

# Annual Report 2010



الشركة السعودية المتحدية للتأمين التعاوني  
SAUDI UNITED COOPERATIVE INSURANCE COMPANY

Financial Statements and  
Independent Auditors' Report  
31 December 2010





Custodian of the Two Holy Mosques  
**KING ABDULLAH BIN ABDULAZIZ AL SAUD**  
King of the Kingdom of Saudi Arabia



His Royal Highness  
**PRINCE NAYEF BIN ABDULAZIZ AL SAUD**  
Second Deputy Prime Minister and Minister of Interior



His Royal Highness  
**CROWN PRINCE SULTAN BIN ABDULAZIZ AL SAUD**  
Deputy Prime Minister & Minister of Defense and  
Aviation And Inspector General



His Royal Highness  
**PRINCE MOHAMMED BIN FAHAD BIN ABDULAZIZ AL SAUD**  
Governor of Eastern Province

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## Board of Directors



Mr. Sulaiman Al Kadi  
Chairman



Mr. Abdullah Al Othman  
Vice Chairman



Mr. Yousuf Al Ghosaibi  
Member



Mr. Wasef Al Jabshah  
Member



Mr. Khalid Al Rajhi  
Member



Mr. Walid Al Shoaibi  
Member



Dr. Solaiman Al Twaijri  
Member



Mr. Walid Al Jaafari  
Member



Mr. Abdulaziz S. Al Rebdi  
Member

## Executive Management



**Mr. Martin Schweighauser**  
Chief Executive Officer



**Mr. Johnson Varughese**  
Chief Financial Officer



**Mr. Nafea Al Hammad**  
VP Sales & Marketing



**Mr. Wasif Minhas**  
Ad-Interim VP Technical

## BOARD OF DIRECTORS' REPORT



# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)



## Chairman's Message

The Board of Directors is pleased to present the Company's annual report for the year 2010 which reflects the second year of operation. While the company continued to build and improve quality across all fronts, revenues grew by 60% and the loss came down from SR 27 million to SR 4 million for the year. This represents a remarkable improvement over 2009 and demonstrates that the company is steadily on the path towards more growth and profitability.

Apart from growth and expansion, the year was characterized by the continued strengthening of regulation which is supporting the KSA insurance sector in its evolution towards significant size and stability. I am pleased to inform our shareholders that Walaa embraced the effect thereof with demonstrable success.

The Board of Directors has actively involved itself in strategic matters that support the company's aim of being one of KSA's

most significant insurers. The Board and its Committees reinforce the company's pursuit of a solid growth trajectory, which strives for strong revenue growth in equilibrium with technically sound underwriting, good portfolio balancing and compliant behavior.

There is still work to be done although operational efficiencies have increased across many fronts as we emphasize transparency in our processes and procedures and the metrics we apply to measure them. Key staff additions have been made and a formal company training and development program was created in an effort to continuously raise employees' skills and standards. On the staffing side, the company can report an approximately 50% Saudization at the end of 2010.

We continue to be optimistic about the Company's future prospects and we already have evidence that the efforts to date and the structures that have been put in place are leading Walaa in the right direction. This gives us reason to believe that 2011, barring unforeseen or unusual events, will be a successful year.

Yours faithfully,

**Sulaiman Abdullah Al Kadi**

Chairman of the Board of Directors

A handwritten signature in black ink, appearing to be 'Sulaiman Abdullah Al Kadi', written over a horizontal line.



# Saudi United Cooperative Insurance Company (Wala'a)

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## CEO Message

Gross revenues for 2010 were SR 220 million, a 60% increase over the previous year and our post Zakat net loss stands at SR 4.07 million which is a SR 23 million improvement over the result of 2009. Pre-Zakat with unrealized gain on investment we show a SR 2.15 million loss for the year. We regard this as evidence that planned strategy and operational improvements are paying off. The Company's financials show a transparent picture of its true state since they reflect a "starting from scratch" situation which is typically not so in the case of a portfolio transfer, as preferred by many of Walaa's peers. We have prudently added reserves to our balance sheet which will benefit us in the long term.

Becoming a leading KSA insurer remains our aspiration and we believe we are evolving towards that. As I comment on our future business, I stress that any forward looking statements in this or other company reports are based on expectations and assumptions we have of the future, to the best of our current knowledge, and that future reality may differ from these statements.

The general direction given by our 5-year strategic plan remains intact, bar some small changes. Our strategy continues to be a mix of both corporate as well as retail business. At year-end, our retail business represented about 50% of the Company's revenue of SR 220 million and is expected to remain at 50% for the next two to three years. We eventually expect this percentage to drop to about 40%. Product lines covered will be motor, medical and soon-to-be introduced new products. As a cash flow generator the retail business is very beneficial but it will be monitored closely to ensure that the notoriously thin margin motor and medical lines are profitable. 2010 showed a marked strengthening of relationships with brokers old and new as they increasingly see Walaa as an insurer that is serious and reliable. The corporate business pipeline for 2011 looks very promising

and the building of the Sales & Marketing department by Walaa's new VP Sales & Marketing is bearing fruit. We forecast significant overall revenue growth for 2011 which we expect will lead to net profits, barring unexpected major claims events or regulatory effects.

Our Chairman highlighted operational improvements which Walaa has made including compliance as an ever more important feature of our business. At times there is a trade off that needs to be made between compliance and growth aspirations. As management we take a position of striving for achieving the highest compliance standards and thereby enjoy a good reputation in the eyes of the public, our clients, our shareholders and the regulatory authorities. We believe this will benefit us in the long run. Training and development is another area of focus as we need to strengthen our human capital base which is not easily provided by the domestic market. It is a cornerstone investment need which we will be pursuing in a structured manner in 2011.

In conclusion, we are optimistic about the company's future prospects. We are helped by strong growth of the KSA insurance market, low insurance penetration in Saudi Arabia and the government's determination to build new growth industries and broaden the national industrial base. By investing in the right way and managing properly I am confident of Walaa's continued high potential being transformed into material success.

I thank all of our company stakeholders, business and institutional partners for their support and look forward to good continued interaction.

Yours faithfully,  
**Martin A. Schweighauser**  
Chief Executive Officer

# Saudi United Cooperative Insurance Company (Wala'a)

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## 1- Principal Activities

The company is involved in the Cooperative Insurance and Reinsurance in the General and Medical Lines of Business and related investment activities only. Though the company is engaged in reinsurance inward business, it does not contribute materially to the turnover and the bottom line of the company. The split of the activities between the general and medical lines of business is as follows (SR in millions):

	General	Medical	Total
Gross Written Premium	183.51	36.49	220.00
Earned Premium	101.31	17.30	118.61
Net Underwriting Income / Contribution	20.74	7.77	28.51
Operating Expenses (Unallocated)			34.79
Deficit from Insurance Operations			(6.28)

## 2- Financial Performance

The Company commenced insurance operations during 2009. The financial performance and the financial position as at 31 December 2010 is summarized below (figures in SR millions):

Income Statement	2010	2009	04/07/2007 to 31/12/2008
Gross Written Premium	220.00	142.92	-
Net Earned premium	118.61	41.64	-
Reinsurance Commission and Other Income	14.58	5.51	-
<b>Total Revenue</b>	<b>133.19</b>	<b>47.15</b>	-
Net incurred claims including reserves	(76.40)	(40.21)	-
Other underwriting expenses	(28.28)	(13.99)	-
<b>Total Underwriting Costs and Expenses</b>	<b>(104.68)</b>	<b>(54.20)</b>	-
<b>Net Underwriting Income</b>	<b>28.51</b>	<b>(7.05)</b>	-
Salaries, general and operating expenses	(34.79)	(18.69)	-
<b>Deficit from Insurance Operations transferred to Shareholders</b>	<b>(6.28)</b>	<b>(25.74)</b>	-
Commission income from bank deposits	0.92	2.77	12.54
General and administrative expenses	(1.63)	(2.12)	(27.33)
<b>Net Loss for the period</b>	<b>(6.99)</b>	<b>(25.09)</b>	<b>(14.79)</b>
Unrealized gain on available for sale investments	4.84	0.13	-
Zakat & Income Tax	(1.92)	(1.87)	(4.18)
<b>Comprehensive Loss for the period</b>	<b>(4.07)</b>	<b>(26.83)</b>	<b>(18.97)</b>



# Saudi United Cooperative Insurance Company (Wala'a)

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STATEMENT OF FINANCIAL POSITION							
AS AT 31 DECEMBER	2010			2009			2008
(No Assets and Liabilities for Insurance Operation in 2008)	Insurance Operations	Shareholders	Total	Insurance Operations	Shareholders	Total	Shareholders
<b>Assets</b>							
Property and equipment	2.54	-	2.54	2.40	-	2.40	1.43
Insurance and reinsurance receivables	104.81		104.81	102.01	-	102.01	-
Deferred policy acquisition cost	13.55	-	13.55	6.20	-	6.20	-
Due from an affiliates	-	-	-	0.86	-	0.86	-
Due from shareholders	2.59	-	2.59	29.65	-	29.65	-
Prepaid expense and other assets	2.91	0.68	3.59	2.38	0.84	3.22	3.13
Statutory deposit	-	20.00	20.00	-	20.00	20.00	20.00
Short term deposits and other financial assets	-	89.69	89.69	-	99.35	99.35	159.40
Cash and cash equivalents	86.24	46.09	132.33	26.39	70.44	96.83	2.91
<b>Total Assets</b>	<b>212.64</b>	<b>156.46</b>	<b>369.10</b>	<b>169.89</b>	<b>190.63</b>	<b>360.52</b>	<b>186.87</b>
<b>Liabilities and Equity</b>							
Technical reserves	169.24	-	169.24	125.90	-	125.90	-
Reinsurance payable	34.72	-	34.72	40.29	-	40.29	-
End of service benefits	1.27	-	1.27	0.72	-	0.72	0.32
Accrued and other liabilities	7.41	3.74	11.15	2.98	6.78	9.76	5.52
Due to an affiliates	-	-	-	-	29.65	29.65	-
Due to insurance operations	-	2.59	2.59	-	-	-	-
Shareholders Equity	-	150.13	150.13	-	154.20	154.20	181.03
<b>Total Liabilities and Equity</b>	<b>212.64</b>	<b>156.46</b>	<b>369.10</b>	<b>169.89</b>	<b>190.63</b>	<b>360.52</b>	<b>186.87</b>

### 3- Significant Plans and Decisions

In 2011, the company intends expansion in the retail insurance business and diversification of risks through multiple agents' agreements and establishing Wala'a's own branches. Three branches in the Eastern Region will commence operation in the first quarter of 2011. The company is in the process of designing new retail and commercial products, and studying the feasibility of launching additional products already approved by SAMA.

### 4- Risks Facing the Company

The Company has established a risk management framework to protect the Company from events that hinder the sustainable achievement of its performance objectives, including failing to exploit opportunities.

The risks faced by the Company can be categorized as follows:

**a) Financial risk:** The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, cash and cash equivalents and advances for investments. The Company does not enter into derivative transactions.

- 1) Credit risk: The Company seeks to limit credit risk with respect to agents and brokers by setting credit period for individual agents and brokers and monitoring outstanding receivables. The Company only enters into insurance and reinsurance contracts with recognized, credit worthy third parties.
- 2) Liquidity risk: Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.
- 3) Market price risk: The Company limits market risk by maintaining a diversified portfolio and by monitoring developments in equity markets. The Company does not have any significant market risk.

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- 4) Commission rate risk: The Company limits commission rate risk by monitoring changes in commission rates in which its cash and investments are denominated.
  - 5) Foreign currency risk: The Company does not have any significant foreign currency risk.
  - 6) Insurance risk: The Company only underwrites insurance business of a short tail nature such as motor, medical, property and others which includes engineering, casualty cover, fire, accident, marine cargo risks. The Company's insurance business is managed and priced at head office level. The Company undertakes a quarterly review of their insurance risks of all line of business. The Executive Team monitors and develops the management of insurance risk in the insurance business, and assesses the aggregate risk exposure. In order to minimize financial exposure arising from large claims, the company, in the normal course of business, enters into contracts with other parties for reinsurance purposes.
  - 7) Capital management: Shareholders' equity comprises share capital and accumulated losses. The company has not made any change in its capital structure during the year.
- b) **Strategic risk:** Strategic risk is explicitly considered throughout strategic review and planning process. The company closely monitors regulatory, legal and fiscal developments as well as actively engaging with external bodies to share the benefit of expertise in supporting responses to emerging risks to challenge developments that could be damaging to business and the industry as a whole.
- c) **Operational risk:** Significant resources are devoted to maintaining efficient and effective operations within company's framework of corporate responsibility, policies and business ethics code. The Company Executive Team oversees aggregate operational risk exposure and reports to the Board.
- d) **Regulatory risk:** The company management and compliance officer ensure compliance with all regulatory requirements and initiate timely update for regulatory changes and enable the Company to remain compliant with regulatory changes.

## 5- Geographical Operations

Company does not have any subsidiaries and operates primarily within the Kingdom of Saudi Arabia. Geographical details of Gross Written Premium are given below (SR in millions):

Country	2010		
	KSA	Outside KSA	Total
Gross Written Premium	220.00	-	220.00

2009		
KSA	Outside KSA	Total
142.67	0.25	142.92

Region	2010				2009			
	Central	Eastern	Western	Total	Central	Eastern	Western	Total
Gross Written Premium	18.88	173.62	27.50	220.00	11.49	107.38	23.80	142.67

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## 6- Material Variation from Previous Year

There are no material variation from previous year other than on financial performance which is reported elsewhere in this report.

## 7- Accounting Standards

The company adheres to International Financial Reporting Standards (IFRS) and the relevant International Accounting Standards (IAS) in the preparation of its financial statements, as required by the Saudi Arabian Monetary Agency (SAMA). It does not follow the accounting standards generally followed in the Kingdom of Saudi Arabia. The external auditors have modified their audit report to include an emphasis of matter paragraph addressing this issue.

## 8- Dividend Policy

(The Board of Directors have not recommended any dividend for 2010 due to the loss)

Profit shall be distributed as follows:

1. Zakat & Income Tax money shall be set aside.
2. 20% of a net profit shall be set aside to form the Statutory Reserve and the ordinary General Assembly may hold such action when the legal reserve becomes equal to 100% of the Company's capital.
3. The ordinary General Assembly, based on Board's recommendation, may set aside a portion of the annual net profit to form an additional reserve for certain purpose(s) to be determined by the assembly.
4. Out of the above balance, the shareholders shall receive an amount representing the first payment which shall not be less than 5% of the paid up capital.
5. The remaining amount shall be distributed as dividends or forwarded to the retained earning account.
6. The Company may distribute, based on a Board resolution, periodic profits to be deducted from the annual profits referred to in item (4) above in accordance with the rules regulating this process to be issued by the competent authorities.

The Company shall immediately inform the Capital Market Authority of any resolutions or recommendations for distribution of profit. The profits, so proposed for the distribution shall be paid to the shareholders at the place and time specified by the Board pursuant to the instructions issued by the Ministry of Commerce & Industry and subject to SAMA written approval.

## 9- Interest, Options, and Subscription rights of the Issuer's Directors, Senior Executives and their Spouses and minor Children in the Shares or Debt Instruments

Ser.	Name of Board's member or Exec.	Shares beginning of the year	% beg. of the year	Change	% change	Shares end of the year	% end of the year
01	Sulaiman A. Al-Kadi	335	0.002%	+665	199%	1,000	0.005%
02	Abdullah M. Al-Othman	600,000	3%	0	0	600,000	3%
03	Yousuf A. H. Al-Gosaibi	600,000	3%	0	0	600,000	3%
04	Wasef S. A. Al-Jabsheh	2,100,000	10.5%	0	0	2,100,000	10.5%
05	Walid S. Al-Shoaibi	600,000	3%	0	0	600,000	3%
06	Khalid A. S. Al-Rajhi	600,000	3%	0	0	600,000	3%
07	Waleed M. Al-Jaafari	240,000	1.2%	0	0	240,000	1.2%
08	Abdulaziz S. Al-Rebdi	1,000	0.005%	0	0	1,000	0.005%
09	Solaiman A. Al-Twaijri	1,000	0.005%	0	0	1,000	0.005%

## 10- Significant Interest in a Class of Voting Shares held by Persons (other than the Issuer's Directors, Senior Executives and their Spouses and minor Children)

Ser.	Name	Shares beginning of the year	% beg. of the year	Change	% change	Shares end of the year	% end of the year
01	Abdullah Mohd. Talib Al Hakeem	1,007,344	5.04%	0	0	1,007,344	5.04%

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## 11- Borrowings, Issue / Redemption of Securities

The company has neither borrowed any funds nor issued or redeemed any securities during the year and does not have any outstanding convertible and/or redeemable debt instruments, options, warrants or similar rights.

## 12- Related Party Transactions

Related Party Transactions details are furnished below (SR millions):

	2010			2009		
	Non Insurance Contracts	Sale of Insurance Contracts	Purchase of Reinsurance Contracts	Non Insurance Contracts	Sale of Insurance Contracts	Purchase of Reinsurance Contracts
Directors and Related Parties	-	2.87	0.32	0.04	8.97	0.25
Key Management Personnel	-	-	-	-	0.01	-

The company did not conduct any contract in which a director of the issuer, the CEO, the CFO or any associate is or was materially interested during the year

## 13 - Outstanding Statutory Dues

The company does not have any outstanding statutory dues as on 31 December 2010, except for the following (SR millions):

	2010
a) GOSI for the month of December 2010 (paid in January 2011)	0.13
b) Zakat & Tax (Provision for the 2010, due for payment upon filing)	1.93
d) SAMA Fees (Provision for last qtr, paid in January 2011)	0.25

## 14- Employees Benefits

The Company did not make any investments or set up any reserves for the benefit of the employees.

## 15- Statements

- Company has maintained proper books of accounts.
- The System of internal control is sound in design and has been effectively implemented.
- There are no significant doubts concerning the company ability to continue as a going concern.

## 16- Continuation of the External Auditors

The current external auditors are Deloitte & Touche and Ernst & Young. The Board of Directors did not recommend a change of the external auditors. The external auditors, being eligible, have offered themselves for reappointment.



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## 17-Corporate Governance

### CMA Corporate Governance Regulations

All provisions of these regulations were implemented except the following:

#### 1- General rights of shareholders in the article of association [Article#3 & 4 (a)]:

The article of association of the company does not include the shareholders' (a) right to a share of the company's assets upon liquidation. (b) The right to supervise the Board of Directors activities, and file responsibility claims against Board members. (c) The right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules. However, it may be noted that the article of association of the insurance companies was prepared and enforced by SAMA. Moreover, above mentioned rights are granted to the shareholders according to ministry of commerce and CMA regulations. The shareholders approve the Board of Director report and discharge the directors from any liabilities in the annual general assembly. The appointment / ratification of appointment of the board lies with the shareholders.

#### 2- Invitation of the last General Assembly meeting on company's website [Article#5 (c)]:

Not implemented as the website being under maintenance during that period.

#### 3- Accumulative voting method for nomination of board members [Article#6 (b)]:

The method of voting for nomination of the board members is not specified in the article of association formulated by SAMA. Therefore, the board of directors applied the ordinary voting method since they have not adopted the accumulative voting method until now.

#### 4- The company social contributions in the stakeholders' relationship policy [Article#10 (e/5)]:

The nature of cooperative insurance business itself is considered as social contribution since it provides protection to individuals and society's wealth from possible risks. Moreover, the company contributes to the society through applying the Saudization plan as per regulatory requirements, including employment opportunities for female staff.

#### 5- Board member interest in the company's business and contracts [Article#18 (a)]:

The company did not seek specific approval of the general assembly in respect of business conducted with one of the board members (since resigned) as the amount involved (SR 40,000) was immaterial and was on account of several printing jobs carried out in the normal course of business. However, this was disclosed in the board of directors report, a copy of which was given to all members present in the general assembly.



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## 18- Names of any Joint Stock Company or Companies in which the Company Board of Directors Member acts as a Member of its Board of Directors

No	Name of Board Member	Name of Companies
01	Sulaiman A. Al-Kadi	<ul style="list-style-type: none"> <li>• Saudi Electricity Company (SCECO)</li> <li>• Basic Chemical Industries Co. (BCI)</li> <li>• HSBC</li> <li>• Saudi Hollandi Bank</li> </ul>
02	Abdullah M. Al-Othman	<ul style="list-style-type: none"> <li>• None</li> </ul>
03	Yousuf A. H. Al-Gosaibi	<ul style="list-style-type: none"> <li>• Dhahran International Exhibitions Company</li> </ul>
04	Wasef S. A. Al-Jabsheh	<ul style="list-style-type: none"> <li>• International General Insurance CO. Ltd. and associates</li> </ul>
05	Walid S. Al-Shoaibi	<ul style="list-style-type: none"> <li>• Chemical Development Company – Closed company</li> </ul>
06	Khalid A. S. Al-Rajhi	<ul style="list-style-type: none"> <li>• Bank Albilad</li> <li>• Saudi Cement Company</li> <li>• Saudi Telecom (STC)</li> </ul>
07	Abdulaziz S. Al-Rebdi	<ul style="list-style-type: none"> <li>• Al-Othaim Markets Company</li> <li>• Obeikan Investment Group – Closed company</li> <li>• Obeikan Glass Company – Closed company</li> </ul>
08	Solaiman A. Al-Twajiri	<ul style="list-style-type: none"> <li>• Saudi Arabian Amiantit Co.</li> </ul>
09	Waleed M. Al-Jaafri	<ul style="list-style-type: none"> <li>• Advanced Petrochemical Company</li> </ul>

## 19- Formation of the Board of Directors and classification of its members as follows:

Ser.	Name of Board's member	Functional Duties	Classification
01	Sulaiman A. Al-Kadi	Chairman	Independent
02	Abdullah M. Al-Othman	Vice Chairman	Independent
03	Yousuf A. H. Al-Gosaibi	Member	Independent
04	Wasef S. A. Al-Jabsheh	Member	Non-executive
05	Walid S. Al-Shoaibi	Member	Independent
06	Khalid A. S. Al-Rajhi	Member	Independent
07	Waleed M. Al-Jaafari	Member	Independent
08	Abdulaziz S. Al-Rebdi	Member	Independent
09	Solaiman A. Al-Twajiri	Member	Independent

## 20- Board of Directors

The Board of Directors is entrusted with effective management and control of the company. It gives strategic direction to achieve the company objectives and monitors the performance through regular meetings held throughout the year.

The Board has appointed the following committees to ensure full control and effectiveness of the management:

1. Executive Committee
2. Audit Committee
3. Investment Committee
4. Nomination and Remuneration Committee

**Shariah Board:** The Board has constituted a Shariah Board consisting of the following eminent scholars.

- a. Sheikh Abdullah Bin Sulaiman Al Manee
- b. Dr. Abdullah Al Musleh
- c. Dr. Mohammad Bin Ali Alqeri

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During the period of this report the Board held five meetings. Details are given below:

Director's Name	First Meeting 24/01/2010	Second Meeting 24/01/2010	Third Meeting 24/01/2010	Fourth Meeting 24/01/2010	Fifth Meeting 24/01/2010	Total
Sulaiman A. Al-Kadi	√	√	√	√	√	5
Yousuf A. H. Al-Gosaibi	√	√	√	X	√	4
Wasef S. A. Al-Jabsheh	√	X	√	X	√	3
Abdullah M. Al-Othman	√	√	√	√	√	5
Walid S. Al-Shoaibi	√	√	√	√	√	5
Khalifa A. Al-Mulhim (Resigned on 06/11/2010)	√	X	X	√	-	2
Salman MH. Al-Jishi (Resigned on 24/01/2010)	X	-	-	-	-	0
Khalid A. S. Al-Rajhi	√	√	X	√	X	3
Abdulaziz S. Al-Rebdi	√	X	√	√	√	4
Solaiman A. Al-Twajjri	√	√	√	X	√	4
Waleed M. Al-Jaafari (Appointed on 27/06/2010)	-	-	X	X	√	1

## 21- Executive Committee

The Executive Committee is entrusted with the responsibility to co-ordinate closely between the Executive Management of the Company and the Board of Directors. The Committee meets regularly and oversees the activities of the Company and reports to the Board. During the period of this report, the Committee met seven times and the details are given below:

Name	Role	No. of meetings Attended
Abdullah M. Al-Othman	Chairman of Executive Committee	6
Salman MH Al-Jishi (Resigned on 24/01/2010)	Member	1
Walid S. Al-Shoaibi	Member	7
Khalid A. S. Al-Rajhi (Joined on 24/01/2010)	Member	4
Wasef S. A. Al-Jabsheh (Joined on 27/06/2010)	Member	2

## 22- Audit Committee

The Audit Committee meets at regular intervals to review the periodical financial statements, to review the internal auditors and external auditors' reports and to ensure compliance with various statutory regulations. During the period of this report, the Committee met five times. The members of the Committee and the details of the meetings held are given below:

Member's Name	Role	No. of meetings attended
Salman MH Al-Jishi (Resigned on 24/01/2010)	Chairman of AC & Board member	1
Dr. Solaiman Al-Twajjri	Chairman of AC & Board member	5
Rami Al-Turki (Resigned on 20/01/2010)	Independent member	1
Walid Shukri	Independent member	5
Dr. Raed Al Hugail	Independent member	5

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## 23- Investment Committee

The Board appointed an Investment Committee from amongst its members to give guidance for management of the Company's funds. The committee reviews the investment performance and ensures that the investment policy is being followed. The Committee met two times during the period of this report. The details of the Investment Committee are given below:

Name	Role	No. of meetings attended
Khalifa A. Al-Mulhim (Resigned on 06/11/2010)	Chairman of the Committee	1
Khalid A. S. Al-Rajhi	Member	1
Abdulaziz S. Al-Rebdi	Member	2
Waleed M. Al-Jaafari (Joined on 27/06/2010)	Member	1

## 24- Nomination & Remuneration Committee

The Board has formed a Nomination and Remuneration Committee. The Committee makes recommendations to the Board in respect of persons to serve as directors and the members of its committees, also observing & overseeing the performance of the members of the Board, and recommends the remuneration payable to the Directors and Committees' members as well as the CEO and Deputy CEO. The Committee met two times during the period. The details of the Nomination and Remuneration committee are given below:

Name	Role	No. of meetings attended
Sulaiman A. Al-Kadi	Chairman of the Committee	2
Yousuf A. H. Al-Gosaibi (Joined on 27/06/2010)	Member	1
Abdulaziz S. Al-Rebdi	Member	1
Waleed M. Al-Jaafari (Joined on 27/06/2010)	Member	1

## 25- Details of Compensation paid to Directors and Senior Executives (SR millions)

	Paid in 2010 for Period Ended 2009	Paid/provided for 2010		Total
		For Board meetings	For Board Committees	
Sulaiman A. Al-Kadi	0.012	-	0.013	0.025
Abdullah M. Al-Othman	0.043	-	-	0.043
Yousuf A. H. AlGosaibi	-	-	0.007	0.007
Wasef S. A. Al-Jabsheh	-	-	-	-
Khalifa A. Al-Mulhim	-	-	-	-
Walid S. Al-Shoaibi	0.084	-	-	0.084
Khalid A. S. Al-Rajhi	-	-	-	-
Salman MH. Al-Jishi	0.120	-	0.012	0.132
Abdulaziz S. Al-Rebdi	-	-	0.007	0.007
Solaiman A. Al-Twaijri	0.059	-	0.058	0.117
<b>Total</b>	<b>0.318</b>	<b>-</b>	<b>0.097</b>	<b>0.415</b>

Compensation to top five Executives including CEO and CFO	SR 3.92
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There have been no arrangements or agreement under which any director or senior executive of the company has waived any emolument or compensation.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## 26- Penalty / Preventive Restriction

During the year 2010 the Department of Zakat & Income Tax levied a penalty of SR 20,000 and the company is of the view that the amount was not payable and therefore made the payment under protest.

## 27- Internal Controls

The Board of Directors have formed an Audit Committee, the prime responsibility of which includes discharging the Board's responsibilities in respect of supervision of the company's financial reporting and evaluating the adequacy and effectiveness of the company's audit (both internal and external) and risk management processes. The Committee Comprises of 3 members, 2 of whom are independent. The chairman is a non executive director of the company. A total of 5 Audit Committee meetings were held in 2010. The purposes of these meetings included, among others:

- a. Review and approval of the interim and final results of the company.
- b. Evaluating the adequacy and effectiveness of the internal and external audit functions.
- c. Evaluating the adequacy and effectiveness of the compliance department.
- d. Assessing the effectiveness of the risk management practices and procedures.

The satisfactory annual audit of the financial statements provides insights into the effectiveness of the company's internal control environment and procedures and its risk management practices. In addition to that, the internal audit function of the company assists the Audit Committee and consequently the Board of Directors in providing assurance that the Company's internal control system is effective in mitigating various risks the company faces and hence ensuring that the objectives of the Company will be met. The internal audit department conducted a number of audits during 2010 covering various areas of operations and support functions. The department typically reports the most significant issues to the Audit Committee as a result of the audits, together with management's response and their progress towards resolution.





**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
31 December 2010**



# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF SAUDI UNITED COOPERATIVE INSURANCE COMPANY

(A SAUDI JOINT STOCK COMPANY)

#### SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of Saudi United Cooperative Insurance Company (Wala'a) – A Saudi Joint Stock Company ('the Company') as at 31 December 2010 and the related statements of insurance operations, shareholders' operations, shareholders' comprehensive operations, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the 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 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 at 31 December 2010 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
- comply with the requirements of the Regulations for Companies and the Company's bylaws in so far as they affect the preparation and presentation of the financial statements.

#### EMPHASIS OF MATTER:

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

Deloitte & Touche  
Bakr Abulkhair & Co.

Ernst & Young



Waleed Moh'd Sobahi  
Certified Public Accountant  
Registration No. 378



4 Rabi' I, 1432H  
7 February 2011

Abdulaziz Saud Alshubaibi  
Certified Public Accountant  
Registration No. 339

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 SR	2009 SR
<b>INSURANCE OPERATIONS' ASSETS</b>			
Property and equipment	6	2,542,317	2,396,258
Insurance receivables	7	55,495,567	45,493,018
Reinsurance share of unearned premium	8 & 10	30,923,630	30,406,296
Reinsurers share of outstanding claims	9 & 10	18,393,512	25,117,596
Deferred policy acquisition costs		13,545,531	6,205,806
Due from an affiliate	11	-	856,050
Due from shareholders' operations		2,588,600	29,652,593
Accrued interest income		17,422	-
Prepaid expenses and other assets		2,896,405	2,377,437
Cash and cash equivalents	12	86,240,115	26,385,810
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>212,643,099</b>	<b>168,890,864</b>
<b>SHAREHOLDERS' ASSETS</b>			
Statutory deposit	13	20,000,000	20,000,000
Other financial assets	14	49,692,750	34,352,369
Short term deposits	15	40,000,000	65,000,000
Accrued income		674,388	839,463
Cash and cash equivalents	12	46,085,399	70,441,679
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>156,452,537</b>	<b>190,633,511</b>
<b>TOTAL ASSETS</b>		<b>369,095,636</b>	<b>359,524,375</b>

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2010

	Note	2010 SR	2009 SR
<b>INSURANCE OPERATIONS' LIABILITIES</b>			
Liabilities arising from insurance contracts			
Unearned premiums	8	104,454,642	70,425,222
Outstanding claims	9	58,049,270	52,915,495
<b>Total liabilities arising from insurance contracts</b>		<b>162,503,912</b>	<b>123,340,717</b>
End of service indemnities	16	1,274,310	722,257
Insurance payable	17	34,720,425	40,294,187
Unearned reinsurance commission		6,735,429	2,558,240
Accrued expenses and other liabilities	18	7,409,023	1,975,463
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>212,643,099</b>	<b>168,890,864</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES:</b>			
Accrued expenses and other liabilities	18	3,735,790	6,783,231
Due to insurance operations		2,588,600	29,652,593
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>6,324,390</b>	<b>36,435,824</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	19	200,000,000	200,000,000
Accumulated losses		(54,841,525)	(45,931,604)
Revaluation reserve		4,969,672	129,291
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>150,128,147</b>	<b>154,197,687</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>156,452,537</b>	<b>190,633,511</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>369,095,636</b>	<b>359,524,375</b>

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## STATEMENT OF INSURANCE OPERATIONS

For the year ended 31 December 2010

	Note	2010 SR	2009 SR
<b>REVENUE</b>			
Gross written premiums	11 & 21	219,997,528	142,920,168
Reinsurance premiums ceded	11 & 21	(67,873,528)	(61,257,607)
Net written premiums		152,124,000	81,662,561
Change in unearned premiums		(33,512,086)	(40,018,926)
Net earned premiums	21	118,611,914	41,643,635
Reinsurance commission		14,504,417	5,431,411
Other underwriting income		77,276	84,811
<b>TOTAL REVENUE</b>		<b>133,193,607</b>	<b>47,159,857</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	9	96,825,253	14,783,841
Reinsurance share of claims paid	9	(32,282,855)	(2,368,705)
Net claims paid		64,542,398	12,415,136
Change in outstanding claims	9	11,857,859	27,797,899
Net claims incurred	9	76,400,257	40,213,035
Policy acquisition costs		20,581,859	6,010,735
Excess of loss expenses		4,601,326	5,977,448
Other expenses		3,095,419	2,012,518
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>		<b>104,678,861</b>	<b>54,213,736</b>
Net underwriting profit (loss)		28,514,746	(7,053,879)
<b>OPERATING EXPENSES</b>			
Operating and administrative salaries		(23,550,299)	(10,735,236)
General and administrative expenses	23	(11,487,338)	(7,956,844)
Commission income from bank deposits		243,754	-
<b>TOTAL OPERATING EXPENSES</b>		<b>(34,793,883)</b>	<b>(18,692,080)</b>
Deficit from insurance operations		(6,279,137)	(25,745,959)
Shareholder's appropriation from deficit		6,279,137	25,745,959
<b>NET RESULT FOR THE YEAR</b>		<b>-</b>	<b>-</b>

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2010

	Note	2010 SR	2009 SR
Net deficit transferred from insurance operations		(6,279,137)	(25,745,959)
Commission income from bank deposits		783,015	2,776,024
Commission income on held to maturity investment		142,949	-
General and administrative expenses	23	(1,631,572)	(2,117,258)
<b>NET LOSS FOR THE YEAR</b>		<b>(6,984,745)</b>	<b>(25,087,193)</b>
<b>LOSS PER SHARE</b>	27	<b>(0.35)</b>	<b>(1.25)</b>
<b>WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES</b>		<b>20,000,000</b>	<b>20,000,000</b>

## STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS

For the year ended 31 December 2010

	Note	2010 SR	2009 SR
<b>NET LOSS FOR THE YEAR</b>		<b>(6,984,745)</b>	<b>(25,087,193)</b>
Unrealised gain on available for sale investments		4,840,381	129,291
Zakat and income tax	22	(1,925,176)	(1,874,476)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(4,069,540)</b>	<b>(26,832,378)</b>
<b>LOSS PER SHARE</b>	27	<b>(0.20)</b>	<b>(1.34)</b>
<b>WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES</b>		<b>20,000,000</b>	<b>20,000,000</b>

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2010

	Share capital SR	Accumulated losses SR	Revaluation reserve SR	Total SR
Balance at 1 January 2009	200,000,000	(18,969,935)	-	181,030,065
Net loss for the year	-	(25,087,193)	-	(25,087,193)
Net unrealised gain on available for sale investments	-	-	129,291	129,291
Zakat and income tax	-	(1,874,476)	-	(1,874,476)
Balance at 31 December 2009	200,000,000	(45,931,604)	129,291	154,197,687
Balance at 1 January 2010	200,000,000	(45,931,604)	129,291	154,197,687
Net loss for the year	-	(6,984,745)	-	(6,984,745)
Net unrealised gain on available for sale investments	-	-	4,840,381	4,840,381
Zakat and income tax	-	(1,925,176)	-	(1,925,176)
Balance at 31 December 2010	200,000,000	(54,841,525)	4,969,672	150,128,147

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2010

	2010 SR	2009 SR
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(6,279,137)</b>	<b>(25,745,959)</b>
Deficit from insurance operations		
Adjustments for:		
Depreciation	913,748	536,476
Loss on disposal of property and equipment	6,735	-
End-of-service indemnities, net	552,053	398,179
Commission income	(243,754)	-
	<b>(5,050,355)</b>	<b>(24,811,304)</b>
Changes in operating assets and liabilities:		
Insurance receivables	(10,002,549)	(45,493,018)
Reinsurance share of unearned premium	(517,334)	(30,406,296)
Reinsurers share of outstanding claims	6,724,084	(25,117,596)
Deferred policy acquisition costs	(7,339,725)	(6,205,806)
Prepaid expenses and other assets	(518,968)	(2,377,437)
Due from an affiliate	856,050	(856,050)
Insurance payables	(5,573,762)	40,294,187
Unearned premiums	34,029,420	70,425,222
Unearned reinsurance commission	4,177,189	2,558,240
Outstanding claims	5,133,775	52,915,495
Accrued expenses and other liabilities	5,433,560	1,975,463
<b>Net cash from operating activities</b>	<b>27,351,385</b>	<b>32,901,100</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,069,442)	(1,503,018)
Proceeds from disposal of property and equipment	2,900	-
Commission income received	226,332	-
<b>Net cash used in investing activities</b>	<b>(840,210)</b>	<b>(1,503,018)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Due from shareholders operations	33,343,130	(5,012,272)
<b>Net cash from (used in) financing activities</b>	<b>33,343,130</b>	<b>(5,012,272)</b>
<b>Net increase in cash and cash equivalents</b>	<b>59,854,305</b>	<b>26,385,810</b>
Cash and cash equivalents at the beginning of the year	26,385,810	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>86,240,115</b>	<b>26,385,810</b>
<b>Non cash transactions:</b>		
- Property and equipment	-	1,429,716
- End of service indemnities	-	324,078

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## STATEMENT OF SHAREHOLDERS' OPERATIONS' CASH FLOWS

For the year ended 31 December 2010

	2010 SR	2009 SR
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	(6,984,745)	(25,087,193)
Adjustment for:		
Commission income	(783,015)	(2,776,024)
	(7,767,760)	(27,863,217)
<b>Changes in operating assets and liabilities:</b>		
Prepaid expenses and other assets	-	315,572
Accrued expenses and other liabilities	(4,125,332)	(606,844)
Due to insurance operations	(27,063,993)	30,758,231
Cash (used in) from operating activities	(38,957,085)	2,603,742
Zakat paid	(847,285)	-
<b>Net cash (used in) from operating activities</b>	<b>(39,804,370)</b>	<b>2,603,742</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Short term deposit matured	25,000,000	93,602,799
Purchase of investment, net	(10,500,000)	(33,423,078)
Commission income received	948,090	4,748,472
<b>Net cash from investing activities</b>	<b>15,448,090</b>	<b>64,928,193</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(24,356,280)</b>	<b>67,531,935</b>
Cash and cash equivalents at the beginning of the year	70,441,679	2,909,744
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>46,085,399</b>	<b>70,441,679</b>
<b>Non cash transactions:</b>		
- Unrealised gain on investment	4,840,381	129,291
- Property and equipment	-	1,429,716
- End of service indemnities	-	324,078

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2010

### 1. GENERAL

The Saudi United Cooperative Insurance Company (the Company) is a Saudi Joint Stock Company established in Al Khobar, Kingdom of Saudi Arabia and incorporated on 19 Jumada II 1428H corresponding to 4 July 2007 under Commercial Registration No. 2051034982.

The purpose of the Company is to transact in cooperative insurance operations and all related activities.

The Company was granted the license (number TMN/16/2008) to practice general and medical insurance and re-insurance business from the Saudi Arabian Monetary Agency (SAMA) on 28 Jumada II 1429 H corresponding to 2 July 2008.

### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD

#### 2.1 Standards affecting the disclosures and presentation in the current year

None of the revised Standards that have been adopted in the current year which is effective for annual periods beginning on or after 1 January 2010 has affected the disclosures and presentations in the financial statements. Details of those Standards adopted in these financial statements but that have had no effect on the amounts reported are set out in Note 2.2.

#### 2.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

#### New Interpretations:

IFRIC 17 Distributions of Non-cash Assets to Owners

#### Effective for annual periods beginning on or after

1 July 2009

IFRIC 18 Transfers of Assets from Customers

Transfers received on or after 1 July 2009

#### Amendments to Standards:

IFRS 2 Share-based Payment – Amendments relating to group cash-settled share-based payment transactions

1 January 2010

IFRS 3 Business Combinations- Comprehensive revision on applying the acquisition method

1 July 2009

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

1 July 2009

IFRS 8 Operating Segments – Amendments for disclosure of segment assets

1 January 2010

IAS 27 Consolidated and Separate Financial Statements-Consequential amendments arising from amendments to IFRS 3

1 July 2009

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD (Continued)

<u>Amendments to Standards:</u>		<u>Effective for annual periods beginning on or after</u>
IAS 28	Investments in Associates-Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement-Amendments for eligible hedged Items	1 July 2009
IAS 31	Interests in Joint Ventures-Consequential amendments arising from amendments to IFRS 3	1 July 2009
Various Standards	Amendments resulting from April 2009 Annual Improvements to IFRS's	Various

#### 2.3 Standards and Interpretations in issue but not yet effective

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not effective:

<u>New Interpretations:</u>		<u>Effective for annual periods beginning on or after</u>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
<b>New Standard:</b>		
IFRS 9	Financial Instruments	1 January 2013
<b>Amendments to Standards and Interpretations:</b>		
IFRS 1	First-time Adoption of International Financial Reporting Standards-Amendment relating to limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
IFRS 7	Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IAS 24	Related Party Disclosures	1 January 2011
IAS 32	Financial Instruments: Presentation – Classification of Right Issues	1 February 2010
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
Various Standards	Amendments resulting from May 2010 Annual Improvements to IFRS's	Various

The Directors anticipate that all of the above Standards and Interpretations as applicable, will be adopted in the Company's financial statements in future periods and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 3. BASIS OF PREPARATION

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

#### Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgement that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgements are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Further details of the specific estimates and judgement made by management are given in the accounting policy notes below.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Accounting convention**

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

#### **Functional currency**

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

#### **Revenue recognition**

Premiums are taken into income over the terms of the policies to which they relate on a pro rata basis using the 1/365 method except for marine insurance which is calculated based on nine months premium. Unearned premiums represent the portion of premiums written relating to the unexpired period of insurance coverage. The change in the provision for unearned premiums is taken to the statement of insurance operations, over the period of risk.

Retained premiums and commission income in the current period, which relate to unexpired risks beyond the end of the financial period, are reported as unearned based on mechanism identified above.

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

#### **Basis of presentation**

The Company maintains separate books of account for the insurance operations and shareholders. 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 the management and approved by the Board of Directors.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and highly liquid investments with original maturities of three months or less that are readily convertible to corresponding amounts of cash and which are subject to insignificant risk of changes in value. At 31 December 2010, cash and cash equivalents consist entirely of cash in hand, bank balances and term deposits.

#### Claims

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

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition a provision based on actuarial valuation is maintained for the cost of settling claims incurred but not reported (IBNR) at the reporting date. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the statement of insurance operations for that year.

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

#### Policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewals of insurance contracts are deferred. Deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned.

The direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized on a pro rata basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the cost incurred during the last quarter. Amortization is recorded in the statement of insurance operations.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the 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 insurance operations. Deferred policy acquisition cost is also considered in the liability adequacy test for each reporting period.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contracts liabilities net of related deferred policy acquisition costs. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations initially by writing off the related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the un expired risk provision).

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

#### Reinsurance

In the ordinary course of business, the Company cedes insurance premium and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' statement of financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of insurance operations.

#### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of insurance and/or shareholders' operations.

#### Provisions for obligations

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

#### Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

#### Employees' end of service indemnities

Employees' end of service indemnities are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Arabian Labor Regulations on termination 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 be terminated at the balance sheet date. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stipulated by the Saudi Arabian Labor Regulations.

#### Receivables

Receivables are recognized when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivables 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 insurance operations. Premiums receivables are derecognized when the derecognition criteria for financial assets have been met.

Premiums receivable represents premiums written for policies issued on credit, which are outstanding at the reporting date, less an allowance.

#### Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statements of insurance operations or shareholders' operations. Impairment is determined as follows:

For assets carried at fair value, impairment is the difference between the cost and fair value.

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

For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective commission rate.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Zakat and income tax**

The Company is subject to zakat and income tax on behalf of the Saudi and foreign shareholders, respectively, in accordance with the regulations of the Department of Zakat and Income Tax. Zakat and income tax is accrued and charged to the statement of changes in shareholders' equity. The zakat charge is computed on the Saudi /GCC Nationals' shareholders' share of the zakat base.

Income tax is computed on the foreign shareholder's share of adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

#### **Segment reporting**

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments. For management purposes, the Company is organized into business units based on their products and services and has three reportable segments as follows:

Medical insurance provides coverage for health insurance.

Motor insurance provides coverage for vehicles' insurance.

General insurance provides coverage for property, engineering, fire, marine and other general insurance

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

#### **Product classification**

##### *Insurance contract*

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

##### *Investment contracts*

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Derecognition of financial assets and liabilities

##### *Financial assets*

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

##### *Financial liabilities*

Financial liabilities, insurance, reinsurance payable and other payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of insurance operations.

#### **Fair values**

Fair values of commission bearing items are estimated based on discounted cash flows using commission for instruments with similar terms and risk characteristics.

#### **Accounts payable and accruals**

Liabilities are recognized for amounts to be paid in the future for goods when risks and rewards associated with such goods are transferred to the Company or when services are received, whether or not billed to the Company.

#### **Offsetting**

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of insurance and shareholder's operations unless required or permitted by an accounting standard or interpretation.

#### **Leases**

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments and other financial assets

Financial assets are classified as either investments available for sale or investments held to maturity or loan and advances, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

The Company determines that classification of its investments upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Investments available for sale*

After initial recognition investments available for sale are measured at fair value with gains and losses being recognised in the statement of shareholders comprehensive operations until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the statement of shareholders' operations. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

#### *Investments held to maturity*

Investments held to maturity are non derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After initial measurement, held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the statement of shareholders' operations when the investments are derecognised or impaired, as well as through the amortisation process.

#### *Loans and advances*

Loans and advances are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or cost that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of shareholders' operations. The losses arising from impairment are recognised in the statement of shareholders' operations in finance costs.

#### *Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 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 balance sheet 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.

#### **The ultimate liability arising from claims made under insurance contracts**

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that 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 balance sheet date, for which the insured event has occurred prior to the balance sheet date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is based on actuarial valuation.

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 recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past due status being indicative of the ability to pay all amounts due as per contractual terms.

#### **Policy acquisition costs**

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

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 6. PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Years
Computer equipment & software	4
Furniture, fixture and office equipment	5
Vehicles	4

#### a) Insurance operations:

	Computer equipment & software SR	Furniture, fixture & office equipment SR	Vehicles SR	Total 2010 SR
Cost				
1 January 2010	1,584,457	1,788,431	67,350	3,440,238
Additions	676,248	305,194	88,000	1,069,442
Disposals	-	(23,453)	-	(23,453)
31 December 2010	2,260,705	2,070,172	155,350	4,486,227
Depreciation				
1 January 2010	484,695	536,773	22,512	1,043,980
Charge for year	491,893	384,163	37,692	913,748
Disposals	-	(13,818)	-	(13,818)
31 December 2010	976,588	907,118	60,204	1,943,910
Net book value				
31 December 2010	1,284,117	1,163,054	95,146	2,542,317

	Computer equipment & software SR	Furniture, fixture & office equipment SR	Vehicles SR	Total 2009 SR
Cost				
Transfer from shareholders' books	753,005	1,116,865	67,350	1,937,220
Additions	831,452	671,566	-	1,503,018
31 December 2009	1,584,457	1,788,431	67,350	3,440,238
Depreciation				
Transfer from shareholders' books	214,997	288,017	4,490	507,504
Charge for year	269,698	248,756	18,022	536,476
31 December 2009	484,695	536,773	22,512	1,043,980
Net book value				
31 December 2009	1,099,762	1,251,658	44,838	2,396,258

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 6. PROPERTY AND EQUIPMENT (Continued)

#### b) Shareholders' operations:

During the year, there were no property and equipment in shareholders' operations:

	Computer equipment & software SR	Furniture, fixture & office equipment SR	Vehicles SR	Total 2009 SR
Cost				
1 January 2009	753,005	1,116,865	67,350	1,937,220
Transfer to insurance operations	(753,005)	(1,116,865)	(67,350)	(1,937,220)
At 31 December 2009	-	-	-	-
Depreciation				
1 January 2009	214,997	288,017	4,490	507,504
Transfer to insurance operations	(214,997)	(288,017)	(4,490)	(507,504)
At 31 December 2009	-	-	-	-
Net book value				
At 31 December 2009	-	-	-	-

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 7. INSURANCE RECEIVABLES

	2010 SR	2009 SR
Premiums receivable	54,230,193	41,990,507
Insurance and reinsurance companies	4,246,786	4,502,511
Provision for doubtful debts	(2,981,412)	(1,000,000)
	<b>55,495,567</b>	<b>45,493,018</b>

All of the above amounts are due within twelve months of the reporting date. Amounts due from reinsurers are normally settled on a quarterly basis.

Movement in allowance for doubtful debts was as follows:

	2010 SR	2009 SR
At the beginning of the year	1,000,000	-
Provided during the year	1,981,412	1,000,000
At the end of year	<b>2,981,412</b>	<b>1,000,000</b>

At 31 December 2010, the aging of receivables arising from insurance and reinsurance contracts is as follows:

#### Insurance premium receivable:

		Past due but not impaired						
		Neither impaired nor past due	30 days	31 - 60 days	61 - 120 days	121 - 180 days	181 - 360 days	above 360 days
2010	54,230,193	15,094,521	6,537,272	9,354,748	10,652,146	7,266,650	4,204,452	1,120,404
2009	41,990,507	17,420,457	12,765,548	6,562,682	1,555,471	2,301,592	1,384,757	-

#### Insurance and reinsurance receivable:

		Past due but not impaired						
		Neither impaired nor past due	30 days	31 - 60 days	61 - 120 days	121 - 180 days	181 - 360 Days	above 360 days
2010	4,246,786	-	276,193	802,723	339,157	215,746	2,282,330	330,637
2009	4,502,511	243,946	1,948,669	416,571	642,947	500,303	750,075	-

Unimpaired receivables are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 8. UNEARNED PREMIUM

Unearned premiums

Reinsurers share of unearned premiums

2010 SR	2009 SR
104,454,642	70,425,222
(30,923,630)	(30,406,296)
73,531,012	40,018,926

### 9. MOVEMENT IN INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS

	2010			2009		
	Gross SR	Reinsurers share SR	Net SR	Gross SR	Reinsurers share SR	Net SR
Claims:						
At the beginning of the year	(52,915,495)	25,117,596	(27,797,899)	-	-	-
Insurance claims settled during the year	96,825,253	(32,282,855)	64,542,398	14,783,841	(2,368,705)	12,415,136
Outstanding claims at the end of year	58,049,270	(18,393,512)	39,655,758	52,915,495	(25,117,596)	27,797,899
<b>Claim incurred</b>	<b>101,959,028</b>	<b>(25,558,771)</b>	<b>76,400,257</b>	<b>67,699,336</b>	<b>(27,486,301)</b>	<b>40,213,035</b>
Analysis of outstanding claims:						
At 31 December:						
At the beginning of the year	(52,915,495)	25,117,596	(27,797,899)	-	-	-
Reported claims	36,370,064	(18,393,512)	17,976,552	39,072,556	(25,117,596)	13,954,960
Claims incurred but not reported	21,679,206	-	21,679,206	13,842,939	-	13,842,939
<b>Changes in outstanding claims</b>	<b>5,133,775</b>	<b>6,724,084</b>	<b>11,857,859</b>	<b>52,915,495</b>	<b>(25,117,596)</b>	<b>27,797,899</b>

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 10. REINSURANCE CONTRACT ASSETS AND INSURANCE CONTRACT LIABILITIES

	Medical SR	Motor SR	Property SR	Others SR	2010 Total SR
<b>Gross:</b>					
Insurance contract liabilities					
Claims reported unsettled	1,048,446	12,283,568	11,294,694	11,743,356	36,370,064
Claims incurred but not reported	3,994,368	12,641,809	978,914	4,064,115	21,679,206
Unearned premium	16,858,842	57,148,268	6,187,000	24,260,532	104,454,642
<b>Total insurance contract liabilities, gross</b>	<b>21,901,656</b>	<b>82,073,645</b>	<b>18,460,608</b>	<b>40,068,003</b>	<b>162,503,912</b>
<b>Recoverable from reinsurers</b>					
Claims reported unsettled	776,516	344,582	9,054,384	8,218,030	18,393,512
Unearned premium	7,948,180	-	6,062,132	16,913,313	30,923,630
<b>Total reinsurers' share of insurance liabilities</b>	<b>8,724,696</b>	<b>344,582</b>	<b>15,116,516</b>	<b>25,131,343</b>	<b>49,317,142</b>
<b>Net:</b>					
Claims reported unsettled	271,930	11,938,986	2,240,310	3,525,326	17,976,552
Claims incurred but not reported	3,994,368	12,641,809	978,914	4,064,115	21,679,206
Unearned premium	8,910,662	57,148,268	124,868	7,347,214	73,531,012
	<b>13,176,960</b>	<b>81,729,063</b>	<b>3,344,092</b>	<b>14,936,655</b>	<b>113,186,770</b>

	Medical SR	Motor SR	Property SR	Others SR	2010 Total SR
<b>Gross:</b>					
Insurance contract liabilities					
Claims reported unsettled	3,403,298	6,427,661	23,554,377	5,687,220	39,072,556
Claims incurred but not reported	803,314	10,387,895	653,740	1,997,990	13,842,939
Unearned premium	20,186,139	26,268,894	3,529,182	20,441,007	70,425,222
<b>Total insurance contract liabilities, gross</b>	<b>24,392,751</b>	<b>43,084,450</b>	<b>27,737,299</b>	<b>28,126,217</b>	<b>123,340,717</b>
<b>Recoverable from reinsurers</b>					
Claims reported unsettled	2,382,308	412,182	18,764,129	3,558,977	25,117,596
Unearned premium	11,580,627	-	3,228,636	15,597,033	30,406,296
<b>Total reinsurers' share of insurance liabilities</b>	<b>13,962,935</b>	<b>412,182</b>	<b>21,992,765</b>	<b>19,156,010</b>	<b>55,523,892</b>
<b>Net:</b>					
Claims reported unsettled	1,020,990	6,015,479	4,790,248	2,128,243	13,954,960
Claims incurred but not reported	803,314	10,387,895	653,740	1,997,990	13,842,939
Unearned premium	8,605,512	26,268,894	300,546	4,843,974	40,018,926
	<b>10,429,816</b>	<b>42,672,268</b>	<b>5,744,534</b>	<b>8,970,207</b>	<b>67,816,825</b>

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 11. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent, major shareholders, directors and entities controlled, jointly or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year

		Sales of insurance contracts SR	Purchases of reinsurance contracts SR	Amounts owed by related parties SR	Amounts owed to related parties SR
Directors & related parties	2010	2,868,799	315,232	314,149	-
	2009	8,967,004	254,200	1,852,096	-
Key management personnel	2010	-	-	-	-
	2009	4,680	-	-	-
Due from/to an affiliate	2010	-	-	-	2,963,439
	2009	-	-	856,050	4,116,333

Transactions with related parties are made at normal market prices. When market prices cannot be determined book values are used. Outstanding balances at year end are unsecured and settlement occurs as per payment terms. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2010 and 2009, the Company has not raised any provision for doubtful debts relating to amounts owed by related parties as management is confident regarding recovery of relevant balances.

Compensation of key management personnel of the Company:

	2010 SR	2009 SR
Short term benefits	3,921,844	3,316,190
Employees' end of service indemnity	389,002	195,883
	4,310,846	3,512,073

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 12. CASH AND CASH EQUIVALENTS

#### a) Insurance operations:

	2010 SR	2009 SR
Cash on hand	31,987	207,802
Cash at banks	20,764,739	21,171,609
Short term deposit	65,443,389	5,006,399
Cash and cash equivalents	86,240,115	26,385,810

#### b) Shareholders operations:

	2010 SR	2009 SR
Cash at banks	834,098	40,396,065
Short term deposit	45,251,301	30,045,614
Cash and cash equivalents	46,085,399	70,441,679

Bank accounts are placed with counterparties who have investment grade rating.

### 13. STATUTORY DEPOSIT

The statutory deposit represents 10% of the paid up share capital which is maintained in accordance with the implementing guidelines on the Law on Supervision of Co-operative Insurance Companies. This statutory deposit can not be withdrawn without the consent of SAMA.

### 14. OTHER FINANCIAL ASSETS

The Company's other financial assets are summarized by categories as follows:

	2010 SR	2009 SR
Held to maturity	6,500,000	6,500,000
Available for sale	40,769,672	25,929,291
Loans and advances	2,423,078	1,923,078
	49,692,750	34,352,369

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 14. OTHER FINANCIAL ASSETS (Continued)

The following table compares fair values of financial assets identified above to their carrying values:

	2010		2009	
	Carrying value SR	Fair value SR	Carrying value SR	Fair Value SR
Held to maturity	6,500,000	6,500,000	6,500,000	6,500,000
Available for sale	40,769,672	40,769,672	25,929,291	25,929,291
Advances towards investments	2,423,078	2,423,078	1,923,078	1,923,078
	<b>49,692,750</b>	<b>49,692,750</b>	<b>34,352,369</b>	<b>34,352,369</b>

#### a) Held-to-maturity

	2010 SR	2009 SR
<b>Fair value</b>		
Debt securities	6,500,000	6,500,000
<b>Amortised cost</b>		
Debt securities	6,500,000	6,500,000

#### b) Available-for-sale

	2010 SR	2009 SR
Equity securities	40,769,672	25,929,291

#### c) Loans and advances

	2010 SR	2009 SR
Advances towards investments	1,923,078	1,923,078
Loan and receivable	500,000	-
	<b>2,423,078</b>	<b>1,923,078</b>

Investment held to maturity represents fixed rate bonds that are traded in an inter-bank market within Saudi Arabia and values are determined according to such market, when available, or through an appropriate pricing model. These fixed rate bonds are with a maturity period of 5 years.

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 14. OTHER FINANCIAL ASSETS (Continued)

Investment in managed fund has been made during the year and represents quoted securities in domestic market. Information for this managed fund is usually restricted to periodic investment performance reports from the investment managers. Management has performed a review of its investment in managed fund to assess whether impairment has occurred in the value of its investment and based on specific information available in respect of this fund and its operations, management is of the view that investment in the managed fund has not suffered any impairment.

Advances towards investments represents amounts paid against the percentage of proposed/issued capital for companies which are either newly formed or are currently under development. For companies under formation stage, these advances will be settled against the Company's share in these companies whenever the legal formalities of establishing them will be completed.

### 15. SHORT TERM DEPOSITS

The time deposits, which are denominated in Saudi Riyals, are made for varying periods between 3 months and 12 months depending on the cash requirements of the Company, and earn interest at an effective commission rate of 0.77% as at 31 December 2010 (31 December 2009: 1.89%). Short term deposits are placed with counterparties who have investment grade ratings.

### 16. END-OF-SERVICE INDEMNITIES

#### a) Insurance operations:

	2010 SR	2009 SR
Opening balance	722,257	-
Transfer from shareholders' books	-	324,078
Provision for the year	744,283	458,348
Utilisation of provision	(192,230)	(60,169)
	<b>1,274,310</b>	<b>722,257</b>

#### b) Shareholders' operations:

	2010 SR	2009 SR
Opening balance	-	324,078
Transfer to insurance operations books	-	(324,078)
Provision for the year	-	-
Utilisation of provision	-	-
	<b>-</b>	<b>-</b>

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 17. INSURANCE PAYABLE

	2010 SR	2009 SR
Reinsurance companies	30,085,902	33,745,383
Other payables	4,634,523	6,548,804
	<b>34,720,425</b>	<b>40,294,187</b>

### 18. ACCRUED EXPENSES AND OTHER LIABILITIES

#### a). Insurance operations:

	2010 SR	2009 SR
Accrued expenses	4,345,584	1,875,463
Other payables	100,000	100,000
Due to an affiliate (note 11)	2,963,439	-
	<b>7,409,023</b>	<b>1,975,463</b>

#### b). Shareholders' operations:

	2010 SR	2009 SR
Accrued expenses	300,000	374,000
Zakat	2,952,367	1,874,476
Due to an affiliate (note 11)	-	4,116,333
Other payables	483,423	418,422
	<b>3,735,790</b>	<b>6,783,231</b>

### 19. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 200 million at the period end consisting of 20 million shares of SR 10 each.

### 20. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the Articles of Association of the Company, the Company shall allocate 20% of the shareholders' income each year until the reserve equals 100% of the paid capital. In view of the accumulated losses, no such transfer has been made for the year ended 31 December 2010 and 2009.

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 21. NET INSURANCE PREMIUM REVENUE

	2010 SR	2009 SR
Gross written premiums	219,997,528	142,920,168
Movement in provision for unearned premiums	(34,029,420)	(70,425,222)
Gross insurance premium revenue	185,968,108	72,494,946
Reinsurance premium ceded	67,873,528	61,257,607
Movement in provision for unearned premiums	(517,334)	(30,406,296)
Insurance premiums ceded to reinsurers	67,356,194	30,851,311
Net insurance premiums earned	118,611,914	41,643,635

### 22. ZAKAT AND INCOME TAX

#### Zakat

##### Charge for the year

The zakat charge consists of:

	2010 SR	2009 SR
Current year provision	1,925,176	2,402,098
Adjustment for previous year (over provision)	-	(527,622)
Charge for the year	1,925,176	1,874,476

Current provision is based on the following:

	2010 SR	2009 SR
Equity	154,197,687	181,030,065
Non current liabilities	1,274,310	4,490,646
Non current assets	(65,235,067)	(25,119,336)
Zakat base	90,236,930	160,401,375

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

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 22. ZAKAT AND INCOME TAX (Continued)

#### Movements in provision during the year

The movement in the zakat provision for the year was as follows:

	2010 SR	2009 SR
At the beginning of the year	1,874,476	-
Provided during the year	1,925,176	1,874,476
Payments during the year	(847,285)	-
At the end of the year	2,952,367	1,874,476

#### Income tax

No income tax provision has been provided for the year due to losses incurred.

#### Status of assessments

The Company has submitted its zakat and income tax returns upto the year ended 31 December 2009 and settled zakat and income tax as per return and obtained the required certificate from the Department of Zakat and Income Tax.

### 23. GENERAL AND ADMINISTRATIVE EXPENSES

#### a) Insurance operations:

	2010 SR	2009 SR
Rent expenses	960,193	598,699
Depreciation	913,748	535,097
Legal and professional fee	2,862,050	2,444,894
Training and education	431,695	466,968
Marketing, advertising and promotion	150,470	307,855
Office supplies	602,497	527,535
IT expenses	218,188	6,308
Utilities	878,294	610,132
Doubtful debts	1,981,412	1,000,000
Withholding tax	1,684,906	1,057,120
Other expenses	803,885	402,236
	11,487,338	7,956,844

#### b) Shareholders' operations:

	2010 SR	2009 SR
Employee costs	1,200,000	2,031,000
Other expenses	431,572	86,258
	1,631,572	2,117,258

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 24. SEGMENTAL REPORTING

For management purposes the Company is organised into business segments classified as: Motor, Medical, Property and Others. Others include marine, engineering & casualty. These segments are the basis on which the Company reports its primary segment information.

Consistent with the Company's internal reporting process, business segment has been approved by management in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include operating and administrative salaries and general and administrative expenses and have been presented under unallocated expenses.

	Medical SR	Motor SR	Property SR	Others SR	Total SR
Operating segments					
For the year ended 31 December 2010					
Gross premiums written	36,493,256	113,818,388	21,583,700	48,102,184	219,997,528
Net premiums earned	17,302,808	81,713,172	1,724,461	17,871,473	118,611,914
Reinsurance commission	2,899,903	245,110	5,650,173	5,709,231	14,504,417
Other underwriting income	12,440	25,623	6,115	33,098	77,276
Net claims incurred	(11,492,839)	(58,452,009)	(854,467)	(5,600,942)	(76,400,257)
Other underwriting expenses	(4,522,511)	(14,662,047)	(2,765,967)	(6,328,079)	(28,278,604)
Other general and administrative expenses (unallocated)	-	-	-	-	(35,037,637)
Deficit from insurance operations	-	-	-	-	(6,522,891)
Commission income from bank deposits	-	-	-	-	243,754
Net deficit from insurance operations	-	-	-	-	(6,279,137)

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 24. SEGMENTAL REPORTING (Continued)

	Medical SR	Motor SR	Property SR	Others SR	Total SR
As at 31 December 2010					
Insurance operations' assets					
Reinsurers' share of unearned premiums	7,948,180	-	6,062,132	16,913,318	30,923,630
Reinsurers' share of outstanding claims	776,516	344,582	9,054,384	8,218,030	18,393,512
Deferred policy acquisition cost	1,247,931	8,082,888	901,360	3,313,352	13,545,531
Unallocated assets	-	-	-	-	149,780,426
<b>Total assets</b>	<b>9,972,627</b>	<b>8,427,470</b>	<b>16,017,876</b>	<b>28,444,700</b>	<b>212,643,099</b>
Insurance operations' liabilities					
Unearned premiums	16,858,842	57,148,268	6,187,000	24,260,532	104,454,642
Outstanding claims	5,042,814	24,925,377	12,273,608	15,807,471	58,049,270
Unearned insurance commission	2,313,892	-	1,648,218	2,773,319	6,735,429
Unallocated liabilities	-	-	-	-	43,403,758
<b>Total liabilities</b>	<b>24,215,548</b>	<b>82,073,645</b>	<b>20,108,826</b>	<b>42,841,322</b>	<b>212,643,099</b>

	Medical SR	Motor SR	Property SR	Others SR	Total SR
Operating segments					
For the year ended 31 December 2009					
Gross premiums written	28,014,538	56,699,799	17,429,071	40,776,760	142,920,168
Net premiums earned	2,933,940	29,336,794	1,390,738	7,982,163	41,643,635
Reinsurance commission	-	218,808	2,783,755	2,428,848	5,431,411
Other underwriting income	14,005	29,946	8,495	32,365	84,811
Net claims incurred	(2,005,109)	(27,990,011)	(5,758,513)	(4,459,402)	(40,213,035)
Other underwriting expenses	(2,244,963)	(6,198,475)	(1,356,096)	(4,201,167)	(14,000,701)
Other general and administrative expenses (unallocated)	-	-	-	-	(18,692,080)
<b>(Deficit) surplus from insurance operations</b>					<b>(25,745,959)</b>
<b>Net deficit from insurance operations</b>					<b>(25,745,959)</b>

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 24. SEGMENTAL REPORTING (Continued)

	Medical SR	Motor SR	Property SR	Others SR	Total SR
As at 31 December 2009					
Insurance operations' assets					
Reinsurers' share of unearned premiums	11,580,627	-	3,228,637	15,597,032	30,406,296
Reinsurers' share of outstanding claims	2,382,308	412,182	18,764,129	3,558,977	25,117,596
Deferred policy acquisition costs	1,087,239	3,494,594	311,721	1,312,252	6,205,806
Unallocated assets	-	-	-	-	107,161,166
<b>Total assets</b>	<b>15,050,174</b>	<b>3,906,776</b>	<b>22,304,487</b>	<b>20,468,261</b>	<b>168,890,864</b>
Insurance operations' liabilities					
Unearned premiums	20,186,140	26,268,894	3,529,182	20,441,006	70,425,222
Outstanding claims	4,206,612	16,815,556	24,208,118	7,685,209	52,915,495
Unearned reinsurance commission	-	-	805,652	1,752,588	2,558,240
Unallocated liabilities	-	-	-	-	42,991,907
<b>Total liabilities</b>	<b>24,392,752</b>	<b>43,084,450</b>	<b>28,542,952</b>	<b>29,878,803</b>	<b>168,890,864</b>

### Geographical segments

For operational and management reporting purposes, the Company is organized as one geographical segment as it operates only in the Kingdom of Saudi Arabia.

### 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and balances with banks and other assets, and its financial liabilities consist of accruals and other liabilities.

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

### Financial instruments

Any contract that gives rise to a financial asset in one enterprise and a financial liability or equity instrument of another enterprise is a financial instrument.

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 25. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

#### Categories of financial instruments

##### a) Insurance operations:

#### Financial assets

Insurance premium receivables

Reinsurance contract assets

Due from an affiliate

Accrued interest income

Cash and cash equivalents

#### Financial liabilities

Insurance contract liabilities

Insurance payable

Accrued expenses and other liabilities

2010 SR	2009 SR
55,495,567	45,493,018
49,317,142	55,523,892
-	856,050
17,422	-
86,240,115	26,385,810
191,070,246	128,258,770
169,239,341	125,898,957
34,720,425	40,294,187
7,409,023	1,975,462
211,368,789	168,168,606

##### b) Shareholders' operations:

#### Financial assets

Other financial assets

Accrued income

Short term deposits

Cash and cash equivalents

#### Financial liabilities

Accrued expenses and other liabilities

2010 SR	2009 SR
49,692,750	34,352,369
674,388	839,463
40,000,000	65,000,000
46,085,399	70,441,679
136,452,537	170,633,511
783,423	4,908,755
783,423	4,908,755

Financial instruments comprise of financial assets and financial liabilities as have been defined above.

The fair values of investments held to maturity are carried at cost (note 14), are not materially different from their carrying values. The Company uses the following hierarchy for determining and disclosing the fair values of available for sale investments as well as advances by a valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 25. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

**31 December 2010**

	Level 1 SR	Level 2 SR	Level 3 SR	Total fair value SR
Financial instruments:				
Held to maturity:				
Debt securities	-	6,500,000	-	6,500,000
Investments available for sale:				
Equity securities	39,969,672	-	800,000	40,769,672
Loans and advances:				
Advances towards investments	-	-	1,923,078	1,923,078
Loan	-	-	500,000	500,000
Total	39,969,672	6,500,000	3,223,078	49,692,750

**31 December 2009**

	Level 1 SR	Level 2 SR	Level 3 SR	Total fair value SR
Financial instruments:				
Held to maturity:				
Debt securities	-	6,500,000	-	6,500,000
Investments available for sale:				
Equity securities	25,129,291	-	800,000	25,929,291
Loans and advances:				
Advances towards investments	-	-	1,923,078	1,923,078
Total	25,129,291	6,500,000	2,723,078	34,352,369

During the year, there were no transfers into or out of level 3. Only addition of SR 0.5 million represents loan given to Najm.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT

This note sets out the major risks our business faces and describes our approach to managing these. It also gives sensitivity analyses around the major economic and non-economic assumptions that can cause volatility in our earnings and capital requirements.

The Company has established a risk management framework to protect the Company from events that hinder the sustainable achievement of its performance objectives, including failing to exploit opportunities.

The risks faced by the Company can be categorised as follows:

- Financial risks cover credit risk, liquidity risk, market risk, commission rate risk, insurance risk and capital management.
- Strategic risks include issues such as customer, brand, products and markets as well as any risks to our business model arising from changes in our market and risks arising from mergers and acquisitions.
- Operational risk arises from inadequate or failed internal processes, or from people and systems or from external events. Operational risks include business protection, information technology, people, legal and regulatory compliance.

The risk management framework provides the means to identify, assess, mitigate, manage, monitor and report all of the different types of risk faced by the Company to provide a single picture of the threats and uncertainties faced and opportunities that exist. Responsibility for risk management resides at all levels within the Company with appropriate risk related objectives embedded within performance measurement plans.

The Company recognises the critical importance of maintaining an efficient and effective risk management framework. To this end, the Company has an established governance framework, which has the following key elements:

- Defined terms of reference for the Board, its committees, and the associated executive management committees.
- A clear organisational structure with documented delegated authorities and responsibilities from the Board to Board committees, executive team and senior management.

#### Financial risk

The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, cash and cash equivalents and advances for investments.

The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, market price risk, commission rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### *Credit risk*

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

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables. Premiums receivable comprise a large number of brokers/customers mainly within Saudi Arabia of which the five largest brokers/customers account for 50% of the receivables as at 31 December 2010.

The Company only enters into insurance and reinsurance contracts with recognized, credit worthy third parties. Receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the company's exposure to bad debts

The Company's bank balances are maintained with a range of international and local banks in accordance with limits set by the board of directors.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets that fall outside the range of investment grade are classified as non investment grade (satisfactory) or past due but not impaired.

Insurance Operations assets as at 31 December 2010

	Neither past due nor impaired			
	Investment grade	Non investment grade (satisfactory)	Past due but not impaired	Total
	SR	SR	SR	SR
Receivables arising from insurance contracts	-	15,094,521	36,154,260	51,248,781
Receivables arising from re insurance contracts	4,246,786	-	-	4,246,786
Reinsurers' share of unexpired risk	30,923,630	-	-	30,923,630
Reinsurers' share of outstanding claims	18,393,512	-	-	18,393,512
Cash and cash equivalents	86,208,128	31,987	-	86,240,115
Accrued interest income	-	17,422	-	17,422
Due from shareholders	2,588,600	-	-	2,588,600
	<u>142,360,656</u>	<u>15,143,930</u>	<u>36,154,260</u>	<u>193,658,846</u>

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### Credit risk (Continued)

Insurance Operations assets as at 31 December 2009

Neither past due nor impaired

	Investment grade SR	Non investment grade (satisfactory) SR	Past due but not impaired SR	Total SR
Receivables arising from insurance contracts	-	16,420,457	24,570,050	40,990,507
Receivables arising from re insurance contracts	4,502,511	-	-	4,502,511
Reinsurers' share of unexpired risk	30,406,296	-	-	30,406,296
Reinsurers' share of outstanding claims	25,117,596	-	-	25,117,596
Cash and cash equivalents	26,178,008	207,802	-	26,385,810
Due from affiliate	-	856,050	-	856,050
Due from shareholders	29,652,593	-	-	29,652,593
	115,857,004	17,484,309	24,570,050	157,911,363

Shareholders' assets as at 31 December 2010

Neither past due nor impaired

	Investment grade SR	Non investment grade (satisfactory) SR	Past due but not impaired SR	Total SR
Statutory deposit	20,000,000	-	-	20,000,000
Other financial assets	49,692,750	-	-	49,692,750
Short term deposits	40,000,000	-	-	40,000,000
Accrued income	674,388	-	-	674,388
Cash and cash equivalents	46,085,399	-	-	46,085,399
	156,452,537	-	-	156,452,537

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### Credit risk (Continued)

Shareholders' assets as at 31 December 2009

Neither past due nor impaired

	Investment grade SR	Non investment grade (satisfactory) SR	Past due but not impaired SR	Total SR
Statutory deposit	20,000,000	-	-	20,000,000
Other financial assets	34,352,369	-	-	34,352,369
Short term deposits	65,000,000	-	-	65,000,000
Accrued income	839,463	-	-	839,463
Cash and cash equivalents	70,441,679	-	-	70,441,679
	<u>190,633,511</u>	<u>-</u>	<u>-</u>	<u>190,633,511</u>

#### Liquidity risk

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

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

The deposits held by the Company at the balance sheet date had original maturity periods not exceeding six months; furthermore, the commitments (in the ordinary course of the business) at the period end are not material.

All financial liabilities are contractually payable within a year's time and are non special commission bearing.

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### Liquidity risk (Continued)

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

	2010			2009		
	Less than 12	More than 12	Total	Less than 12	More than 12	Total
	months	months		months	months	
	SR	SR		SR	SR	
INSURANCE OPERATIONS FINANCIAL ASSETS						
Insurance premium receivable	55,495,567	-	55,495,567	45,493,018	-	45,493,018
Reinsurance contract assets	62,862,673	-	62,862,673	61,729,698	-	61,729,698
Accrued interest income	17,422	-	17,422	-	-	-
Cash and cash equivalents	86,240,115	-	86,240,115	26,385,810	-	26,385,810
TOTAL INSURANCE OPERATIONS FINANCIAL ASSETS	204,615,777	-	204,615,777	133,608,526	-	133,608,526

	Less than 12 months SR	More than 12 months SR	Total SR	Less than 12 months SR	More than 12 months SR	Total SR
INSURANCE OPERATIONS FINANCIAL LIABILITIES						
Reinsurance payables	34,720,425	-	34,720,425	40,294,187	-	40,294,187
Accrued expenses and other liabilities	7,409,023	-	7,409,023	1,975,463	-	1,975,463
Insurance contract liabilities	169,239,341	-	169,239,341	125,898,958	-	125,898,958
TOTAL INSURANCE OPERATIONS FINANCIAL LIABILITIES	211,368,789	-	211,368,789	168,168,608	-	168,168,608

# Saudi United Cooperative Insurance Company (Wala'a)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### Liquidity risk (Continued)

	2010			2009		
	Less than 12 months SR	More than 12 months SR	Total SR	Less than 12 months SR	More than 12 months SR	Total SR
<b>SHAREHOLDERS' FINANCIAL ASSETS</b>						
Statutory deposit	-	20,000,000	20,000,000	-	20,000,000	20,000,000
Accrued income & other assets	674,388	-	674,388	839,463	-	839,463
Short term deposits	40,000,000	-	40,000,000	65,000,000	-	65,000,000
Cash and cash equivalents	46,085,399	-	46,085,399	70,441,679	-	70,441,679
Other financial assets	43,192,750	6,500,000	49,692,750	27,852,369	6,500,000	34,352,369
<b>TOTAL SHAREHOLDERS' FINANCIAL ASSETS</b>	<b>129,952,537</b>	<b>26,500,000</b>	<b>156,452,537</b>	<b>164,133,511</b>	<b>26,500,000</b>	<b>190,633,511</b>
<b>SHAREHOLDERS' FINANCIAL LIABILITIES</b>						
Accrued expenses and other liabilities	783,423	-	783,423	4,908,755	-	4,908,755
Due to insurance operations	2,588,600	-	2,588,600	29,652,593	-	29,652,593
<b>TOTAL SHAREHOLDERS' FINANCIAL LIABILITIES</b>	<b>3,372,023</b>	<b>-</b>	<b>3,372,023</b>	<b>34,561,348</b>	<b>-</b>	<b>34,561,348</b>

#### Market price risk

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

The Company limits market risk by maintaining a diversified portfolio and by monitoring developments in equity markets. The Company does not have any significant market risk.

#### Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on certain of its cash and balances with banks. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its cash and investments are denominated. The effective commission rate at the period end was 0.77% (2009: 1.89%)

All commission bearing financial instruments as at the year end have a maturity of less than 1 year except for bond investment held to maturity.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### *Commission rate risk (Continued)*

The sensitivity of the statement of shareholders' operations is the approximate effect of the assumed changes in commission rates on the Company's loss for the year, based on the floating rate financial assets held at 31 December 2010.

The sensitivity of the statement of shareholders' operations to a decrease in commission rate of 10 basis points (reasonably possible changes), with all other variables held constant, will have an effect of increase in loss by SR 0.15 million (2009: SR 0.12 million).

#### *Foreign currency risk*

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

#### *Insurance risk*

Insurance risk is the risk that actual claims payable to policy holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

Insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten
- Inadequate reinsurance protection
- Inadequate reserves

The company only underwrites insurance business of a short tail nature such as motor, medical, property and others which includes engineering, casualty cover, fire, accident, marine cargo risks. The Company underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines. The Company's insurance business is managed and priced at head office level.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### Insurance risk (Continued)

	2010			2009		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	SR	SR	SR	SR	SR	SR
Concentration of insurance contract liabilities by type of contract:						
Medical	21,901,656	(8,724,696)	13,176,960	24,392,752	(13,962,935)	10,429,817
Motor	82,073,645	(344,582)	81,729,063	43,084,450	(412,182)	42,672,268
Property	18,460,608	(15,116,516)	3,344,092	27,737,299	(21,992,765)	5,744,534
Others	40,068,003	(25,131,348)	14,936,655	28,126,216	(19,156,010)	8,970,206
Total	162,503,912	(49,317,142)	113,186,770	123,340,717	(55,523,892)	67,816,825

#### Management of insurance risks

Significant insurance risks will be reported through the Company risk management framework. The Company undertakes a quarterly review of their insurance risks of all line of business, the output from which is a key input into the risk-based capital assessments.

The Executive Team monitors and develops the management of insurance risk in the insurance business, and assesses the aggregate risk exposure. It is responsible for the development, implementation, and review of the Company policies for underwriting, claims, reinsurance and reserving that operate within the Company risk management framework.

#### Insurance claims reserving

Actuarial claims reserving is conducted by in house actuary in the various lines of insurance business according to the Insurance Reserving policy. The Executive Team monitors and maintains the Insurance Reserving policy, and conducts quarterly reviews of the Company's insurance claims provisions, and their adequacy. The reviews include peer reviews of own conclusions as well as independent analysis to confirm the reasonableness of the in house actuarial reviews. The company also has periodic external reviews by local consultant actuaries.

#### Reinsurance strategy

In order to minimize financial exposure arising from large claims, the company, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business risk, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts.

Significant reinsurance purchases are reviewed annually by Executive team to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. Reinsurance purchases must be in line with the strategy set out in our Company's Reinsurance policy manual approved by the Board of directors.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The reinsurance is placed with providers who meet the Company's counterparty security requirements and deals with reinsurers approved by the board of directors. Currently, the Company principally reinsures in the panel of reinsurers headed by Hanover Re.

The largest five reinsurers account for 66% of the maximum credit exposure at 31 December 2010 (2009: 26%).

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### *Insurance risk (Continued)*

##### *Medical*

Medical insurance is designed to compensate contract holders for expenses incurred in the treatment of a disease, illness or injury.

For medical insurance, the main risks are illness and related healthcare costs. Medical insurance is generally offered to corporate customers with large population to be covered under the policy.

##### *Motor*

Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. Substantially all of the motor contracts relate to corporate customers. The Company has reinsurance cover to limit losses for any individual claim to SR 500,000.

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to, motor vehicles are the key factors that influence the level of claims.

##### *Property*

Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

For property insurance contracts the main risks are fire and business interruption. The Company has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such exposure to limit losses for any individual claim to SR 2 million.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### *Insurance risk (Continued)*

##### *Casualty*

Casualty insurance primarily consists of risks taken for money, fidelity, workmen compensation, general public liability, engineering, etc and is designed to compensate contract holders for damage suffered to them or others, arising through accidents, thefts, etc. Substantially all of the casualty contracts relate to corporate customers. The Company has reinsurance cover to limit losses for any individual claim to SR 2 million.

##### *Marine cargo*

Marine cargo insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim to SR 2 million.

##### *Capital management*

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders' value.

The Company manages its capital structure and makes changes to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year. Shareholders' equity comprises share capital and accumulated losses.

##### *Strategic risk*

We are exposed to a number of strategic risks. Our strategy needs to support our vision, purpose and objectives and be responsive to both the external and internal environment, for example changes in the competitive landscape, customer behaviour, regulatory changes and merger and acquisition opportunities. Strategic risk is explicitly considered throughout our strategic review and planning process. Developments are assessed during our quarterly performance management process where all aspects of our risk profile are considered.

We closely monitor regulatory, legal and fiscal developments as well as actively engaging with external bodies to share the benefit of our expertise in supporting responses to emerging risks to challenge developments that could be damaging to our business and the industry as a whole.

##### *Operational risk*

Operational risk is the risk of loss, arising from inadequate or failed internal processes, or from people and systems, or from external events. Operational risks include business protection, information technology, people, legal and regulatory compliance risks.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 26. RISK MANAGEMENT (Continued)

#### Operational risk management

We process a large number of transactions across diverse line of business products, and are highly dependent on the proper functioning of information technology and communications systems. We are partially reliant on the operational processing performance of our outsourced partners including certain servicing and IT functions. Significant resources are devoted to maintaining efficient and effective operations within our framework of corporate responsibility, policies and business ethics code.

Our businesses are primarily responsible for identifying and managing operational risks in line with minimum standards of control set out in our policies. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are considered against financial, operational and reputation criteria.

Business management teams must be satisfied that all material risks falling outside our risk appetite are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact level are monitored centrally on a regular basis.

The Company Executive Team oversees aggregate operational risk exposure and reports to the Board. It makes recommendations on the risk appetite that the Company can work within for operational risk, assesses and monitors overall operational risk exposures, identifying any concentrations of operational risk and in particular verifies that mitigating action plans are implemented. The Executive Team focuses on specific areas of strategic and operational risk including customer, business protection, IT, people, legal and regulatory compliance.

#### Regulatory risk

The operations of the Company are subject to local regulatory requirements within the jurisdictions where it is incorporated. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. The company management and compliance officer ensure compliance with all regulatory requirements and timely initiate update for regulatory changes and enable the Company to remain in compliant with regulatory changes.

# Saudi United Cooperative Insurance Company (Wala'a)

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 27. LOSS PER SHARE

Loss per share from shareholders' operations is calculated by dividing net loss for the year by weighted average number of ordinary shares outstanding during the year.

Loss per share from shareholders' comprehensive operations is calculated by dividing total comprehensive loss for the year by weighted average number of ordinary shares outstanding during the year.

### 28. CONTINGENCIES

During the year, one of the affiliate's shareholder filed a law suit of SR 40 million against the Company, claiming his share of goodwill as a result of run-off of affiliate's insurance business and establishment of a new Company. Management believes that the outcome of this case in plaintiff favor is remote as there is no valid base for this case, accordingly no provision has been made.

### 29. COMPARATIVE FIGURES

Certain amounts of the prior year have been reclassified to conform with the presentation in the current year.

### 30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 7 February 2011.