)	(11,388)
Net premiums earned	490,897	289,763	159,176	54,886	27,482
Net claims incurred	(401,011)	(300,257)	(92,238)	(58,452)	(19,186)
Premium deficiency reserve	26,167	(26,167)	-	-	-
Gross acquisition costs	(103,811)	(83,330)	(49,786)	(34,108)	(20,785)
Commissions on retroceded business	1,948	3,437	6,123	19,591	15,823
Supervision & Inspection fees	(2,781)	(2,100)	(1,225)	(952)	(429)
Net underwriting results	11,409	(118,654)	22,050	(19,035)	2,905
Special commission income from deposits	70	-	-	-	-
Realized gains on investments held at fair value through income statement	226	39	48	-	-
Unrealized gains on investments held at fair value through income statement	2,431	658	637	303	-
Other Income	59	102	4,160	-	-
Investment management expenses	(240)	(191)	(37)	-	-
General and administrative expenses	(23,352)	(21,558)	(17,536)	(18,351)	(24,251)
Board of directors' remunerations and expenses	-	-	-	-	(589)
Net Surplus / Deficit from reinsurance operations results	(9,397)	(139,604)	9,321	(37,083)	(21,935)
Shareholders appropriation from reinsurance operations surplus/deficit	9,397	139,604	(8,389)	37,083	21,935
Reinsurance operations deficit/surplus after Shareholders appropriation	-	-	932	-	21,935
Accumulated surplus at beginning of the year	932	932	-	-	-
Accumulated surplus at the end of the year	932	932	932	-	-
Investment Revenues	40,120	54,781	32,658	21,891	24,925
Foreign exchange translation gains / (losses)	(550)	1,124	103	(614)	(2,934)
Other Income	248	-	2,250	-	-
Investment management expenses	(3,077)	(2,311)	(1,841)	(298)	-
General and administrative expenses	(14,947)	(13,309)	(11,279)	(17,917)	-
Board of directors' remunerations, meeting fees and expenses	(1,558)	(335)	(1,327)	(284)	-
Shareholders appropriation from reinsurance operations Surplus / Deficit	(9,397)	(139,604)	8,388	(37,083)	(21,935)
Net deficit/ Income for the year	10,839	(99,654)	28,952	(34,306)	56

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

Notes on the reinsurance operation's variances with prior year

	In Thousand Saudi Riyals			
	31 Dec 2014	31 Dec 2013	Variance + or (-)	Change %
Gross premiums written	556,290	420,086	136,204	32%
Retroceded premiums	(6,101)	(6,449)	348	-5%
Excess of loss expenses	(35,595)	(27,817)	(7,778)	28%
Net premiums written	514,594	385,820	128,774	33%
Change in net unearned premium	(23,697)	(96,057)	72,360	-75%
Net premiums earned	490,897	289,763	201,134	69%
Net claims incurred	(401,011)	(300,257)	(100,754)	34%
Premium deficiency reserve	26,167	(26,167)	52,334	-200%
Gross acquisition costs	(103,811)	(83,330)	(20,481)	25%
Commissions in retroceded business	1,948	3,437	(1,489)	-43%
Supervision & Inspection fees	(2,781)	(2,100)	(681)	32%
Net underwriting results	11,409	(118,654)	130,063	-110%
Special commission income from time deposits	70	-	70	0%
Realized gains on investments held at fair value through income statement	226	39	187	479%
Unrealized gains on investments held at fair value through income statement	2,431	658	1,773	269%
Other Income	59	102	(43)	-42%
Investment management expenses	(240)	(191)	(49)	26%
General and administrative expenses	(23,352)	(21,558)	(1,794)	8%
Net surplus/deficit from reinsurance operations results	(9,397)	(139,604)	130,207	-93%
Shareholders appropriation from reinsurance operations surplus/deficit	9,397	139,604	(130,207)	-93%
Reinsurance operations deficit/surplus after Shareholders appropriation	-	-	-	-
Accumulated surplus at beginning of the year	932	932	-	0%
Accumulated surplus at end of the year	932	932	-	0%

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

c. Main lines of business and results

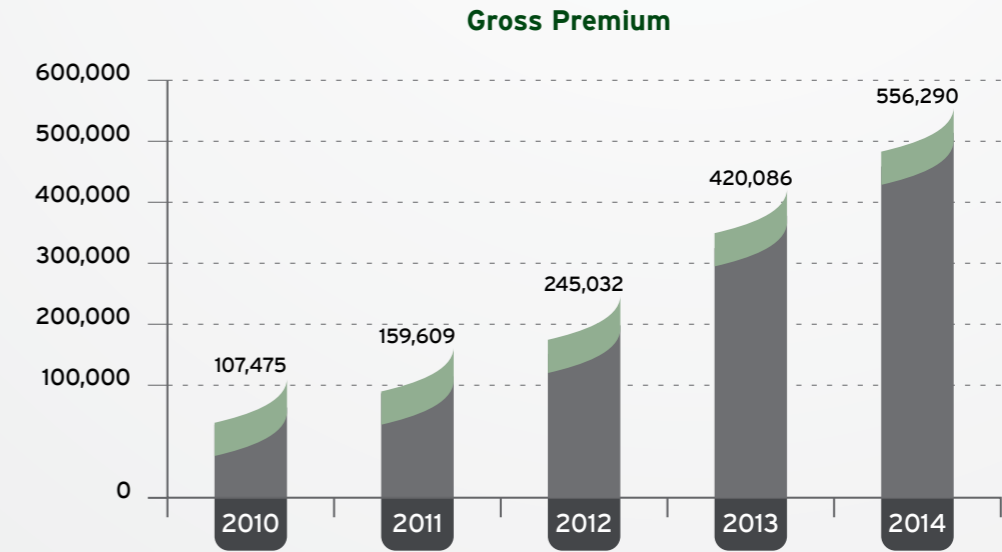
Saudi Re conducts business on facultative and treaty reinsurance basis in Saudi Arabia, MENA countries Asia and Africa with its head office in Riyadh, Saudi Arabia and its branch in Labuan, Malaysia. The company comprises business units based on its services and products as detailed in the following table:

	In Thousand Saudi Riyals							
	Engineering	Fire	Marine	Motor	Life	General Accident	Others	Total
Gross premiums written	87,406	212,311	55,227	24,981	97,019	37,436	41,910	556,290
Retroceded premiums	(6,674)	155	316	0	(1)	26	77	(6,101)
Excess of loss expenses	(7,210)	(23,582)	(1,192)	(390)	(1,929)	(412)	(880)	(35,595)
Net premiums written	73,522	188,884	54,351	24,591	95,089	37,050	41,107	514,594
Change in net unearned premium	(4,356)	(23,885)	(3,447)	17,608	(1,117)	(4,348)	(4,152)	(23,697)
Net premiums earned	69,166	164,999	50,904	42,199	93,972	32,702	36,955	490,897
Net claims incurred	(64,208)	(134,546)	(30,464)	(41,315)	(67,126)	(12,290)	(51,062)	(401,011)
Gross acquisition costs	(19,562)	(48,768)	(14,794)	(6,451)	(3,455)	(8,198)	(2,583)	(103,811)
Commissions in retroceded business	1,847	112	(195)	0	15	179	(10)	1,948
Supervision & Inspection fees	(438)	(1,061)	(276)	(125)	(485)	(188)	(208)	(2,781)
Premium deficiency reserve	(3,685)	37,192	(1,219)	5,538	(8,133)	(1,734)	(1,792)	26,167
Net underwriting results	(16,880)	17,928	3,956	(154)	14,788	10,471	(18,700)	11,409

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

d. Written premiums and geographic analysis

Gross written premiums written rose by 32% in 2014 to SR 556,290 thousand from SR 420,086 thousand in 2013. This increase is attributed to marketing and sales activities in Africa has not shown any improvements in terms of GWP. The following graph indicates the gross premiums written during the period 2010-2014 (in thousand Saudi Riyals).



The following table displays the distribution of written premiums over major business segments:

Segment	2014	2013
Fire	212,311	159,959
Engineering	87,406	76,638
Marine	55,227	45,638
Motor	24,981	50,626
Life	97,019	51,314
General Accidents	37,436	16,888
Others	41,910	19,023
Total	556,290	420,086

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

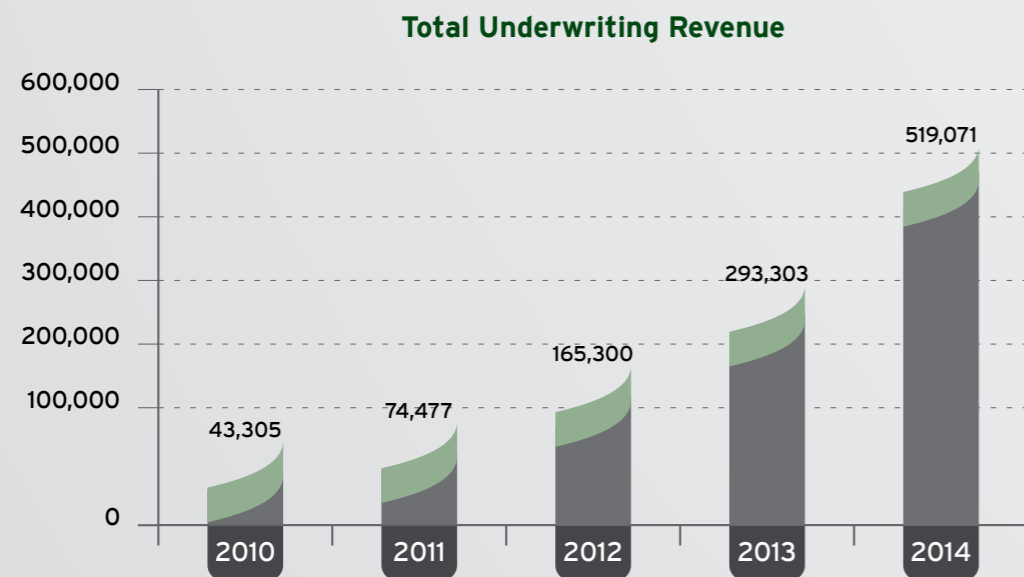
Geographical analysis of gross premiums written

	Geographical segment			
	2014		2013	
	%	in thousands	%	in thousands
Kingdom of Saudi Arabia	50%	278,818	53%	221,272
Other Middle Eastern Countries	17%	94,954	18%	75,850
Africa	12%	63,884	15%	63,565
Asia	21%	118,634	14%	59,399
Total	100%	556,290	100%	420,086

e. Total underwriting revenues

Total underwriting revenue rose by 77% to SR 519,071 thousand in 2014 from SR 293,303 thousand in 2013 main contribution to this was the increase in net premiums earned from SR 289,763 thousand in 2013 to SR 490,897 thousand in 2013, recording 69% growth rate.

The following diagram shows the total revenues from 2010-2014 (in thousand Saudi Riyals).



f. Incurred claims

The net claims incurred after deduction of reinsurers share increased by 33% to SR 401,011 thousand in 2014 from SR 300,257 thousand in 2013.

g. Total costs and expenses

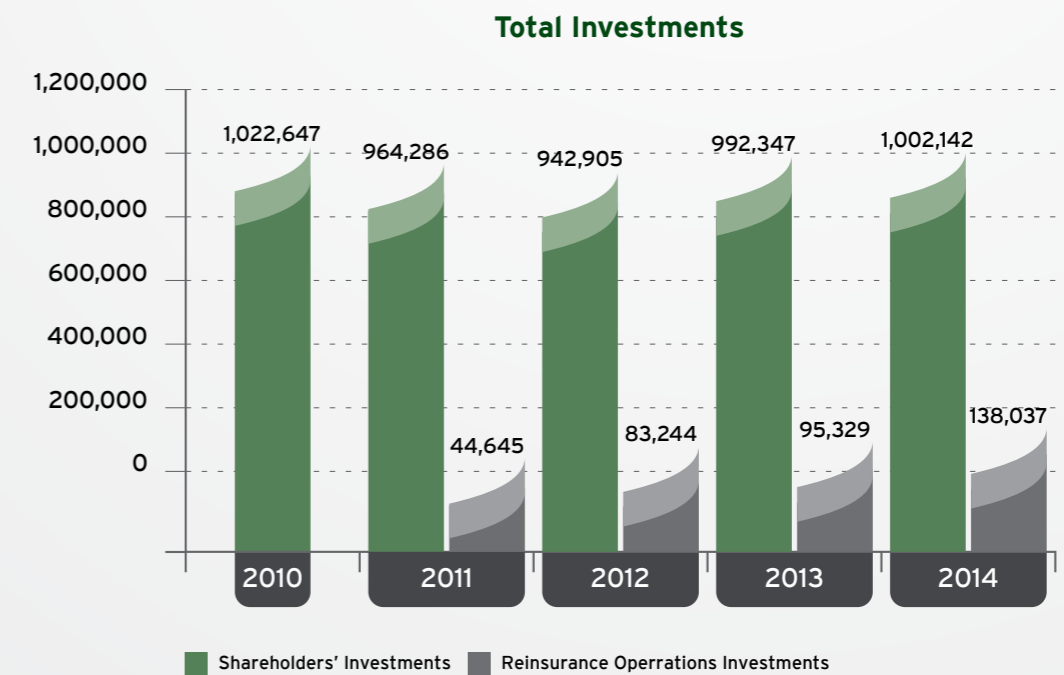
Total costs and expenses for policyholders' operations increased by 23% to SR 531,954 thousand in 2014 from SR 433,604 thousand in 2013 due mainly to the incurred claims as mentioned in (f) above. While the total costs and expenses for shareholders' operations increased by 26% to SR 16,506 thousand in 2014 from SR 15,955 thousand in 2013.

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

h. Total investments

Total shareholders' investments were SR 1,002,142 thousand in 2014 as compared with SR 992,347 thousand in 2013, higher by 1%. The total reinsurance operations investments were SR 138,037 thousands in 2014 compared with SR 95,329 thousands in 2013, increasing by 45%.

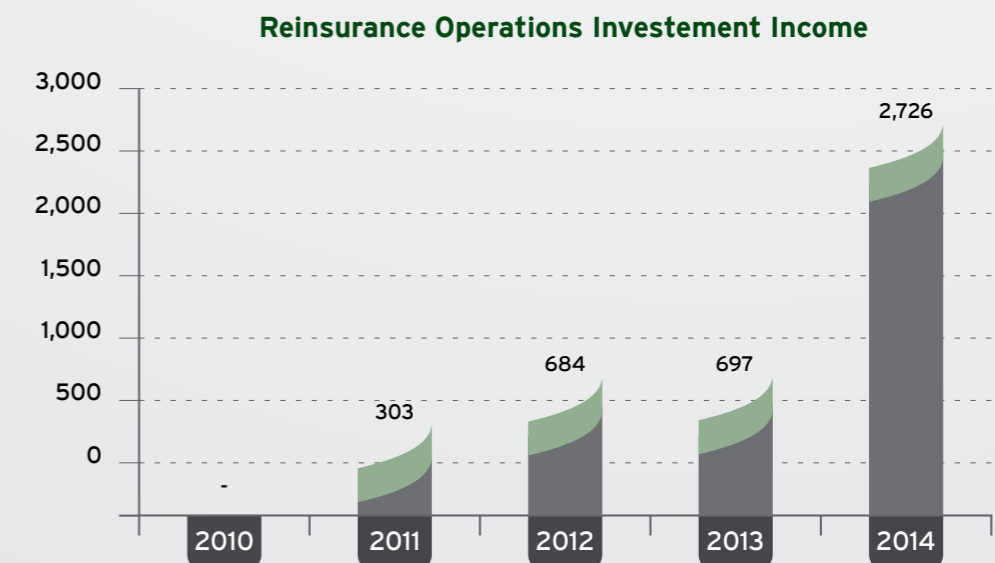
The following figure shows total investments during the period 2010-2014 (in thousand Saudi Riyals).



i. Income from reinsurance operations fund investments

Income generated from investments of reinsurance funds were SR 2,726 thousand in 2014 as compared with SR 698 thousand in 2013, increased by 291%.

The following figure shows income from reinsurance operations investments during 2010-2014 (in thousand Saudi Riyals).



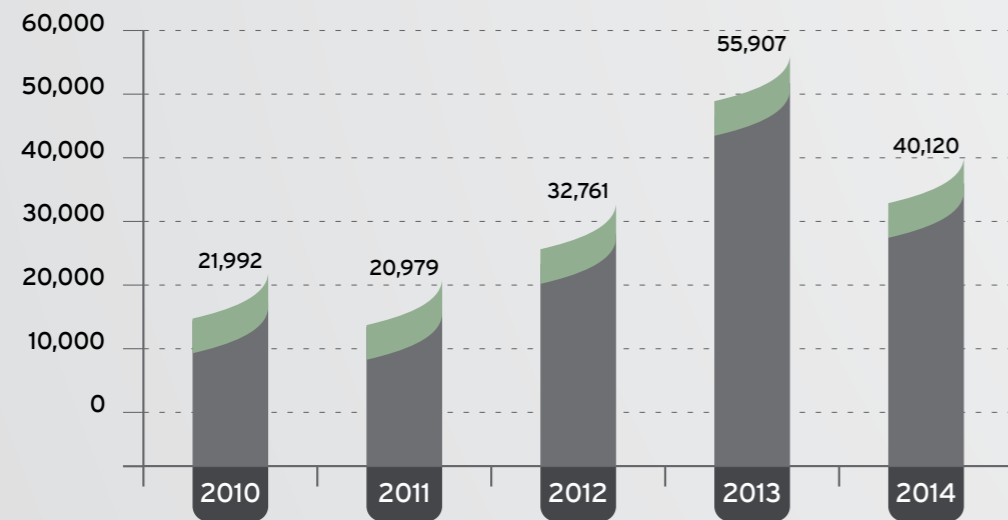
OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

j. Income from shareholders' fund investments

Revenue from shareholders' fund investments was SR 40,120 thousand in 2014 as compared with SR 55,907 thousand in 2013, decreased by 28%.

The following figure depicts the total income from shareholders' investments during the period 2010-2014 (in thousand Saudi Riyals).

Shareholders' Investment Income



Geographical analysis of total income from the company investments

	Geographical segment			
	2014		2013	
	%	in thousands	%	in thousands
Within the Kingdom of Saudi Arabia	29%	11,822	34%	19,192
Outside the Kingdom of Saudi Arabia	71%	28,298	66%	36,715
Total	100%	40,120	100%	55,907

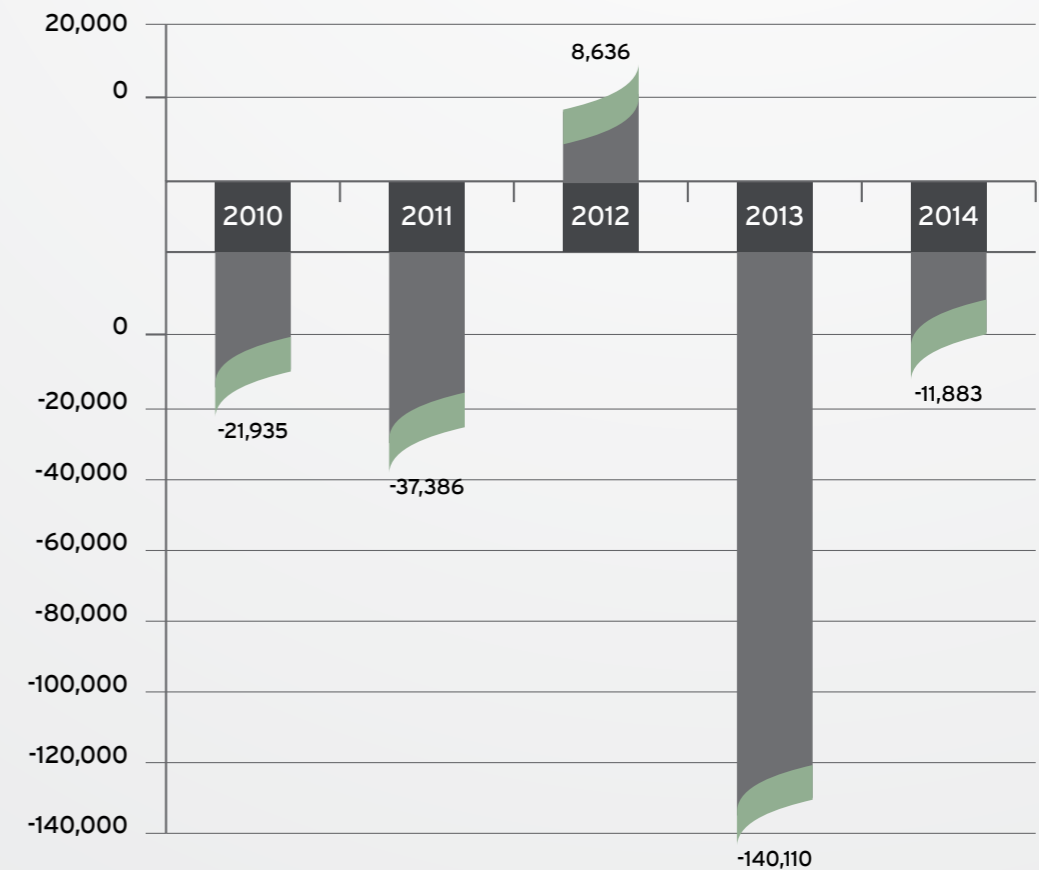
OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

k. Surplus (Deficit) from reinsurance operations

Reinsurance operations before investment returns posted a deficit of SR 11,883 thousand during 2014 as compared with a surplus of SR 140,110 thousand in 2013. This deficit is transferred to the Statement of Shareholders' Operations.

The following figure shows the (deficit/surplus) in reinsurance operations during 2010-2014 (in thousand Saudi Riyals).

Deficit / Surplus in Reinsurance Operations

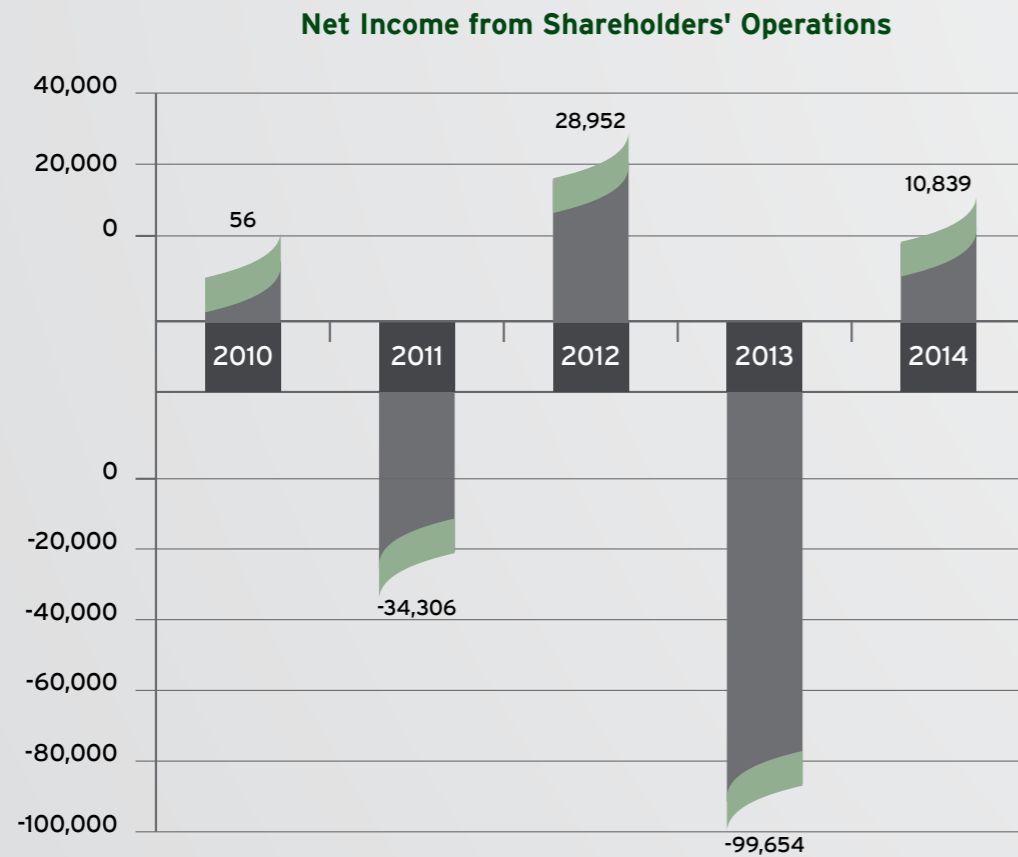


OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

l. Net Income from shareholders' operations

Shareholders' operations recorded an income of SR 10,839 thousand in 2014 as compared with a loss of SR 99,654 thousand in 2013. This is attributed to the increase in net earned premiums by 69% and the increase in policyholders investment income by 392%.

The following diagram indicates total net income from shareholders operations during the period 2010-2014 (in thousand Saudi Riyals).



Statement of Shareholders Operations during the Period 2010-2014

	In Thousand Saudi Riyals				
	2014	2013	2012	2011	2010
Investment Revenues	40,120	54,781	32,658	21,891	24,925
Foreign exchange translation gains / (losses)	(550)	1,124	103	(614)	(2,934)
Other Income	248	-	2,250	-	-
Investment management expenses	(3,077)	(2,311)	(1,841)	(298)	-
General and administrative expenses	(14,947)	(13,309)	(11,279)	(17,917)	-
Board of directors' remunerations, meeting fees and expenses	(1,558)	(335)	(1,327)	(284)	-
Shareholders appropriation from reinsurance operations	(9,397)	(139,604)	8,388	(37,083)	(21,935)
Net Income/(deficit) for the year	10,839	(99,654)	28,952	(34,306)	56

OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)

m. Total comprehensive income/(deficit)

Total comprehensive deficit was SR 4,347 thousand in 2014 as compared with a deficit SR 117,204 thousand in 2013.

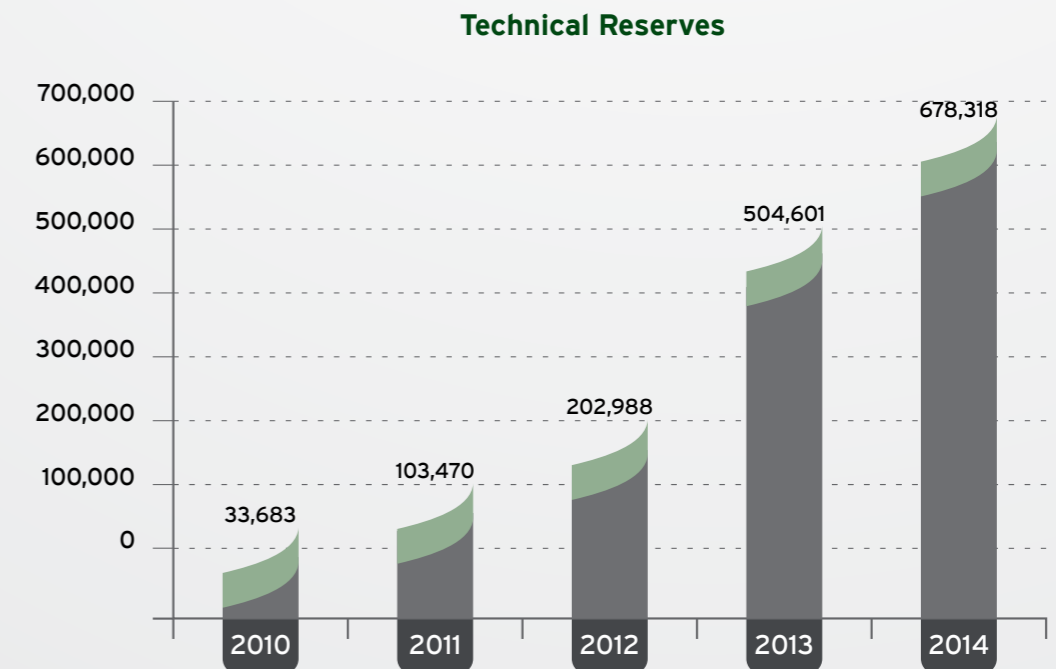
Statement of Shareholders Comprehensive Operations during the Period 2010-2014

	In Thousand Saudi Riyals				
	2014	2013	2012	2011	2010
Net income for the year	10,839	(99,654)	28,952	(34,306)	56
Zakat and income tax	(15,186)	(17,550)	(19,967)	(20,117)	(21,274)
Total comprehensive (deficit) income for the year	(4,347)	(117,204)	8,984	(54,423)	(21,218)

n. Technical reserves

Technical reserves increased by 34% to SR 678,318 thousand in 2014 from SR 504,601 thousand in 2013.

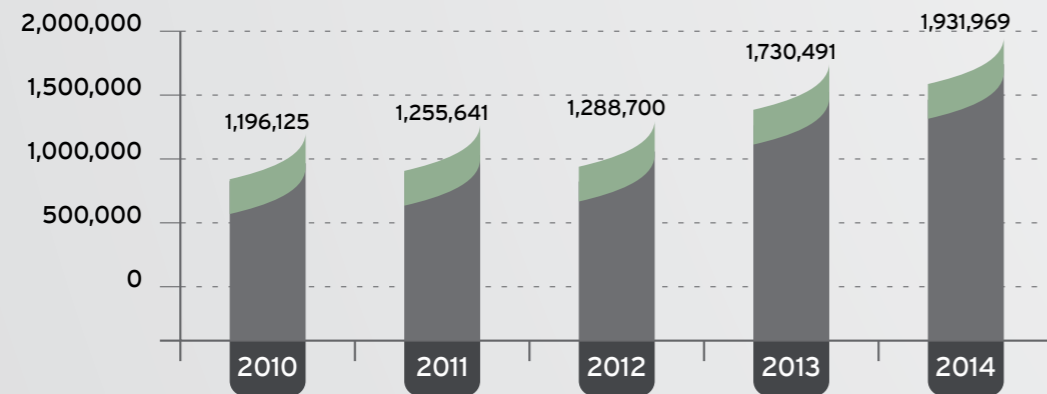
The following diagram depicts the technical reserves during the period 2010-2014 (in thousand Saudi Riyals).



OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)**o. Assets**

Assets increased by 12% to SR 1,931,969 thousand in 2014 from SR 1,730,491 thousand in 2013. Reinsurance operation assets totaled to SR 882,863 thousand in 2014 as against SR 695,077 thousand in 2013, and total shareholders assets were SR 1,049,106 thousand in 2014 as compared with SR 1,035,414 thousand in 2013.

The following diagram depicts assets during the period 2010-2014(in thousand Saudi Riyals).

Assets**p. Subsidiaries and investment activities in them**

The company does not have any subsidiaries inside or outside the Kingdom of Saudi Arabia.

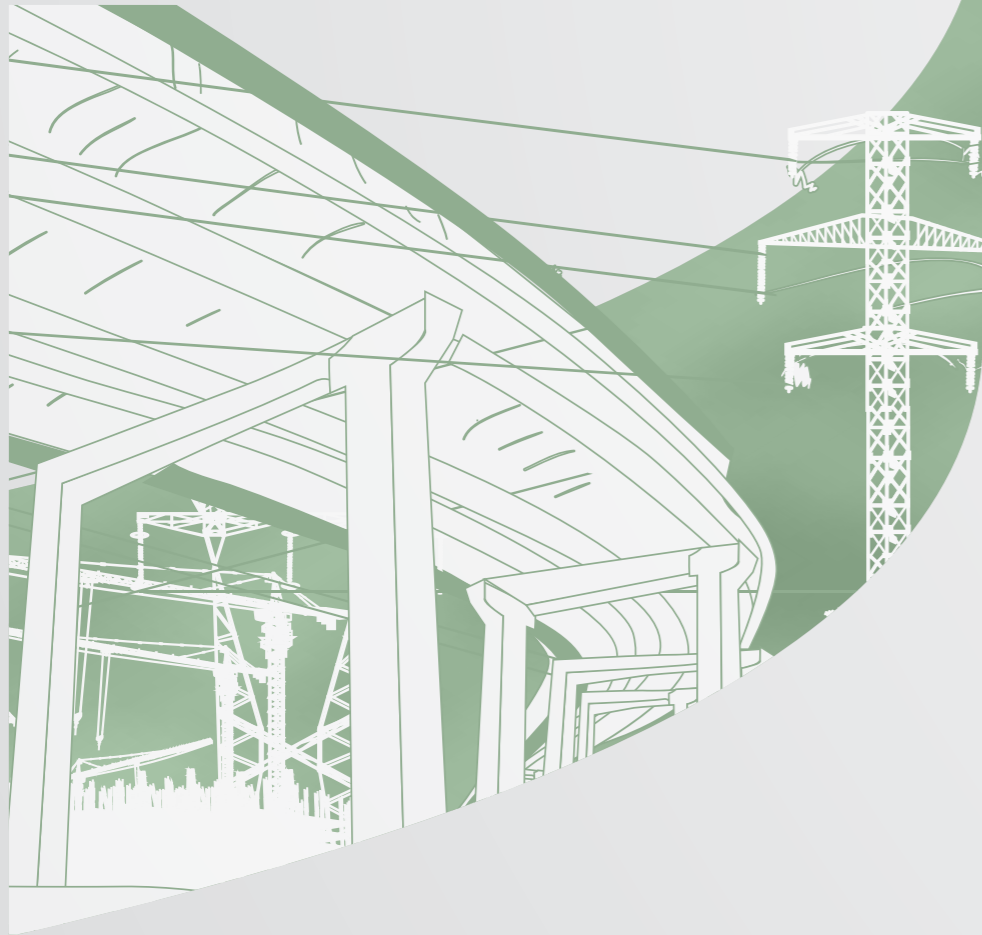
OPERATING RESULTS AND SIGNIFICANT DIFFERENCES (continued)**q. Dividend policy**

Since the Company did not make any profits after zakat and income tax this year, the Company will not pay dividends. The Company dividends policy aims to achieve suitable returns to the Company's shareholders in one or more of the following:

1. Distribution of cash dividends to the shareholders taking into consideration the financial position of the company, solvency margin requirements, available credit lines and the general economic situation.
2. Stock dividends taking into consideration the requirements and conditions related to retained earnings and other stock holder's equity in the balance sheet.
3. Shareholders who are registered at the end of trading on day of the General Assembly at which dividend preminent is approved will be entitled for the dividends.
4. Dividends will be paid in accordance with the dates specified by the Board of Directors.

As per the Company's Article of Association, Dividends will be paid based on a General Resolution on the following steps:

1. Zakat and Income tax will be set aside.
2. 20% of the net profits are set aside to for statutory reserve. The General Assembly may stop allocation to the Statuary Reserve once the reserve is equal to the capital.
3. Subject to General Assembly resolution, the Company may allocate a percentage of the net profit to create an additional reserve to support the financial position of the company.
4. 5% of the remaining profits will be distributed to shareholder as a first payment.
5. The remaining profits will be distributed to the shareholders as Dividends or it may be transferred to the retained earnings.
6. The Board of Directors may decide to pay interim dividends that will be deducted from the annual dividends specified in 4 above in accordance with applicable rules issued by the concerned regulators.



DIRECTORS' REPORT 2014

Obligations, Disclosures and
Declarations according to the regulations

OBLIGATIONS, DISCLOSURES AND DECLARATIONS ACCORDING TO THE REGULATIONS

a. Compliance with Rules and Regulations

In general, the Company complied in 2014 with the laws and regulations applicable in Saudi Arabia. These include:

Laws and regulations issued by CMA.

Laws and regulations issued by SAMA

Zakat and Income Tax Regulations issued by Zakat and Income Tax Department.

Labor Law issued by the Ministry of Labor.

b. Compliance with Corporate Governance Regulations

During 2014, the Company was in compliance with stipulations indicated in the Corporate Governance Regulations except for the following:

Article	Article No.	Reason for non-compliance
Accumulative voting method should be used for electing Board of Directors in the General Assembly Meeting	Article 6 (b)	The Company did not receive the regulatory approval to adapt the new method

c. Composition of the Board of Directors, Director Categories and Memberships in boards of other Joint Stock Companies for Each Director

Based on the General Assembly meeting of May 11th 2014 a new board of directors was elected for a new three-year term, following which the new board of directors appointed the chairman and vice chairman, and restructured the board sub-committees.

Category	Term	Name	Other Joint Stock Companies of which the Directors are Board Members
Non-Executive Director	From 11/05/2014	Mr. Hesham Al-Shaikh Chairman of the Board of Directors	
	Until 11/05/2014	Dr. Salman Al-Sudairy	
Independent Directors	From 11/05/2014	Mr. Mishari Al-Meshari	Saudi Investment Bank Saudi Development Fund
	From 11/05/2014	Mr. Ahmad Sabbagh	Islamic Insurance Company (Jordan) AlAman Takaful S.A.L (Lebanon)
	From 11/05/2014	Mr. Jean-Luc Gourgeon	
	From 11/05/2014	Mr. Hammam Mohammed Badr	Isakan Insurance Company (Egypt)
	From 11/05/2014	Mr. Mansour Al-Bosaily	
	From 11/05/2014	Mr. Ismail Mahbob	
	From 11/05/2014	Mr. Mahmoud J Hassoubah	
Executive Director	From 11/05/2014	Mr. Fahad Al-Hesni	

OBLIGATIONS, DISCLOSURES AND DECLARATIONS ACCORDING TO THE REGULATIONS (continued)

d. Attendance record of board meetings during 2014

Member	1st Meeting 16/02/2014	2nd Meeting 13/04/2014	3rd Meeting 11/05/2014	4th Meeting 13/07/2014	5th meeting 19/10/2014	6th meeting 21/12/2014	Total
Mr. Hesham Al-shaikh	attended	attended	attended	attended	attended	attended	6
Dr. Salman Al-Sudairy	attended	attended	did not attend ¹	did not attend ¹	did not attend ¹	did not attend ¹	2
Mr. Mishari Al-Mishari	attended	attended	attended	attended	did not attend	attended	5
Mr. Ahmad Sabbagh	attended	attended	attended	attended	attended	attended	6
Mr. Jean-Luc Gourgeon	attended	attended	did not attend	attended	attended	attended	5
Mr. Hammam Badr	attended	attended	did not attend	attended	attended	attended	5
Mr. Mansour Al-Bosaily	attended	attended	attended	attended	attended	attended	6
Mr. Ismail Mahbob	attended	attended	did not attend	attended	attended	attended	5
Mr. Mahomoud J. Hassoubah	did not attend ²	did not attend ²	attended	attended	attended	did not attend	3
Mr. Fahad Al-Hesni	attended	attended	attended	attended	attended	attended	6

1) Board membership ended 11/05/2014

2) Joined the Board in 11/05/2014

e. Board committees

e-1 Executive Committee

Committee Responsibilities	Chairman and Members	No. of meetings during the year
Executive Committee provides recommendations to the board with regard to different subjects such as strategic and business plans. The board may delegate its authorities and responsibilities to the Executive Committee.	Chairman: Mr. Hesham Alsheikh Members: Dr. Salman Alsudairy (until 11/05/2014) Mr. Jean-Luc Gourgeon Mr. Mansour Al-Bosaily (from 21/12/2014) Mr. Hammam Badr (from 21/12/2014) Mr. Fahad Alhesni	3

e-2 Audit Committee

Committee Responsibilities	Chairman and Members	No. of meetings during the year
The Audit Committee implements the board's recommendations with regard to supervision of financial reports and assessment of adequacy of internal and external audit processes. The Audit Committee assesses and oversees compliance management processes and internal controls of the company.	Chairman: Mr. Ahmad Sabbagh Members: Mr. Naim Fakhri Aljayyousi Mr. Ali Saeed Alqahtani	6

OBLIGATIONS, DISCLOSURES AND DECLARATIONS ACCORDING TO THE REGULATIONS (continued)

e-3 Nomination and Remuneration Committee

Committee Responsibilities	Chairman and Members	No. of meetings during the year
Nomination and Remuneration Committee assumes several responsibilities including recommending to the board of nominees for membership based on adopted policies and criteria, annual review of board membership requirement, examining the board structure and recommending the proposed changes, ensuring independence of board members and non-existence of conflict of interests, setting up clear policies for compensation of board members and senior executives.	<p>Chairman: Mr. Mishari Almishari</p> <p>Members: Mr. Mansour Albusaily Mr. Hammam Badr</p>	2

e-4 Investment Committee

Committee Responsibilities	Chairman and Members	No. of meetings during the year
Investment Committee is responsible for overseeing the management of investment portfolio of the company, and design, establishment and execution of the investment policies.	<p>Chairman: Mr. Hesham Alsheikh</p> <p>Members: Mr. Fahad Alhesni Dr. Salman Alsudairy (until 11/05/2014) Mr. Mishari Almishari Mr. Mahmoud J Hassoubah (From 11/05/2014)</p>	3

e-5 Risk and Underwriting Committee

Committee Responsibilities	Chairman and Members	No. of meetings during the year
The Risk and Underwriting Committee oversees the risk management and underwriting activities of the Company on behalf of the Board. Key responsibilities include designing the risk management strategy in consistence with the company's commitments to shareholders and regulatory requirements, approving underwriting policies and guidelines, as well as defining the company's risk tolerance and risk appetite.	<p>Chairman: Mr. Jean -Luc Gougeon</p> <p>Members: Mr. Fahad Alhesni Mr. Hammam Badr Mr. Ismail Mahbob</p>	6

f. Interests of board members, their wives, dependents and their subsidiaries in shares and debt instruments of the company.

The board members, their wives and dependents or any of their subsidiaries do not have any interests in shares or debt instruments of the company other than the shareholdings mentioned in 'i' below.

g. Persons with interests in any voting shares who has informed the company of such rights.

No person with interests in voting rights on any category of shares has notified the company of such interests.

h. Description of any investments or reserves established by the company for the benefit of its employees.

The Company has not made any investments or reserves for the benefit of its employees.

OBLIGATIONS, DISCLOSURES AND DECLARATIONS ACCORDING TO THE REGULATIONS (continued)

i. Shareholding percentage of board members and Senior Executives

Name	Number of shares and debt instruments at the beginning of the year	Percentage of ownership at the beginning of the year	Net change in the number of shares during the year	Percentage of change during the year	Total shares held at year end	Percentage of holding at year end
Mr. Hesham Al-shaikh and his family (Chairman).	10,000	0.010%	0	0	10,000	0.010%
Dr. Salman Al-Sudairy and his family (board member).	5,000	0.005%	0	0	5,000	0.005%
Mr. Mishari Al-Mishari and his family (board member).	5,000	0.005%	0	0	5,000	0.005%
Mr. Ahmad Sabbagh and his family (board member).	400,000	0.40%	0	0	400,000	0.40%
Mr. Jean-Luc Gougeon and his family (board member).	0	0	0	0	0	0
Mr. Mansour Al-Bosaily and his family (board member).	992,617	0.99%	921,500	92,8%	71,117	0.07%
Mr. Ismail Mahbob and his family (board member).	0	0	0	0	0	0
Mr. Fahad Al-Hesni and his family (executive board member).	1,500	0.0015%	0	0	1,500	0.0015%
Mr. Hammam Badr and his family (board member).	0	0	0	0	0	0
Mahmoud J Hassoubah and his family (board member).	130,000	0.13%	95,000	73%	35,000	0.035%

OBLIGATIONS, DISCLOSURES AND DECLARATIONS ACCORDING TO THE REGULATIONS (continued)

j. Remunerations of the board members and senior executives

	In thousand Saudi Riyals		
	BOD Members (Executives)	BOD Members (Non-Executive & Independent)	5 top Executives including CEO & CFO
Salaries & Benefits	-	-	6,753
Annual compensation	120	900	700
Meeting Fees & Expenses	36	502	-
Consultancy fees	-	383	-
Benefits in kind granted monthly or yearly	-	-	-
TOTAL	156	1,821	7,453

k. Material contracts in which board members have interests

A consultancy services contract as arranged with Mr. Jean-Luc Gourgeon with an amount of SR 383,376 for one year. Also, a reinsurance treaty for one year was made with the Islamic Insurance Company in Jordan with an amount of SR 2,684,870 and a reinsurance treaty for one year was made with AlAman Takaful Insurance S.A.L. in Lebanon with an amount of SR 110,730 which are both represented by Mr. Ahmed Sabbagh as a board member. In addition, a reinsurance treaty for one year was made with Iskan Insurance Company in Egypt with an amount of SR 2,268,637 which is represented by Mr. Hammam Badr as chairman of the board of directors. The transactions were applied based on the approved underwriting guidelines.

l. Internal control systems in the Company

The internal control system intends to ensure that control and monitoring tools are in place to ensure, at reasonable level, the soundness of financial reports and mitigation of risks. The results of the annual audit conducted by the external auditor have not revealed any deficiency or weakness in the company's internal control system.

m. Statement of regulatory payments

Description	2014
	In thousand Saudi Riyals
Zakat and Income Tax	12,929
With-holding Tax	858
Tadawul fees	400
General Organization for Social Insurance (GOSI)	1,350
SAMA's control and inspection costs	2,100
Visas and passports related costs	60
Others	19
Total	17,716

OBLIGATIONS, DISCLOSURES AND DECLARATIONS ACCORDING TO THE REGULATIONS (continued)

n. External auditors

The ordinary general assembly convened on 11/05/2014 approved the board's recommendation to appoint M/s Ernst & Young and M/s Al-Bassam & Al-Nemer Allied Accountants to act jointly as external auditors of the company for the year ending 31/12/2014.

o. Accounting standards adopted in financial statements

The company applies the international accounting standards (IFRS) rather than the standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) after securing the approval of SAMA. This has not resulted in any substantial differences in measurements in financial statements. The audit report indicated that the company's financial statements have been prepared in accordance with the internationally recognized accounting standards relating to financial reporting, not SOCPA standards. The reasons were explained in the notes to the financial statements.

p. Declarations

The company declares:

- It has no loans - payable on call or otherwise, and the Company has not repaid any loans during the year ended 31/12/2014.
- It has no debt instruments transferable to shares, options; rights issue notes, or other rights issued by the Company during the financial year ended 31/12/2014.
- It has no transformation rights or offering under debt instruments transferrable to shares, options, rights issue notes, or any similar rights issued or granted by the Company during 2014.
- The Company has not redeemed, acquired or revoked from its part any recoverable debts instruments and value of the remaining securities.
- During 2014, the Company has not been a party in any contract or in which there has been a substantial interest for the CEO, CFO or any person related to them.
- There have not been any arrangements or agreement under which any board member or senior executive has assigned any salary or compensation.
- There have not been any arrangements or agreement under which one of the Company's shareholders has assigned any of his rights in profits.
- The Company was fined of an amount of SAR 20,000 by the Capital Market Authority for breach of article 40a of the Listing Rules for announcing incorrect information in the announcement of the interim financial statements pertaining to the financial year ending 31/12/2013, and the company issued a corrective announcement carrying the correct information.
- The Company was fined of an amount of SAR 13,166 by the Saudi Arabian Monetary Agency for due to delay in paying the supervision fees which deadline coincided with the Eid AlAdha holidays.

The company further declares that:

- Its accounting books have been prepared properly.
- Its internal control system has been prepared on sound bases and implemented effectively.
- There is no doubt as to the company's ability to continue in its business.

Conclusion

The board of directors extends appreciation and thanks to our valued customers for their trust and to all of our shareholders whose contributions play a significant role in developing the company. The board also extends its appreciation to the company's management and staff for their wholehearted efforts during the year which contributed to the progress of the company.



SAUDI REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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



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

Scope of audit:

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

Emphasis of a matter:

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

Ernst & Young
P. O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354



3 Jumad Awal 1436H
(22 February 2015)

PKF Al-Bassam & Al-Nemer
Allied Accountants

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

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



STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 SR	2013 SR
REINSURANCE OPERATIONS' ASSETS			
Cash and bank balances	7	1,454,864	5,268,638
Time deposits	15	13,125,000	-
Premium receivables, net	8	112,739,098	70,492,623
Investments held at fair value through income statement	9	124,911,737	95,329,159
Accrued insurance premiums		220,186,253	164,869,180
Retroceded share of outstanding claims	10	105,139,646	104,888,575
Prepaid expenses and other assets	11	28,113,134	1,069,002
Due from shareholders' operations		188,019,813	173,315,949
Retroceded share of unearned premiums	12	2,080,440	2,344,151
Deferred acquisition costs	13	63,512,581	54,445,929
Deferred excess of loss premiums		17,311,815	15,716,948
Property and equipment, net	14	6,269,040	7,337,119
TOTAL REINSURANCE OPERATIONS' ASSETS		882,863,421	695,077,273
SHAREHOLDERS' ASSETS			
Cash and bank balances	7	2,567,730	85,673,516
Time deposits	15	24,000,000	37,500,000
Accrued special commission income from time deposits		70,035	1,040,241
Accrued special commission income from bonds and sukuk		3,703,766	3,295,158
Investments held at fair value through income statement	9	732,671,564	595,179,554
Held to maturity investments	16	145,470,427	173,995,409
Prepaid expenses and other assets	11	7,100,713	5,738,119
Statutory deposit	27	100,000,000	100,000,000
Property and equipment ,net	14	33,521,502	32,991,742
TOTAL SHAREHOLDERS' ASSETS		1,049,105,737	1,035,413,739
TOTAL ASSETS		1,931,969,158	1,730,491,012

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2014

	Notes	2014 SR	2013 SR
REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Accounts payable		22,617,656	8,143,048
Retrocession balances payable		4,173,060	7,615,523
Accrued retroceded premiums		1,129,253	4,463,127
Gross unearned premiums	12	238,458,639	215,025,067
Gross outstanding claims	10	609,842,291	424,276,504
Premium deficiency reserve	6	-	26,167,000
Unearned commission income	17	749,782	810,894
Accrued expenses and other liabilities	18	2,479,662	5,923,389
Employees' end of service benefits		2,481,001	1,720,644
TOTAL REINSURANCE OPERATIONS' LIABILITIES		881,931,344	694,145,196
REINSURANCE OPERATIONS' SURPLUS			
Accumulated surplus		932,077	932,077
TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS		882,863,421	695,077,273
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accounts payable		-	500,000
Provision for zakat and income tax	20	35,441,642	33,184,598
Due to reinsurance operations		188,019,813	173,315,949
Accrued expenses and other liabilities	18	8,219,064	6,641,169
TOTAL SHAREHOLDERS' LIABILITIES		231,680,519	213,641,716
SHAREHOLDERS' EQUITY			
Share capital	21	1,000,000,000	1,000,000,000
Statutory reserve	22	6,070,924	6,070,924
Accumulated deficit		(188,645,706)	(184,298,901)
TOTAL SHAREHOLDERS' EQUITY		817,425,218	821,772,023
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		1,049,105,737	1,035,413,739
TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY		1,931,969,158	1,730,491,012

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the year ended 31 December 2014

	Notes	2014 SR	2013 SR
Gross written premiums	12	556,290,140	420,086,336
Retroceded premiums	12	(6,101,192)	(6,449,199)
Excess of loss expenses		(35,594,574)	(27,816,762)
Net written premiums		514,594,374	385,820,375
Change in net unearned premiums	12	(23,697,283)	(96,057,808)
Net earned premiums		490,897,091	289,762,567
Net claims paid	29,10	(215,695,818)	(98,159,195)
Change in net outstanding claims	10	(185,314,716)	(202,097,626)
Net claims incurred		(401,010,534)	(300,256,821)
Gross acquisition costs	13	(103,811,400)	(83,330,181)
Commissions on retroceded business	17	1,948,180	3,437,425
Supervision and inspection fees		(2,781,451)	(2,100,432)
Net acquisition costs		(104,644,671)	(81,993,188)
Change in premium deficiency reserve	6	26,167,000	(26,167,000)
Net underwriting results		11,408,886	(118,654,442)
Special commission income from time deposits		70,001	-
Realized gains on investments held at fair value through income statement	9	225,850	38,659
Unrealized gains on investments held at fair value through income statement	9	2,430,636	657,960
Other income		59,100	102,639
Investment management expenses		(240,395)	(191,040)
General and administrative expenses	23	(23,351,086)	(21,558,264)
Net deficit from reinsurance operations	28	(9,397,008)	(139,604,488)
Shareholders' appropriation from reinsurance operations' deficit		9,397,008	139,604,488
Reinsurance operations' surplus after shareholders' appropriation		-	-
Accumulated surplus at the beginning of the year		932,077	932,077
Accumulated surplus at the end of the year		932,077	932,077

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2014

	Notes	2014 SR	2013 SR
Special commission income from time deposits		842,499	1,912,501
Special commission income from bonds and sukuk		8,369,809	9,492,217
Realized gains on investments held at fair value through income statement	9	1,281,183	1,676,523
Unrealized gains on investments held at fair value through income statement	9	29,626,814	41,700,233
Other income		248,129	-
Total revenues		40,368,434	54,781,474
General and administrative expenses	23	(14,947,416)	(13,308,766)
Investment management expenses		(3,076,970)	(2,311,140)
Board of directors' remuneration, meeting fees and expenses	24	(1,558,388)	(335,465)
Foreign exchange translation (losses)/gains		(549,778)	1,124,223
Shareholders' appropriation from reinsurance operations' deficit		(9,397,008)	(139,604,488)
Net income (loss) for the year		10,838,874	(99,654,162)
Basic and diluted earnings (loss) per share for the year	26	0.108	(0.997)
Weighted average number of issued and outstanding shares		100,000,000	100,000,000

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS

For the year ended 31 December 2014

	Notes	2014 SR	2013 SR
Net income (loss) for the year		10,838,874	(99,654,162)
Other comprehensive loss:			
Items not to be reclassified subsequently to the income statement of shareholders' operations			
Zakat and income tax	20	(15,185,679)	(17,549,462)
Total comprehensive loss for the year		(4,346,805)	(117,203,624)

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	Notes	GCC Shareholders and General Public			Non - GCC Shareholders			Total			Total SR
		Share capital SR	Statutory reserve SR	Accumulated deficit SR	Share capital SR	Statutory reserve SR	Retained earnings/ (accumulated deficit) SR	Share capital (Note 21) SR	Statutory reserve SR	Accumulated deficit SR	
Balance as at 1 January 2013		941,000,000	5,712,740	(67,600,389)	59,000,000	358,184	505,112	1,000,000,000	6,070,924	(67,095,277)	938,975,647
Transfer during the year		35,578,000	215,991	304,591	(35,578,000)	(215,991)	(304,591)	-	-	-	-
Net loss for the year		-	-	(97,322,255)	-	-	(2,331,907)	-	-	(99,654,162)	(99,654,162)
Other comprehensive loss											
Zakat and income tax	20	-	-	(17,549,462)	-	-	-	-	-	(17,549,462)	(17,549,462)
Total comprehensive loss for the year		-	-	(114,871,717)	-	-	(2,331,907)	-	-	(117,203,624)	(117,203,624)
Balance as at 31 December 2013		976,578,000	5,928,731	(182,167,515)	23,422,000	142,193	(2,131,386)	1,000,000,000	6,070,924	(184,298,901)	821,772,023
Balance as at 1 January 2014		976,578,000	5,928,731	(182,167,515)	23,422,000	142,193	(2,131,386)	1,000,000,000	6,070,924	(184,298,901)	821,772,023
Transfer during the year		(2,426,000)	(14,728)	(2,440,728)	2,426,000	14,728	2,440,728	-	-	-	-
Net income for the year		-	-	10,558,711	-	-	280,163	-	-	10,838,874	10,838,874
Other comprehensive loss											
Zakat and income tax	20	-	-	(15,185,679)	-	-	-	-	-	(15,185,679)	(15,185,679)
Total comprehensive (loss) income for the year		-	-	(4,626,968)	-	-	280,163	-	-	(4,346,805)	(4,346,805)
Balance as at 31 December 2014		974,152,000	5,914,003	(189,235,211)	25,848,000	156,921	589,505	1,000,000,000	6,070,924	(188,645,706)	817,425,218

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF REINSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 SR	2013 SR
OPERATING ACTIVITIES			
Reinsurance operations' surplus after shareholders' appropriation		-	-
Adjustments for:			
Employees' end of service benefits		1,099,217	606,023
Depreciation	14	2,082,527	1,220,037
Realized gains on investments held at fair value through income statement	9(iv)	(225,850)	(38,659)
Unrealized gains on investments held at fair value through income statement	9(iv)	(2,430,636)	(657,960)
Losses from disposal of property and equipment		791,508	-
Shareholders' appropriation from reinsurance operations' deficit		(9,397,008)	(139,604,488)
Operating loss before changes in operating assets and liabilities		(8,080,242)	(138,475,047)
Changes in operating assets and liabilities:			
Premiums receivable, net		(42,246,475)	(42,884,999)
Accrued insurance premiums		(55,317,073)	(72,968,315)
Retroceded share of outstanding claims	10	(251,071)	(62,765,471)
Prepaid expenses and other assets		(27,044,132)	(101,058)
Retroceded share of unearned premiums	12	263,711	3,411,450
Deferred acquisition costs		(9,066,652)	(21,939,467)
Deferred excess of loss premiums		(1,594,867)	(4,124,157)
Accounts payable		14,474,608	3,374,859
Retrocession balances payable		(3,442,463)	4,349,906
Accrued retroceded premiums		(3,333,874)	219,697
Gross unearned premiums	12	23,433,572	92,646,358
Gross outstanding claims	10	185,565,787	264,863,097
Premium deficiency reserve	6	(26,167,000)	26,167,000
Unearned commission income		(61,112)	(769,661)
Accrued expenses and other liabilities		(3,443,727)	(4,101,974)
Cash from operations		43,688,990	46,902,218
Employees' end of service benefits paid		(338,860)	(247,594)
Net cash from operating activities		43,350,130	46,654,624

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF REINSURANCE OPERATIONS' CASH FLOWS (conti.)

For the year ended 31 December 2014

	Notes	2014 SR	2013 SR
INVESTING ACTIVITIES			
Purchase of property and equipment	14	(1,838,954)	(3,254,091)
Proceeds from disposal of property and equipment		32,998	-
Additions to investments held at fair value through income statement	9(iv)	(83,847,393)	(60,268,130)
Proceeds from investments held at fair value through income statement	9(iv)	56,921,301	48,879,720
Time deposits, net		(13,125,000)	-
Net cash used in investing activities		(41,857,048)	(14,642,501)
FINANCING ACTIVITY			
Due from shareholders' operations		(5,306,856)	(27,326,335)
Cash used in financing activity		(5,306,856)	(27,326,335)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(3,813,774)	4,685,788
Cash and cash equivalents at the beginning of the year		5,268,638	582,850
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,454,864	5,268,638

The accompanying notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 SR	2013 SR
OPERATING ACTIVITIES			
Net income (loss) for the year		10,838,874	(99,654,162)
Adjustments for:			
Depreciation	14	683,544	-
Realized gains on investments held at fair value through income statement	9(iv)	(1,281,183)	(1,676,523)
Unrealized gains on investments held at fair value through income statement	9(iv)	(29,626,814)	(41,700,233)
Shareholders' appropriation from reinsurance operations deficit		9,397,008	139,604,488
Operating deficit before changes in operating assets and liabilities		(9,988,571)	(3,426,430)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		(1,362,594)	(1,455,534)
Accounts payable		(500,000)	(500,000)
Accrued expense and other liabilities		1,577,895	2,358,584
Zakat and income tax paid	20(c)	(12,928,635)	(14,451,676)
Net cash used in operating activities		(23,201,905)	(17,475,056)
INVESTING ACTIVITIES			
Purchase of property and equipment	14	(1,213,304)	(3,207,742)
Proceeds from investments held at fair value through income statement	9(iv)	153,261,010	136,069,250
Accrued special commission income from time deposits		970,206	(562,501)
Accrued special commission income from bonds and sukuk		(408,608)	(15,186)
Additions to investments held at fair value through income statement	9(iv)	(259,845,023)	(242,129,034)
Time deposits, net		37,500,000	150,000,000
Held to maturity investments		28,524,982	35,052,097
Net cash (used in) from investing activities		(41,210,737)	75,206,884
FINANCING ACTIVITY			
Due to reinsurance operations		5,306,856	27,326,335
Cash from financing activity		5,306,856	27,326,335
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(59,105,786)	85,058,163
Cash and cash equivalents at the beginning of the year		85,673,516	615,353
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		26,567,730	85,673,516

The accompanying notes 1 to 32 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2014

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Reinsurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010250125 dated 12 Jumad Al-Awal 1429H (corresponding to 17 May 2008) with a branch in the Federal Territory of Labuan, Malaysia with license number IS2014146. The address of the Company's registered office is at P.O. Box 30025, Riyadh 11372, Al Wadi, Northern Ring Road West, Exit 7, Building 4130, Riyadh, Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative reinsurance and related activities inside and outside the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

Basis of measurement

The financial statements have been prepared on the historical cost basis, modified to include the measurement at fair value of investments held at fair value through income statement.

Functional and presentational currency

The financial statements are presented in Saudi Arabian Riyals being the functional currency of the Company.

3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The accounting and risk management policies used in the preparation of this year's financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2013 except for the amendments made in the following standards which have been revised during the year 2014 and new standards effective from 1 January 2014:

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company.

Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company held no derivatives during the current or prior periods.

IFRIC 21 Levies

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

New standards issued but not yet effective:

The relevant standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

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

New standard issued but not yet effective: (continued)

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 1 January 2018, with early application 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 1 February 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.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Company.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements 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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

The Company maintains separate books of account for the reinsurance and shareholders' operations. Income and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by Management and the Board of Directors.

The Company is required to distribute 10% of the net surplus from reinsurance operations to policyholders and the remaining 90% to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by SAMA. Any deficit arising on insurance operations is transferred to the shareholders' operations in full.

Retrocession

The Company uses retrocession agreements to increase its aggregate underwriting capacity, and to reduce its exposure to catastrophic losses on risks assumed. The ceding of risk to retrocessionaires does not relieve the Company from its direct obligations to its ceding companies.

An impairment review of amounts recoverable under retrocession agreements is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the retrocessionaire can be measured reliably. The impairment loss is recorded in the statement of reinsurance operations and accumulated surplus.

Premiums and claims are presented on a gross basis for both assumed reinsurance and retroceded business.

Retroceded assets and liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Cash and cash equivalents

For cash flow purposes, cash and cash equivalents comprise of cash in hand, cash at banks and time deposits with a maturity of three months or less at the date of original acquisition.

Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are expensed when incurred.

Subsequent to initial recognition, deferred costs are amortized using the same basis as for unearned premiums. Amortization is recorded in the statement of reinsurance 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 value an impairment loss is recognized in the statement of reinsurance operations and accumulated surplus. DAC is also considered in the liability adequacy test for each reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and any impairment in value. When significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in statement of income as incurred. Freehold land and capital work in progress are not depreciated. The cost of all other property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets as follows:

Building	33 Years
Computers and equipment	3-5 Years
Furniture and fixtures	5 Years
Motor vehicles	4 Years
Leasehold improvements	10 Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of these assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of reinsurance operations and accumulated surplus or the statement of shareholders' operations or taken into income in the year the asset is derecognised.

Impairment and un-collectability of financial assets

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

Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of reinsurance operations and accumulated surplus or the statement of shareholders' operations;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective special commission rate.

Gross written premiums

Gross written premiums comprise of total premiums in relation to contracts incepting during the financial year irrespective of whether they relate in whole or in part to a later accounting period. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Company at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premiums earned and commission income

Premiums and commission income are taken into income over the periods to which they relate to cover the reinsurance risk. Unearned premiums and commission income represent the portion of premiums written and commission income relating to the unexpired period of coverage and is deferred based on the following methods:

- For proportional reinsurance treaties under consideration of the underlying exposure in relation to the line of business as follows:

Line of business	Years
Engineering	4
Others	2

- Actual number of days for facultative reinsurance and non-proportional reinsurance treaties and portfolio transferred from insurance companies.

The change in the provision for unearned premiums and commission income is taken to the statement of reinsurance operations and accumulated surplus in order to recognize revenue over the period to cover the reinsurance risks.

Claims

Claims, comprising amounts payable to ceding companies under reinsurance contracts and related loss adjustment expenses, net of recoveries and are charged to income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the balance sheet date whether reported or not. Provisions for reported claims not paid as at the balance sheet date are made on the basis of individual case estimates. In addition, a provision based on Management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date.

Any difference between the provisions at the statement of financial position date and settlements and provisions for the subsequent year is included in the underwriting account for that year.

Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the reinsurance contracts liabilities net of related deferred 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 reinsurance operations and accumulated surplus initially by writing off related deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Premiums receivable

Premiums receivable are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of reinsurance operations and accumulated surplus. Premiums receivable are derecognized when the derecognition criteria for financial assets have been met.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts payable and accruals

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

Special commission income

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

Investments held at fair value through income statement

Investments held at fair value through income statement are investments designated at fair value through income statement at inception. For investments designated as fair value through income statement, the following criteria must be met:

- This designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on a different basis, or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, such assets and liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are measured at fair value.

Fair value adjustments and realised gains and losses are recognized in the statement of reinsurance operations and accumulated surplus and the statement of shareholders' operations.

Held to maturity investments

Investments with fixed or determinable payments whereby the Company has the positive intention and ability to hold till maturity are measured, after acquisition, at amortized cost less impairment in its value. The amortized cost is computed taking into consideration the discount or the premium at the acquisition date. Income or loss resulting from these investments is recognized in the statement of shareholders' operations upon derecognizing these investments or impairment in their value.

Employees' 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 Labour Regulations on termination / end of their employment contracts. The liability is calculated as 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 the Kingdom of Saudi Arabia.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the respective statements of reinsurance operations and accumulated surplus or shareholders' operations.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian Zakat and Tax Regulations. As per the Company's by-laws, Zakat and income tax charge is transferred to the shareholders. Accordingly income tax is charged to Non-GCC shareholders' equity account while the zakat is charged to the GCC shareholders and general public equity account.

Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting financial assets and financial liabilities

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 realise the assets and settle the liability simultaneously. Income and expense is not offset in the statements of reinsurance operations and accumulated surplus and shareholders' operations unless required or permitted by any accounting standard or interpretation.

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.

Segmental reporting

A segment is a distinguishable component of the Company that is engaged either in providing services (a business segment) or in providing services within a particular economic environment (a geographic segment), which is subject to its income and losses 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 six main reportable segments as follows:

- Engineering is a comprehensive insurance cover that is available to the insured in respect of contingencies which may happen on a construction or erection site. It provides an all risks cover for the works as well as a liability cover towards third parties for material damage or injury sustained as a result of the work being undertaken. The cover is also available for machinery.
- Fire insurance pays for specific losses when a property is damaged to due to fire, flood, earthquake and other external perils. It may also provide indemnity for loss of profit in case of an industrial or commercial activity.
- Marine insurance covers the loss or damage to cargo, terminals and or damage of ships or other means of transport of cargo by which property is transferred between the points of origin and final destination
- Motor insurance pays for loss or damage to own motor vehicles involved in accidents. It also pays for losses caused by its use to third party properties and bodily injuries
- Life insurance is used as a means to provide financial aid for dependents in case of death and in certain cases illness or disability. It can be an individual or a group policy.
- General accident covers a variety of events/properties such as money, liabilities and personal accident whether for individual or group.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements.

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires Management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

The ultimate liability arising from claims made under reinsurance contracts

The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that are needed 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 prior to the statement of financial position date. The primary technique adopted by 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.

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.

Deferred acquisition costs

Certain acquisition costs related to the incoming reinsurance contracts are recorded as deferred acquisition costs (DAC) and are amortized in the statement of reinsurance operations and accumulated surplus over the related period of the contracts.

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 principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)**Fair Values of financial instruments (continued)**

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Investment Committee, in conjunction with the Company's external valuers, compares the changes in the fair value of each investment asset with relevant external sources to determine whether the change is reasonable.

The Risk and Underwriting Committee, in conjunction with the Company's external actuaries, compares the changes in the technical reserves, to determine whether the change is reasonable.

The Audit Committee, in conjunction with the company's management, compares the changes in fair value of each of the other assets and liabilities, to determine whether the change is reasonable.

6. TECHNICAL RESERVES

During 2013, based on recommendations from the external actuary of the Company and the insurance regulator, the management of the Company has changed the basis of determining the technical reserves due to availability of new information and after considering longer historical experience. During the current year all the technical reserves have been determined by using the same basis as the previous year.

7. CASH AND BANK BALANCES

	2014		2013	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Cash in hand	13,461	-	970	-
Cash at bank	1,441,403	2,567,730	5,267,668	85,673,516
	1,454,864	2,567,730	5,268,638	85,673,516

Cash at banks are placed with counterparties that have good credit ratings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

8. PREMIUMS RECEIVABLE, NET

	2014 SR	2013 SR
Premiums receivable	116,296,386	72,815,780
Less: Provision for doubtful debts	(3,557,288)	(2,323,157)
	112,739,098	70,492,623

The movement of provision for doubtful debts is as follows

	2014 SR	2013 SR
Opening balance	2,323,157	2,323,157
Charge for the year	1,234,131	-
Closing balance	3,557,288	2,323,157

As at 31 December, the ageing of gross premiums receivable is as follows:

	Neither past due nor impaired SR	Past due but not impaired			Past due and impaired SR	Total SR
		Less than 90 days SR	91 to 180 days SR	Above 180 days SR		
2014	39,842,894	3,838,906	33,305,406	35,751,892	3,557,288	116,296,386
2013	53,298,332	4,181,029	9,313,122	3,700,133	2,323,164	72,815,780

9. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT

(i) Investments held at fair value through income statement consist of the following:

	2014		2013	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Funds	73,769,574	197,150,944	95,329,159	234,236,625
Equity Portfolios	-	185,778,294	-	164,109,001
Bond Portfolios	51,142,163	309,705,257	-	156,796,858
Sukuk	-	40,037,069	-	40,037,070
	124,911,737	732,671,564	95,329,159	595,179,554

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

9. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

(ii) As at 31 December 2014 and 31 December 2013, all financial instruments under reinsurance operations which are fair valued are quoted.

(iii) The analysis of the composition of investments for shareholders' operations is as follows:

	2014		
	Quoted SR	Unquoted SR	Total SR
Funds	172,150,944	25,000,000	197,150,944
Equity Portfolios	185,778,294	-	185,778,294
Bond Portfolios	309,705,257	-	309,705,257
Sukuk	-	40,037,069	40,037,069
	667,634,495	65,037,069	732,671,564

	2013		
	Quoted SR	Unquoted SR	Total SR
Funds	209,236,625	25,000,000	234,236,625
Equity Portfolios	164,109,001	-	164,109,001
Bond Portfolios	156,796,858	-	156,796,858
Sukuk	-	40,037,070	40,037,070
	530,142,484	65,037,070	595,179,554

As at 31 December 2014 and 31 December 2013, all financial instruments under reinsurance operations which are measured at fair value are Level 1 instruments. The following table shows an analysis of financial instruments under shareholders' operations measured at fair value by level of the fair value hierarchy:

	2014			Total SR
	Level 1 SR	Level 2 SR	Level 3 SR	
Funds	172,150,944	-	25,000,000	197,150,944
Equity Portfolios	185,778,294	-	-	185,778,294
Bond Portfolios	309,705,257	-	-	309,705,257
Sukuk	-	40,037,069	-	40,037,069
	667,634,495	40,037,069	25,000,000	732,671,564

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

9. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

	2013			Total SR
	Level 1 SR	Level 2 SR	Level 3 SR	
Funds	209,236,625	-	25,000,000	234,236,625
Equity Portfolios	164,109,001	-	-	164,109,001
Bond Portfolios	156,796,858	-	-	156,796,858
Sukuk	-	40,037,070	-	40,037,070
	530,142,484	40,037,070	25,000,000	595,179,554

There were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements during the year ended 31 December 2014 and year ended 31 December 2013.

(iv) The movement of investments held at fair value through income statement is as follows:

	2014 SR		2013 SR	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Opening balance	95,329,159	595,179,554	83,244,130	445,743,014
Additions	83,847,393	259,845,023	60,268,130	242,129,034
Disposals	(56,921,301)	(153,261,010)	(48,879,720)	(136,069,250)
Unrealized gains	2,430,636	29,626,814	657,960	41,700,233
Realized gains	225,850	1,281,183	38,659	1,676,523
Closing balance	124,911,737	732,671,564	95,329,159	595,179,554

Investments under reinsurance and shareholders' operations include SR 6.7 million and SR 20 million respectively as at 31 December 2014 (31 December 2013: SR 12.3 million and SR 4.2 million respectively) comprising of cash deposits with reputable banks. These funds are placed by the Company with the assets managers and are independently operated by them. These funds are expected to be invested in the subsequent period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

10. OUTSTANDING CLAIMS

	2014		
	Gross SR	Retroceded Share SR	Net SR
Opening balance	424,276,504	(104,888,575)	319,387,929
Outstanding claims provided during the year	102,659,489	24,868,879	127,528,368
Claims incurred but not reported provided during the year	82,906,298	(25,119,950)	57,786,348
Change in outstanding claims	185,565,787	(251,071)	185,314,716
Closing balance	609,842,291	(105,139,646)	504,702,645

	2013		
	Gross SR	Retroceded Share SR	Net SR
Opening balance	159,413,407	(42,123,104)	117,290,303
Outstanding claims provided during the year	176,411,587	(63,856,633)	112,554,954
Claims incurred but not reported provided during the year	88,451,510	1,091,162	89,542,672
Change in outstanding claims	264,863,097	(62,765,471)	202,097,626
Closing balance	424,276,504	(104,888,575)	319,387,929

The appointed external actuary of the Company has recommended a range of reasonable best estimates of the Company's gross and net claims reserves as at 31 December 2014. As per the actuary any reserve within this range would be considered as a reasonable best estimate. The booked reserves of the Company lie within the range recommended.

11. PREPAID EXPENSES AND OTHER ASSETS

	2014		2013	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Refundable deposits	27,023,542	-	-	-
Advances to employees	332,715	-	393,390	-
Prepaid insurance	286,398	33,120	153,534	-
Prepaid rent	-	-	112,501	-
Advance payments	239,081	-	283,333	-
Special commission received on statutory deposit	-	7,036,867	-	5,622,925
Others	231,398	30,726	126,244	115,194
	28,113,134	7,100,713	1,069,002	5,738,119

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

12. UNEARNED PREMIUMS

	2014		
	Gross SR	Retroceded Share SR	Net SR
Opening balance	215,025,067	(2,344,151)	212,680,916
Premiums written during the year	556,290,140	(6,101,192)	550,188,948
Premiums earned	(532,856,568)	6,364,903	(526,491,665)
Change in unearned premiums	23,433,572	263,711	23,697,283
Closing balance	238,458,639	(2,080,440)	236,378,199

	2013		
	Gross SR	Retroceded Share SR	Net SR
Opening balance	122,378,709	(5,755,601)	116,623,108
Premiums written during the year	420,086,336	(6,449,199)	413,637,137
Premiums earned	(327,439,978)	9,860,649	(317,579,329)
Change in unearned premiums	92,646,358	3,411,450	96,057,808
Closing balance	215,025,067	(2,344,151)	212,680,916

13. DEFERRED ACQUISITION COSTS

	2014 SR	2013 SR
Opening balance	54,445,929	32,506,462
Incurred during the year	112,878,052	105,269,648
Amortized during the year	(103,811,400)	(83,330,181)
Closing balance	63,512,581	54,445,929

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

14. PROPERTY AND EQUIPMENT, NET**a) Reinsurance operations:**

	Computers and Equipment SR	Furniture and Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Work in Progress SR	Total SR
Cost:						
As at 1 January 2014	9,571,129	126,798	514,400	2,192,523	-	12,404,850
Additions during the year	971,107	153,396	225,949	10,500	478,002	1,838,954
Disposals during the year	(2,399)	-	(163,000)	(2,171,940)	-	(2,337,339)
As at 31 December 2014	10,539,837	280,194	577,349	31,083	478,002	11,906,465
Accumulated depreciation:						
As at 1 January 2014	3,220,157	112,489	411,905	1,323,180	-	5,067,731
Charged for the year	1,884,974	22,540	136,633	38,380	-	2,082,527
Disposals during the year	(2,399)	-	(162,998)	(1,347,436)	-	(1,512,833)
As at 31 December 2014	5,102,732	135,029	385,540	14,124	-	5,637,425
Net book value						
As at 31 December 2014	5,437,105	145,165	191,809	16,959	478,002	6,269,040
As at 31 December 2013	6,350,972	14,309	102,495	869,343	-	7,337,119

b) Shareholders' operations:

	Land SR	Building SR	Furniture and Fixtures SR	Work in Progress* SR	Total SR
Cost:					
As at 1 January 2014	18,329,960	11,454,040	3,207,742	-	32,991,742
Additions during the year	-	-	494,726	718,578	1,213,304
Transfers during the year	-	-	-	-	-
As at 31 December 2014	18,329,960	11,454,040	3,702,468	718,578	34,205,046
Accumulated depreciation:					
As at 1 January 2014	-	-	-	-	-
Charged for the year	-	318,168	365,376	-	683,544
As at 31 December 2014	-	318,168	365,376	-	683,544
Net book value					
As at 31 December 2014	18,329,960	11,135,872	3,337,092	718,578	33,521,502
As at 31 December 2013	18,329,960	11,454,040	3,207,742	-	32,991,742

*Capital work in progress represents modifications relating to the office premises and certain advances for the IT infrastructure.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

15. TIME DEPOSITS

	2014		2013	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Less than 3 months	-	24,000,000	-	-
More than 3 months	13,125,000	-	-	37,500,000
	13,125,000	24,000,000	-	37,500,000

The above deposits earn special commission at an average rate of 0.39% per annum as at 31 December 2014 (31 December 2013: 2.5% per annum).

Time deposits are placed with counterparties that have a good credit rating.

16. HELD TO MATURITY INVESTMENTS

The held to maturity investments represent debt instruments with a 4 to 10 year maturity at the time of investing (now average maturity of the portfolio is 265 days) yielding an average special commission of 4.53% per annum (2013: 4.35% per annum). The fair value of held to maturity investments amounted to SR 152,260,913 (2013: SR 183,878,544) as at the statement of financial position date and are classified under level 1 of fair value hierarchy except SR 40,037,070 falling under level 2.

17. UNEARNED COMMISSION INCOME

	2014 SR	2013 SR
Opening balance	810,894	1,580,555
Commission received on retroceded business during the year	1,887,068	2,667,764
Commission earned on retroceded business during the year	(1,948,180)	(3,437,425)
Closing balance	749,782	810,894

18. ACCRUED EXPENSES AND OTHER LIABILITIES

	2014		2013	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Employees' bonus	700,000	-	3,827,484	-
Withholding tax payable	377,171	-	503,401	-
Professional fees payable	546,748	978,197	283,501	770,116
Meeting fees and expenses	-	204,000	-	248,128
Special Commission received on statutory deposit	-	7,036,867	-	5,622,925
Others	855,743	-	1,309,003	-
	2,479,662	8,219,064	5,923,389	6,641,169

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

19. CLAIMS DEVELOPMENT TABLE

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported for each successive underwriting year at each reporting date, together with cumulative payments to date. The development of reinsurance 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 reinsurance 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 underwriting years. In order to maintain adequate reserves, the Company will transfer much of this release to the future underwriting years' reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Gross reinsurance contract outstanding claims provision for 2014:

Underwriting year	2008 SR	2009 SR	2010 SR	2011 SR	2012 SR	2013 SR	2014 SR	Total SR
At end of underwriting year	-	9,274,452	28,752,621	42,828,498	46,305,831	63,971,844	118,644,952	-
One year later	611,168	31,996,845	95,826,384	76,995,715	212,157,362	251,032,990	-	-
Two years later	1,677,105	34,886,853	106,332,450	124,759,575	248,976,939	-	-	-
Three years later	1,134,966	34,803,108	109,505,364	128,557,442	-	-	-	-
Four years later	2,157,163	40,371,241	112,095,345	-	-	-	-	-
Five years later	2,109,594	37,313,076	-	-	-	-	-	-
Six years later	1,894,421	-	-	-	-	-	-	-
Current estimate of cumulative claims outstanding reported	1,894,421	37,313,076	112,095,345	128,557,442	248,976,939	251,032,990	118,644,952	898,515,165
Cumulative payments to date	(1,417,435)	(30,504,138)	(94,311,510)	(87,871,985)	(156,313,984)	(110,906,402)	(14,037,514)	(495,362,968)
Incurred but not reported claims (IBNR)	11,132	91,482	1,954,050	8,897,120	24,699,515	100,127,317	70,909,478	206,690,094
Total gross insurance outstanding claims provision per the statement of financial position	488,118	6,900,420	19,737,885	49,582,577	117,362,470	240,253,905	175,516,916	609,842,291

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

20. ZAKAT AND INCOME TAX**a) Zakat**

Zakat charge for the year of SR 15,185,679 (2013: SR 17,549,462) is based on the following:

	2014 SR	2013 SR
Share Capital	1,000,000,000	1,000,000,000
Statutory reserve - beginning of the year	6,070,924	6,070,924
Accumulated deficit - beginning of the year	(184,298,901)	(67,095,277)
Adjusted net loss for the year	(19,224,084)	(98,904,407)
Provisions	24,299,764	19,072,913
	826,847,703	859,144,153
Deduct:		
Statutory deposit	(100,000,000)	(100,000,000)
Others non-current assets	(103,303,123)	(40,328,861)
Zakat base	623,544,580	718,815,292
Zakat base for Saudi shareholders @ 97.4152% (2013: 97.6577%)	607,427,200	701,978,481

b) Income tax

Income tax for the year of SR nil (2013: SR nil) is based on the following:

	2014 SR	2013 SR
Net income (loss) for the year	10,838,874	(99,654,162)
Adjusted loss	(19,224,084)	(141,158,738)
Portion of net taxable (loss)/income for non-Saudi shareholders @ 2.5848% (2013: 2.34%)	(496,904)	(3,303,114)
Income tax base	(496,904)	(3,303,114)

c) The movement of the provision for zakat and income tax is as follows:

	2014 SR	2013 SR
Opening balance	33,184,598	30,086,812
Income tax provision for the year	-	-
Zakat provision for the year	15,185,679	17,549,462
Paid during the year	(12,928,635)	(14,451,676)
Closing balance	35,441,642	33,184,598

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

20. ZAKAT AND INCOME TAX (continued)

d) Status of assessments

The Company has filed its zakat returns for the years ended 31 December 2009 to 2013 with the Department of Zakat and Income Tax (DZIT) and has not yet received related final assessments.

Zakat and income tax provisions are calculated based on the Company's best understanding of the DZIT instructions. Additional zakat and income tax provisions are accounted for to cover any differences that may arise on the final zakat and income tax assessments when received from DZIT and the Company's current provision for zakat and income tax

21. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 1 billion divided into 100 million shares of SR 10 each for the years 2014 and 2013.

22. STATUTORY RESERVE

In accordance with the Company's by-laws, 20% of its net income of the year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 100% of the capital. This reserve is not available for distribution to shareholders.

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2014		2013	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Salaries and related benefits	15,923,002	6,534,435	16,588,272	7,090,059
Travelling expenses	1,461,667	374,197	1,292,244	460,692
Depreciation (note 14)	2,082,527	683,544	580,956	639,081
Rent and premises expenses	468,935	611,654	586,114	570,949
Advertising	482,204	809,657	404,190	909,605
Professional fees	370,307	1,655,980	245,064	1,033,754
Withholding tax	24,170	70,343	157,419	-
Consulting fees	124,270	711,341	-	2,175,626
Licensing fees	-	526,750	-	429,000
Others	2,414,004	2,969,515	1,704,005	-
	23,351,086	14,947,416	21,558,264	13,308,766

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

24. BOARD OF DIRECTORS' REMUNERATION AND EXPENSES

	2014 SR	2013 SR
Board of directors' remuneration	1,020,000	-
Meeting fees and expenses	538,388	335,465
	1,558,388	335,465

25. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of related party transactions during the year and balances at the end of the year:

Related party	Nature of transactions	Amount of transactions for the year ended 31 December		Balance as at 31 December	
		2014 SR	2013 SR	2014 SR	2013 SR
Board of directors (BOD)	Consulting fees	383,376	326,829	-	-
	Remuneration	1,020,000	-	-	248,129
	Meeting fees and expenses	538,388	335,465	204,000	-
Key management personnel	Short term benefits	7,452,824	7,644,521	700,000	2,173,000
	End of service benefits	357,091	205,489	741,820	446,650
Companies represented by the BOD members	Gross written premiums	6,172,269	11,497,725	4,644,525	3,059,023
	Claims incurred	934,749	5,929,164	5,892,390	6,276,664
	Commission	1,561,007	4,233,291	-	-

Balances with related parties are included in premium receivables, accrued expenses and other liabilities shown in the statement of financial position.

26. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for the years ended 31 December 2014 and 31 December 2013 have been calculated by dividing net income (loss) for the year by the average ordinary issued and outstanding shares at the end of the year.

27. STATUTORY DEPOSIT

The Company has deposited an amount of SR 100 million with a local bank representing the statutory deposit of 10% of its paid-up capital as required by the Implementing Regulations of the "Law On Supervision of Cooperative Insurance Companies" issued by the Saudi Arabian Monetary Agency. This statutory deposit cannot be withdrawn without the consent of the Saudi Arabian Monetary Agency.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

28. NET (DEFICIT) SURPLUS FROM REINSURANCE OPERATIONS

Net (deficit) surplus from reinsurance operations has been charged to the statement of shareholders' operations. The total (deficit) surplus charged from the date of incorporation of the Company to 31 December 2014 is as follows:

	SR
For the period from 1 May 2008 to 31 December 2008	(11,925,491)
For the year ended 31 December 2009	(20,545,633)
For the year ended 31 December 2010	(21,935,456)
For the year ended 31 December 2011	(37,083,139)
For the year ended 31 December 2012	8,388,698
For the year ended 31 December 2013	(139,604,488)
For the year ended 31 December 2014	(9,397,008)
	(232,102,517)

29. NET CLAIMS PAID

	2014 SR	2013 SR
Gross claims paid	242,980,550	108,321,996
Retroceded share of claims paid	(27,284,732)	(10,162,801)
Net claims paid	215,695,818	98,159,195

Net claims paid include all amounts paid and amounts received through claim portfolio transfers from insurance companies. A respective provision is provided for such claim portfolio transfers in the outstanding claims.

30. SEGMENTAL INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance.

Consistent with the Company's internal reporting process, business and geographical segments have been approved by the Management Committee in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include realized and unrealized gains on investments held at fair value through income statement, other income, investment management expenses and all general and administrative expenses except depreciation.

Segment assets do not include cash and cash equivalents of reinsurance operations, time deposits, investments held at fair value through income statement, prepaid expenses and other assets, due from shareholders' operations and property and equipment, net.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

30. SEGMENTAL INFORMATION (continued)**30.1 Business segments**

The Company revises periodically its estimated gross written premiums and related retroceded premium upon receipt of actual information from cedants. In some business segments, this results in negative gross written premiums, positive retroceded premiums and negative net written premiums for the year when the revision took place.

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	General Accident SR	Others SR	Total SR
For the year ended 31 December 2014								
Reinsurance operations' results								
Gross written premiums	87,406,366	212,311,444	55,227,018	24,980,693	97,019,188	37,435,789	41,909,642	556,290,140
Retroceded premiums	(6,674,174)	154,867	315,845	-	(506)	25,947	76,829	(6,101,192)
Excess of loss expenses	(7,210,479)	(23,582,591)	(1,192,307)	(390,013)	(1,929,474)	(411,886)	(877,824)	(35,594,574)
Net written premiums	73,521,713	188,883,720	54,350,556	24,590,680	95,089,208	37,049,850	41,108,647	514,594,374
Change in net unearned premiums	(4,356,054)	(23,884,961)	(3,446,679)	17,607,701	(1,116,661)	(4,347,957)	(4,152,672)	(23,697,283)
Net earned premiums	69,165,659	164,998,759	50,903,877	42,198,381	93,972,547	32,701,893	36,955,975	490,897,091
Net claims paid	(13,721,735)	(95,545,903)	(12,942,772)	(22,499,600)	(49,172,597)	(2,043,693)	(19,769,518)	(215,695,818)
Change in net outstanding claims	(50,486,473)	(38,998,892)	(17,521,205)	(18,815,702)	(17,953,499)	(10,246,289)	(31,292,656)	(185,314,716)
Net claims incurred	(64,208,208)	(134,544,795)	(30,463,977)	(41,315,302)	(67,126,096)	(12,289,982)	(51,062,174)	(401,010,534)
Gross acquisition costs	(19,562,216)	(48,767,601)	(14,793,645)	(6,450,577)	(3,454,822)	(8,197,800)	(2,584,739)	(103,811,400)
Commissions on retroceded business	1,846,964	111,591	(194,395)	-	14,553	177,817	(8,350)	1,948,180
Supervision and inspection fees	(437,032)	(1,061,557)	(276,135)	(124,903)	(485,096)	(187,179)	(209,549)	(2,781,451)
Net acquisition costs	(18,152,284)	(49,717,567)	(15,264,175)	(6,575,480)	(3,925,365)	(8,207,162)	(2,802,638)	(104,644,671)
Change in premium deficiency reserve	(3,685,000)	37,192,000	(1,219,349)	5,538,000	(8,133,000)	(1,734,000)	(1,791,651)	26,167,000
Net underwriting results	(16,879,833)	17,928,397	3,956,376	(154,401)	14,788,086	10,470,749	(18,700,488)	11,408,886

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

30. SEGMENTAL INFORMATION (continued)**30.1 Business segments (continued)**

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	General Accident SR	Others SR	Total SR
For the year ended 31 December 2013								
Reinsurance operations' results								
Gross written premiums	76,638,325	159,958,612	45,638,048	50,625,872	51,314,090	16,888,005	19,023,384	420,086,336
Retroceded premiums	(5,076,426)	(360,083)	(607,123)	-	(277,526)	(72,126)	(55,915)	(6,449,199)
Excess of loss expenses	(4,361,535)	(18,709,936)	(2,454,048)	(352,128)	(637,923)	(775,580)	(525,612)	(27,816,762)
Net written premiums	67,200,364	140,888,593	42,576,877	50,273,744	50,398,641	16,040,299	18,441,857	385,820,375
Change in net unearned premiums	(27,786,432)	(18,892,871)	(7,254,915)	(19,690,726)	(17,286,135)	(4,454,502)	(692,227)	(96,057,808)
Net earned premiums	39,413,932	121,995,722	35,321,962	30,583,018	33,112,506	11,585,797	17,749,630	289,762,567
Net claims paid	(5,265,761)	(45,493,728)	(8,451,655)	(6,440,756)	(10,969,156)	(362,352)	(21,175,787)	(98,159,195)
Change in net outstanding claims	(32,343,835)	(125,492,746)	(11,541,116)	(14,436,345)	(9,161,463)	(5,016,123)	(4,105,998)	(202,097,626)
Net claims incurred	(37,609,596)	(170,986,474)	(19,992,771)	(20,877,101)	(20,130,619)	(5,378,475)	(25,281,785)	(300,256,821)
Gross acquisition costs	(18,726,487)	(37,766,576)	(11,601,366)	(7,270,845)	(1,680,801)	(4,611,972)	(1,672,134)	(83,330,181)
Commissions on retroceded business	2,831,752	399,699	227,494	-	7,919	(45,599)	16,160	3,437,425
Supervision and inspection fees	(383,191)	(799,794)	(228,190)	(253,129)	(256,571)	(84,439)	(95,118)	(2,100,432)
Net acquisition costs	(16,277,926)	(38,166,671)	(11,602,062)	(7,523,974)	(1,929,453)	(4,742,010)	(1,751,092)	(81,993,188)
Change in premium deficiency reserve	-	(22,775,640)	-	(3,391,360)	-	-	-	(26,167,000)
Net underwriting results	(14,473,590)	(109,933,063)	3,727,129	(1,209,417)	11,052,434	1,465,312	(9,283,247)	(118,654,442)

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	General Accident SR	Others SR	Total SR
As at 31 December 2014								
Segment assets	113,114,275	219,791,772	51,230,751	13,472,020	70,577,546	26,947,223	25,836,246	520,969,833
Segment liabilities	207,461,414	393,224,537	63,143,310	49,731,040	61,017,335	36,993,159	65,399,886	876,970,681
As at 31 December 2013								
Segment assets	103,527,160	166,836,664	41,668,488	36,199,379	45,316,934	13,281,021	5,927,760	412,757,406
Segment liabilities	157,268,596	355,912,832	41,327,375	55,423,795	31,057,348	19,120,778	26,431,256	686,541,980

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

30. SEGMENTAL INFORMATION (continued)**30.2 Geographical segments**

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Total SR
For the year ended 31 December 2014					
Reinsurance operations' results					
Gross written premiums	278,817,861	94,954,416	63,884,168	118,633,695	556,290,140
Retroceded premiums	(5,085,095)	(921,127)	(94,970)	-	(6,101,192)
Excess of loss expenses	(22,443,089)	(6,219,823)	(3,201,119)	(3,730,543)	(35,594,574)
Net written premiums	251,289,677	87,813,466	60,588,079	114,903,152	514,594,374
Change in net unearned premiums	(3,139,991)	(6,417,500)	4,384,888	(18,524,680)	(23,697,283)
Net earned premiums	248,149,686	81,395,966	64,972,967	96,378,472	490,897,091
Net claims paid	(134,643,340)	(26,983,273)	(36,258,948)	(17,810,257)	(215,695,818)
Change in net outstanding claims	(61,721,664)	(30,745,753)	(25,882,603)	(66,964,696)	(185,314,716)
Net claims incurred	(196,365,004)	(57,729,026)	(62,141,551)	(84,774,953)	(401,010,534)
Gross acquisition costs	(52,043,049)	(18,618,356)	(13,665,799)	(19,484,196)	(103,811,400)
Commissions on retroceded business	1,459,383	480,088	8,709	-	1,948,180
Supervision and inspection fees	(1,394,089)	(474,772)	(319,421)	(593,169)	(2,781,451)
Net acquisition costs	(51,977,755)	(18,613,040)	(13,976,511)	(20,077,365)	(104,644,671)
Change in premium deficiency reserve	11,101,705	7,003,233	4,428,334	3,633,728	26,167,000
Net underwriting results	10,908,632	12,057,133	(6,716,761)	(4,840,118)	11,408,886

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

30. SEGMENTAL INFORMATION (continued)**30.2 Geographical segments (continued)**

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Total SR
For the year ended 31 December 2013					
Reinsurance operations' results					
Gross written premiums	221,272,461	75,849,503	63,565,155	59,399,217	420,086,336
Retroceded premiums	(4,584,680)	(1,726,397)	(138,122)	-	(6,449,199)
Excess of loss expenses	(19,470,266)	(4,157,760)	(2,833,284)	(1,355,452)	(27,816,762)
Net written premiums	197,217,515	69,965,346	60,593,749	58,043,765	385,820,375
Change in net unearned premiums	(48,655,807)	(11,106,177)	(13,434,031)	(22,861,793)	(96,057,808)
Net earned premiums	148,561,708	58,859,169	47,159,718	35,181,972	289,762,567
Net claims paid	(61,407,178)	(8,498,910)	(12,818,118)	(15,434,989)	(98,159,195)
Change in net outstanding claims	(131,372,799)	(30,332,147)	(25,226,232)	(15,166,448)	(202,097,626)
Net claims incurred	(192,779,977)	(38,831,057)	(38,044,350)	(30,601,437)	(300,256,821)
Gross acquisition costs	(46,539,050)	(14,274,060)	(13,439,316)	(9,077,755)	(83,330,181)
Commissions on retroceded business	2,776,167	585,490	75,768	-	3,437,425
Supervision and inspection fees	(1,106,363)	(379,247)	(317,826)	(296,996)	(2,100,432)
Net acquisition costs	(44,869,246)	(14,067,817)	(13,681,374)	(9,374,751)	(81,993,188)
Change in premium deficiency reserve	(17,871,292)	(1,215,233)	(3,687,497)	(3,392,978)	(26,167,000)
Net underwriting results	(106,958,807)	4,745,062	(8,253,503)	(8,187,194)	(118,654,442)

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Total SR
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As at 31 December 2014

Segment assets	304,989,613	88,339,001	44,527,103	83,114,116	520,969,833
Segment liabilities	522,011,642	144,200,215	64,194,324	146,564,500	876,970,681

As at 31 December 2013

Segment assets	282,957,953	59,283,701	33,769,136	36,746,616	412,757,406
Segment liabilities	475,410,789	109,832,941	39,632,655	61,665,595	686,541,980

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. 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 of Directors. The Company is exposed to insurance, retrocession, 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 as follows:

31.1 Reinsurance risk

The risk resulting from reinsurance business written 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 reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of reinsurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid being greater than originally estimated and subsequent development of long-term claims.

The variability of risks is improved by the diversification of the risks written and the build-up of a large portfolio of reinsurance contracts, (inward business) as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by a careful selection of inward business, by the underwriting guidelines as well as the use of retrocession protection. The Company's underwriting strategy includes, but is not limited to, the following:

- Diversification in the type of accepted risks, and within each of these categories to achieve sufficiently large population of risks to reduce the variability of the expected outcome.
- Diversification of the underwriting risks in terms of type and amount of risk, industry and geographical location.

In order to minimize its financial exposure arising from large claims, the Company in the normal course of business, enters into retrocession agreements with other parties. Such retrocession agreements provide for higher underwriting capacity, and allow Management to contain exposure with the risk appetite of the Company. The retrocession is effected under proportional treaties such as quota share and surplus and non-proportional treaties such as excess of loss for risk and catastrophe to ensure its net retention is aligned with its risk tolerance.

Although the Company has retrocession agreements, it is not relieved of its direct obligations to its ceding companies and thus a credit exposure exists with respect to its retrocessionaires, to the extent that any retrocessionaire is unable to meet its obligations assumed under such retrocession agreements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)

31.1 Reinsurance risk (continued)

Geographical concentration of risk

The Company accepts reinsurance business from insurance companies in the Kingdom of Saudi Arabia, the Middle East, Africa and Asia. The written premiums are distributed geographically as follows:

	For the year ended 31 December 2014	
	Amount SR	Percentage
Kingdom of Saudi Arabia	278,817,861	50%
Other Middle Eastern Countries	94,954,416	17%
Africa	63,884,168	12%
Asia	118,633,695	21%
	556,290,140	100%

	For the year ended 31 December 2013	
	Amount SR	Percentage
Kingdom of Saudi Arabia	221,272,461	53%
Other Middle Eastern Countries	75,849,503	18%
Africa	63,565,155	15%
Asia	59,399,217	14%
	420,086,336	100%

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)

31.1 Reinsurance risk (continued)

Key assumptions

The key assumptions underlying the liability estimates are the Company's estimated ultimate loss ratio. The ultimate loss ratio was determined using actuarial methods.

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 as follows:

31 December 2014

	Change in assumptions	Net impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	49,089,710	49,089,710
	-10%	(49,089,710)	(49,089,710)

31 December 2013

	Change in assumptions	Net impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	28,976,257	28,976,257
	-10%	(28,976,257)	(28,976,257)

31.2 Retrocession risk

In order to minimize its financial exposure arising from large claims, the Company in the normal course of business, enters into retrocession agreements with other parties. Amounts recoverable from retrocessionaire are estimated and recognized in a manner consistent with the amounts associated with the underlying accepted policy benefits and in accordance with the terms of the respective retrocession treaties and are presented in the statement of financial position as reinsurance assets

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

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

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

Furthermore, the financial strength, 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 Risk and Underwriting Committee before approving them as retrocessionaires.

Retrocession contracts do not relieve the Company from its obligations to ceding companies and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the retrocessionaire fails to meet the obligations under the retrocession agreements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.3 Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation related to a financial instrument and cause the other party to incur a financial loss.

For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

39% of the Company's receivables is due from two ceding and two broker companies as at 31 December 2014 (31 December 2013: 37%)

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

- To minimize its exposure to significant losses from retrocessionaires insolvencies, the Company evaluates the financial condition of its retrocessionaires counterparties. Accordingly, as a pre-requisite, the parties with whom retrocession is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company enters into inward insurance contracts with recognized, creditworthy third parties. In addition, receivables from ceding companies 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 ceding companies through monitoring outstanding receivables.
- The Company, with respect to credit risk arising from other financial assets, only deals with commercial banks with strong financial position and credit ratings.

The table below shows the maximum exposure to credit risk for the assets of the statements of financial position.

	31 December 2014 SR		31 December 2013 SR	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Cash and bank balances	1,454,864	2,567,730	5,268,638	85,673,516
Time deposits	13,125,000	24,000,000	-	37,500,000
Premiums receivable	112,739,098	-	70,492,623	-
Prepaid expenses and other assets	28,113,134	7,100,713	1,069,002	5,738,119
Retroceded share of outstanding claims	105,139,646	-	104,888,575	-
Accrued special commission income from time deposits	-	70,035	-	1,040,241
Accrued special commission income from bonds and sukuk	-	3,703,766	-	3,295,158
Held to maturity investments	-	145,470,427	-	173,995,409
Statutory deposit	-	100,000,000	-	100,000,000
	260,571,742	282,912,671	181,718,838	407,242,443

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.3 Credit risk (continued)**

The credit quality for held to maturity investments is as follows:

	31 December 2014 SR	31 December 2013 SR
Standard and Poors "AA-" to "AA"	47,228,989	56,760,435
Standard and Poors "A-" to "A+"	93,760,109	112,756,632
Standard and Poors "BBB"	4,481,329	4,478,342
	145,470,427	173,995,409

The used rating grades for investments are being adopted by Standard & Poors.

31.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.

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

All time deposits held by the Company at the statement of financial position date had original maturity periods between three months and five years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.4 Liquidity risk (continued)****Maturity profiles**

The table below summarizes the maturity profile of the financial liabilities of the Company based on remaining expected undiscounted contractual obligations. Maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and premium deficiency reserves have been excluded from the analysis as they are not contractual obligations. Employees' end of service benefits do not have any fixed maturity.

	31 December 2014					
	Reinsurance' operations			Shareholders' operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
LIABILITIES						
Accounts payable	22,617,656	-	22,617,656	-	-	-
Retrocession balances payable	4,173,060	-	4,173,060	-	-	-
Accrued retroceded premiums	1,129,253	-	1,129,253	-	-	-
Gross outstanding claims	609,842,291	-	609,842,291	-	-	-
Accrued expenses and other liabilities	2,479,662	-	2,479,662	8,219,064	-	8,219,064
Provision for zakat and income tax	-	-	-	35,441,642	-	35,441,642
	640,241,922	-	640,241,922	43,660,706	-	43,660,706
	31 December 2013					
	Reinsurance' operations			Shareholders' operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
LIABILITIES						
Accounts payable	8,143,048	-	8,143,048	500,000	-	500,000
Retrocession balances payable	7,615,523	-	7,615,523	-	-	-
Accrued retroceded premiums	4,463,127	-	4,463,127	-	-	-
Gross outstanding claims	424,276,504	-	424,276,504	-	-	-
Accrued expenses and other liabilities	5,923,389	-	5,923,389	6,641,169	-	6,641,169
Provision for zakat and income tax	-	-	-	33,184,598	-	33,184,598
	450,421,591	-	450,421,591	40,325,767	-	40,325,767

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.4 Liquidity risk (continued)****Liquidity profile**

None of the liabilities shown in the statement of financial position are based on discounted cash flows as they are all payable within twelve months of the statement of financial position date.

Maturity analysis on expected maturity bases

	31 December 2014					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
ASSETS						
Cash and bank balances	1,454,864	-	1,454,864	2,567,730	-	2,567,730
Time deposits	13,125,000	-	13,125,000	24,000,000	-	24,000,000
Premium receivables, net	112,739,098	-	112,739,098	-	-	-
Investments held at fair value through income statement	124,911,737	-	124,911,737	732,671,564	-	732,671,564
Accrued insurance premiums	220,186,253	-	220,186,253	-	-	-
Retroceded share of outstanding claims	105,139,646	-	105,139,646	-	-	-
Prepaid expenses and other assets	28,113,134	-	28,113,134	7,100,713	-	7,100,713
Due from shareholders' operations	188,019,813	-	188,019,813	-	-	-
Retroceded share of unearned premiums	2,080,440	-	2,080,440	-	-	-
Deferred acquisition costs	63,512,581	-	63,512,581	-	-	-
Deferred excess of loss premiums	17,311,815	-	17,311,815	-	-	-
Property and equipment, net	-	6,269,040	6,269,040	-	33,521,502	33,521,502
Held to maturity investments	-	-	-	93,760,109	51,710,318	145,470,427
Accrued special commission income from time deposits	-	-	-	-	70,035	70,035
Accrued special commission income from bonds and sukuk	-	-	-	-	3,703,766	3,703,766
Statutory deposit	-	-	-	-	100,000,000	100,000,000
	876,594,381	6,269,040	882,863,421	860,100,116	189,005,621	1,049,105,737

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.4 Liquidity risk (continued)****Maturity analysis on expected maturity bases (continued)**

	31 December 2014					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
LIABILITIES						
Accounts payable	22,617,656	-	22,617,656	-	-	-
Retrocession balances payable	4,173,060	-	4,173,060	-	-	-
Accrued retroceded premiums	1,129,253	-	1,129,253	-	-	-
Gross unearned premiums	238,458,639	-	238,458,639	-	-	-
Gross outstanding claims	609,842,291	-	609,842,291	-	-	-
Premium deficiency reserve	-	-	-	-	-	-
Unearned commission income	749,782	-	749,782	-	-	-
Accrued expenses and other liabilities	2,479,662	-	2,479,662	8,219,064	-	8,219,064
Employees' end of service benefits	-	2,481,001	2,481,001	-	-	-
Provision for zakat and income tax	-	-	-	35,441,642	-	35,441,642
Due to reinsurance operations	-	-	-	188,019,813	-	188,019,813
	879,450,343	2,481,001	881,931,344	231,680,519	-	231,680,519

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.4 Liquidity risk (continued)****Maturity analysis on expected maturity bases (continued)**

	31 December 2013					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
ASSETS						
Cash and bank balances	5,268,638	-	5,268,638	85,673,516	-	85,673,516
Time deposits	-	-	-	-	37,500,000	37,500,000
Premium receivables, net	70,492,623	-	70,492,623	-	-	-
Investments held at fair value through income statement	95,329,159	-	95,329,159	595,179,554	-	595,179,554
Accrued insurance premiums	164,869,180	-	164,869,180	-	-	-
Retroceded share of outstanding claims	104,888,575	-	104,888,575	-	-	-
Prepaid expenses and other assets	1,069,002	-	1,069,002	5,738,119	-	5,738,119
Due from shareholders' operations	173,315,949	-	173,315,949	-	-	-
Retroceded share of unearned premiums	2,344,151	-	2,344,151	-	-	-
Deferred acquisition costs	54,445,929	-	54,445,929	-	-	-
Deferred excess of loss premiums	15,716,948	-	15,716,948	-	-	-
Property and equipment, net	-	7,337,119	7,337,119	-	32,991,742	32,991,742
Held to maturity investments	-	-	-	28,427,662	145,567,747	173,995,409
Accrued special commission income from time deposits	-	-	-	-	1,040,241	1,040,241
Accrued special commission income from bonds and sukuk	-	-	-	-	3,295,158	3,295,158
Statutory deposit	-	-	-	-	100,000,000	100,000,000
	687,740,154	7,337,119	695,077,273	715,018,851	320,394,888	1,035,413,739

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.4 Liquidity risk (continued)****Maturity analysis on expected maturity bases (continued)**

	31 December 2013					
	Reinsurance' operations			Shareholders' operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
LIABILITIES						
Accounts payable	8,143,048	-	8,143,048	500,000	-	500,000
Retrocession balances payable	7,615,523	-	7,615,523	-	-	-
Accrued retroceded premiums	4,463,127	-	4,463,127	-	-	-
Gross unearned premiums	215,025,067	-	215,025,067	-	-	-
Gross outstanding claims	424,276,504	-	424,276,504	-	-	-
Premium deficiency reserve	26,167,000	-	26,167,000	-	-	-
Unearned commission income	810,894	-	810,894	-	-	-
Accrued expenses and other liabilities	5,923,389	-	5,923,389	6,641,169	-	6,641,169
Employees' end of service benefits	-	1,720,644	1,720,644	-	-	-
Provision for zakat and income tax	-	-	-	33,184,598	-	33,184,598
Due to reinsurance operations	-	-	-	173,315,949	-	173,315,949
	692,424,552	1,720,644	694,145,196	213,641,716	-	213,641,716

31.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are carried out in local and foreign currencies. Management believes that there is no significant foreign currency exposure since most of the Company's transactions not denominated in Saudi Riyals were undertaken in foreign currencies which are pegged to the Saudi Riyal.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.5 Currency risk (continued)**

The table below represents the Company's assets and liabilities denominated in major currencies as follows:

31 December 2014	SR	USD SR	QAR SR	AED SR	EUR SR	KWD SR	INR SR	Other SR	Total SR
ASSETS									
Reinsurance operations									
Cash and bank balances	751,043	8,176	-	408,478	287,167	-	-	-	1,454,864
Time deposits	-	13,125,000	-	-	-	-	-	-	13,125,000
Premiums receivable	31,728,130	29,498,950	2,082,245	3,611,000	91,886	5,618,679	12,314,311	27,793,897	112,739,098
Investments held at fair value through income statement	59,958,865	64,952,872	-	-	-	-	-	-	124,911,737
Accrued insurance premiums	88,749,219	42,953,777	10,972,209	9,078,460	476,021	2,182,266	15,351,466	50,422,835	220,186,253
Retroceded share of outstanding claims	105,139,646	-	-	-	-	-	-	-	105,139,646
Prepaid expenses and other assets	27,874,071	239,063	-	-	-	-	-	-	28,113,134
Due from shareholders' operations	188,019,813	-	-	-	-	-	-	-	188,019,813
Retroceded share of unearned premiums	2,080,440	-	-	-	-	-	-	-	2,080,440
Deferred acquisition costs	32,405,565	10,390,448	2,339,997	1,265,509	182,170	977,368	4,383,253	11,568,271	63,512,581
Deferred excess of loss premiums	17,311,815	-	-	-	-	-	-	-	17,311,815
Property and equipment, net	6,269,040	-	-	-	-	-	-	-	6,269,040
Shareholders									
Cash and bank balances	2,157,074	410,656	-	-	-	-	-	-	2,567,730
Time deposits	24,000,000	-	-	-	-	-	-	-	24,000,000
Accrued special commission income from time deposits	70,035	-	-	-	-	-	-	-	70,035
Accrued special commission income from bonds and sukuk	1,532,215	2,171,551	-	-	-	-	-	-	3,703,766
Investments held at fair value through income statement	210,521,230	522,150,334	-	-	-	-	-	-	732,671,564
Held to maturity investments	-	145,470,427	-	-	-	-	-	-	145,470,427
Statutory deposit	100,000,000	-	-	-	-	-	-	-	100,000,000
Property and equipment	33,521,502	-	-	-	-	-	-	-	33,521,502
Prepaid expenses and other assets	7,100,713	-	-	-	-	-	-	-	7,100,713
	939,190,416	831,371,254	15,394,451	14,363,447	1,037,244	8,778,313	32,049,030	89,785,003	1,931,969,158

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)

31.5 Currency risk (continued)

31 December 2013	SR	USD SR	QAR SR	AED SR	EUR SR	KWD SR	INR SR	Other SR	Total SR
ASSETS									
Reinsurance operations									
Cash and bank balances	4,445,635	674,427	-	6,167	142,409	-	-	-	5,268,638
Premiums receivable	33,945,666	971,120	4,142,343	5,740,841	(4,935)	5,387,259	12,999,585	7,310,744	70,492,623
Investments held at fair value through income statement	58,097,639	37,231,520	-	-	-	-	-	-	95,329,159
Accrued insurance premiums	77,395,490	29,295,334	6,918,781	7,324,315	56,672	1,991,907	4,451,721	37,434,960	164,869,180
Retroceded share of outstanding Claims	82,092,977	13,317,030	233,955	1,816,775	202	3,542,056	-	3,885,580	104,888,575
Prepaid expenses and other assets	1,069,002	-	-	-	-	-	-	-	1,069,002
Due from shareholders' operations	173,315,949	-	-	-	-	-	-	-	173,315,949
Retroceded share of unearned Premiums	2,344,151	-	-	-	-	-	-	-	2,344,151
Deferred acquisition costs	54,445,929	-	-	-	-	-	-	-	54,445,929
Deferred excess of loss premiums	15,716,948	-	-	-	-	-	-	-	15,716,948
Property and equipment, net	7,337,119	-	-	-	-	-	-	-	7,337,119
Shareholders									
Cash and bank balances	2,405,790	56,242,874	-	-	27,024,852	-	-	-	85,673,516
Time deposits	-	37,500,000	-	-	-	-	-	-	37,500,000
Accrued special commission income from time deposits	-	1,040,241	-	-	-	-	-	-	1,040,241
Accrued special commission income from bonds and sukuk	656,514	2,638,644	-	-	-	-	-	-	3,295,158
Investments held at fair value through income statement	350,898,863	244,280,691	-	-	-	-	-	-	595,179,554
Held to maturity investments	745,409	173,250,000	-	-	-	-	-	-	173,995,409
Statutory deposit	100,000,000	-	-	-	-	-	-	-	100,000,000
Property and equipment	32,991,742	-	-	-	-	-	-	-	32,991,742
Prepaid expenses and other assets	5,738,119	-	-	-	-	-	-	-	5,738,119
	1,003,642,942	596,441,881	11,295,079	14,888,098	27,219,200	10,921,222	17,451,306	48,631,284	1,730,491,012

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)

31.5 Currency risk (continued)

31 December 2014	SR	USD SR	QAR SR	AED SR	EUR SR	KWD SR	INR SR	Other SR	Total SR
LIABILITIES									
Reinsurance operations									
Accounts payable	13,491,503	10,051,975	(1,506,344)	(347,691)	9,697	(278,644)	2,008,338	(811,178)	22,617,656
Retrocession balances payable	4,173,060	-	-	-	-	-	-	-	4,173,060
Accrued retrocession premiums	1,129,253	-	-	-	-	-	-	-	1,129,253
Gross unearned premiums	112,494,065	32,909,371	10,480,060	5,395,913	879,717	4,235,216	24,738,861	47,325,436	238,458,639
Gross outstanding claims	413,431,011	49,988,727	16,883,555	13,987,682	144,212	22,184,407	33,881,360	59,341,337	609,842,291
Premium deficiency reserve	-	-	-	-	-	-	-	-	-
Unearned commission income	749,782	-	-	-	-	-	-	-	749,782
Accrued expenses and other liabilities	1,509,975	969,687	-	-	-	-	-	-	2,479,662
Employees' end of service benefits	2,481,001	-	-	-	-	-	-	-	2,481,001
Surplus distribution payable	932,077	-	-	-	-	-	-	-	932,077
Shareholders									
Accounts payable	-	-	-	-	-	-	-	-	-
Provision for zakat and income tax	35,441,642	-	-	-	-	-	-	-	35,441,642
Due to reinsurance operations	188,019,813	-	-	-	-	-	-	-	188,019,813
Accrued expenses and other liabilities	8,219,064	-	-	-	-	-	-	-	8,219,064
	782,072,246	93,919,760	25,857,271	19,035,904	1,033,626	26,140,979	60,628,559	105,855,595	1,114,543,940

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)

31.5 Currency risk (continued)

31 December 2013	SR	USD SR	QAR SR	AED SR	EUR SR	KWD SR	INR SR	Other SR	Total SR
LIABILITIES									
Reinsurance operations									
Accounts payable	8,143,048	-	-	-	-	-	-	-	8,143,048
Retrocession balances payable	7,615,523	-	-	-	-	-	-	-	7,615,523
Accrued retrocession premiums	4,463,127	-	-	-	-	-	-	-	4,463,127
Gross unearned premiums	121,820,303	21,305,718	8,276,506	6,524,643	330,060	3,592,776	9,063,223	44,111,838	215,025,067
Gross outstanding claims	315,960,413	28,483,767	13,678,609	12,833,904	348,609	8,855,910	7,150,996	36,964,296	424,276,504
Premium deficiency reserve	26,167,000	-	-	-	-	-	-	-	26,167,000
Unearned commission income	810,894	-	-	-	-	-	-	-	810,894
Accrued expenses and other liabilities	5,923,389	-	-	-	-	-	-	-	5,923,389
Employees' end of service benefits	1,720,644	-	-	-	-	-	-	-	1,720,644
Surplus distribution payable	932,077	-	-	-	-	-	-	-	932,077
Shareholders									
Accounts payable	500,000	-	-	-	-	-	-	-	500,000
Provision for zakat and income tax	33,184,598	-	-	-	-	-	-	-	33,184,598
Due to reinsurance operations	173,315,949	-	-	-	-	-	-	-	173,315,949
Accrued expenses and other liabilities	6,641,169	-	-	-	-	-	-	-	6,641,169
	707,198,134	49,789,485	21,955,115	19,358,547	678,669	12,448,686	16,214,219	81,076,134	908,718,989

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)

31.6 Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company's Management believes that there is no significant commission rate risk exposure since all its commission bearing investments carry fixed commission rates and are carried at amortized cost.

31.7 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 has investment in the units of commodity fund. The Company limits fund market price risk by maintaining a diversified portfolio by having different types of funds (i.e., money market fund and commodity trading fund) and by monitoring of developments in fund markets. A 5% change in the net asset value of these funds, with all other variables held constant, would impact the statement of reinsurance operations and accumulated surplus by increase / decrease of SR 3,688,478 (2013: SR 4,766,458) and statement of shareholders' operations by increase / decrease of SR 9,857,547 (2013: SR 11,711,831).

The Company also has investment in the listed equities securities. The Company manages the equity market price risk through diversification and by placing limits on individual and total equity instruments.

A 5% change in the fair value of these investments, with all other variables held constant, would impact the statement of shareholders' operations by increase / decrease of SR 9,288,915 (2013: SR 8,205,450)

31.8 Capital management risk

Capital requirements are set and regulated by the Saudi Arabian Monetary Agency. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares.

The table below summarizes the minimum regulatory capital of the Company and the total capital held:

	2014 SR	2013 SR
Total capital held	817,425,218	821,772,023
Minimum regulatory capital	200,000,000	200,000,000

In the opinion of the management, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2014

31. RISK MANAGEMENT (continued)**31.9 Fair value of financial instruments**

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

31.10 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 such as 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.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 3 Jumad Awal, 1436H corresponding to 22 February 2015.

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