



AL AHLIA
للتأمين التعاوني
for cooperative insurance

Rights Issue Prospectus Al-Ahlia for Cooperative Insurance Company

Saudi Joint Stock Company established in accordance with Royal Decree No. 60 dated 18/09/1427H (corresponding to 11/10/2006) with Commercial Registration No. 1010238441 dated 07/09/1428H

Offering of 22,000,000 Shares through a rights issue at an Offer Price of SAR 10 per Share (the "Offer Price") increasing the capital to SAR 320,000,000 (220% increase in the share capital) (the "Offering")

First Offering Period: From 11/09/1435H (corresponding to 08/07/2014) To 20/09/1435H (corresponding to 17/07/2014)

Second Offering Period: From 23/09/1435H (corresponding to 20/07/2014) To 25/09/1435H (corresponding to 22/07/2014)

Al-Ahlia for Cooperative Insurance Company ("Al Ahlia", "Al-Ahlia", "Ahlia" or the "Company") is a Saudi joint stock company established in accordance with Royal Decree No. 60 dated 18/09/1427H (corresponding to 11/10/2006) with Commercial Registration No. 1010238441 dated 07/09/1428H. At the date of this prospectus (this "Prospectus"), the share capital of the Company is SAR 100,000,000 consisting of 10,000,000 shares with a nominal value of SAR 10 each (the "Existing Shares"), all of which are fully paid.

Based on the Board of Directors (the "Board of Directors" or the "Board") recommendation in its meeting dated 15/06/1432H (corresponding to 16/05/2012) to increase the Company's share capital from SAR 100,000,000 to SAR 320,000,000 after obtaining the necessary regulatory approvals. At the Company's Extraordinary General Meeting held on 04/09/1435H (corresponding to 01/07/2014G) (the "EGM"), the shareholders have approved the Board of Director's recommendation to increase the capital.

Misr Life Insurance Company ("MLIC") of Egypt is the only major shareholder with a shareholding of 18% of the Company's shares.

The Offering consists of the issuance of 22,000,000 Shares (the "New Shares" or "Offer Shares") at the Offer Price of SAR 10 per share to increase the Company's share capital from SAR 100,000,000 to SAR 320,000,000.

The Offering will be issued as tradable securities (referred to collectively as the "Rights" and each a "Right") to Qualifying Shareholders registered in the Company (referred to collectively as the "Qualifying Shareholders" or "Registered Shareholders" and each a "Qualifying Shareholder" or a "Registered Shareholder") as at the close of trading on the date of the EGM being on 04/09/1435H (corresponding to 01/07/2014G) (the "Eligibility Date"), provided that such Rights are deposited in the Registered Shareholders' accounts within two (2) days of the Eligibility Date in the ratio of 2.2 Rights for every 1 share held as of the Eligibility Date. Each Right grants its holder the eligibility to subscribe in one New Share at the Offer Price.

Registered Shareholders and the public may trade the Rights on the Saudi Stock Exchange ("Tadawul" or the "Exchange") during the period from Tuesday 11/09/1435H (Corresponding to 08/07/2014) until the close of Trading on Thursday 20/09/1435H (Corresponding to 17/07/2014) (the "Trading Period").

The subscription for the New Shares will be in two phases:

(a) First Offering Period (Phase 1): From Tuesday 11/09/1435H (Corresponding to 08/07/2014) until the end of the day on Thursday 20/09/1435H (Corresponding to 17/07/2014) (the "First Offering Period"), during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The First Offering period coincides with the Trading Period during which Registered Shareholders and the public may trade in the Rights.

(b) Second Offering Period (Phase 2): From Sunday 23/09/1435H (Corresponding to 20/07/2014) until the end of the day on 25/09/1435H (Corresponding to 22/07/2014) (the "Second Offering Period"), during which all Rights' holders whether Registered Shareholders or purchasers of Rights during the Trading Period (referred to collectively as "Eligible Persons", and each an "Eligible Person"), may exercise their Rights to subscribe.

Subscription Application Forms may be submitted in during both the First Offering Period and Second Offering Period at any of the branches of the Receiving Agents (the "Receiving Agents") listed in pages J of this Prospectus.

In the event that any Shares remain unsubscribed for after the First Offering Period and the Second Offering Period (the "Rump Shares"), they will be offered to a number of institutional investors (referred to as "Institutional Investors") procured by the Lead Manager following discussions with the Company, provided that such Institutional Investors submit offers to purchase the Rump Shares. Receipt of such offers will start at 10:00 AM on 07/10/1435H (corresponding to 03/08/2014G) until the following day at 10:00 AM on 08/10/1435H (corresponding to 04/08/2014G). This offering will be referred to as the "Rump Offering". The Rump Shares will be allocated to Institutional Investors in order of the price of the offers with the highest first until all of the Rump Shares have been allocated, with the Rump Shares being proportionally divided among Institutional Investors that tendered offers at the same price. Fractional Shares (the "Fractional Shares") will be added to the Rump Shares and treated in the same manner. All proceeds resulting from the sale of the Rump Shares and the Fractional Shares up to the paid Offer Price shall be distributed to the Company and any proceeds in excess of the paid Offer Price shall be distributed to the Eligible Persons no later than 23/10/1435H (corresponding to 19/08/2014G).

In the event that the Rump Shares are not purchased by the Institutional Investors, such shares will be allocated to the Underwriter, who will purchase the same at the Offer price (please see section 16 - "Subscription Terms and Conditions"). After the completion of the Offering, the Company's share capital will become SAR 320,000,000 (Three Hundred and Twenty Million Saudi Riyals) and the number of the Company's shares will be 32,000,000 (Thirty Two Million) shares. The net proceeds of the Offering will be utilized to meet company's financial solvency requirements and finance insurance operations expansion plans by increasing the Company's market share (Please see section 11 - "Use of Proceeds"). The final allocation will be announced on 14/10/1435H (corresponding to 10/08/2014G) at the latest ("Allocation Date") (Please see section 16 "Subscription Terms and Conditions - Allocation").

The Company has only one class of Shares and no shareholder will have any preferential voting rights. The New Shares will be fully paid and rank identically with the existing Shares. Each Share entitles its holder to one vote and each shareholder with at least twenty (20) Shares has the right to attend and vote at the general assembly meetings (each a "General Assembly Meeting") of the Company. The New Shares will be entitled to receive their portion of any dividends declared by the Company, if any, effective the first day of subscription period and following financial years (Please see section 8 "Dividend Policy" and section 2 "Risk Factors - Dividends Payment").

The Company listed 10,000,000 shares on 24/09/1428H corresponding to 06/10/2007 in Tadawul. The founding shareholders subscribed for 60% of the Company's share capital while the remaining 40% had been offered to the Public.

Currently, the Company's existing Shares are traded on Tadawul. The Company has made an application to the Capital Market Authority in the Kingdom of Saudi Arabia ("CMA") for the admission of the New Shares to the Official List. Approval of this Prospectus has been granted and all supporting documents requested by the CMA have been completed. Trading in the New Shares is expected to commence on the Exchange soon after the final allocation of the New Shares (see "Key Dates for Subscribers"). Following the commencement of trading in the Shares, Saudi nationals and residents, GCC nationals, Saudi companies, banks and funds, GCC companies and establishments, foreigners investors from outside the Kingdom (through swap agreements) will be allowed to trade in the Shares. The "Important Notice" and "Risk Factors" sections of this Prospectus should be read in whole and carefully by all eligible investors prior to making a decision to invest in the New Shares offered hereby.

Financial Advisor, Lead Manager and Underwriter



السعودي الهولندي المالية
Saudi Hollandi Capital

Receiving Agents



بنك الجزيرة
BANK ALJAZIRA



This Prospectus includes information given in compliance with the Listing Rules (the "Listing Rules") issued by the CMA in the Kingdom of Saudi Arabia. The Directors, whose names appear on page E, jointly and severally accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading. The CMA and Tadawul take no responsibility for the contents of this Prospectus, make no representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document.

This Prospectus is dated 05/09/1435H (corresponding to 02/07/2014)

English Translation of the Official Arabic Prospectus



AL AHLIA

للتأمين التعاوني
for cooperative insurance

Important Notice

This Prospectus provides details of information relating to Al Ahlia Cooperative Insurance Company ("Ahlia" or the "Company") and the offered New Shares. When applying for the New Shares, Eligible Persons will be treated as applying solely on the basis of the information contained in this Prospectus, copies of which are available for collection from the Company, lead manager and the branches of the Receiving Agents or by visiting the Saudi Arabian Capital Market Authority's (the "Authority" or "CMA") website: (www.cma.org.sa) and Financial Advisor's (the "Financial Advisor") website: www.shc.com.sa.

The Company has appointed Saudi Hollandi Capital ("SHC") to act as the Financial Advisor, Lead Manager and sole Underwriter in relation to the Offering of the Offer Shares referred to herein.

This prospectus includes information given in compliance with the Listing Rules (the "Listing Rules") of the CMA. The directors, whose names appear on page E, collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading. The Authority and the Exchange do not take any responsibility for the contents of this Prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, substantial portions of the market and industry information herein are derived from external sources, and while none of the Company, its Directors, Founding Shareholders, Financial Advisor, or the Company's advisors, whose names appear on pages H and I of this Prospectus (the "Advisors"), have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified, and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial condition of the Company and the value of the Offer Shares may be adversely affected by future developments in inflation, interest rates, taxation or other economical and political factors, over which the Company has no control. Neither the delivery of this Prospectus nor any oral, written or printed interaction in relation to the Offering is intended to be, nor should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

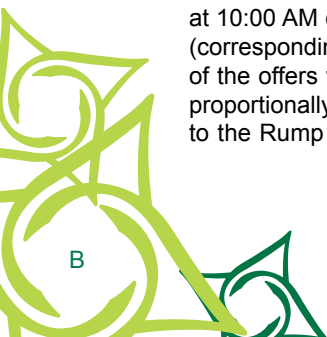
The Prospectus is not to be regarded as a recommendation on the part of the Company or any of its Advisors to participate in the Offering. Moreover, information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice in relation to the Offering and must rely on their own examination of the Company and the appropriateness of both the investment opportunity and the information herein with regard to the recipient's individual objectives, financial situation and needs.

The Offering is directed at the Registered Shareholders and the public during the period from Tuesday 11/09/1435H (Corresponding to 08/07/2014) until the close of Trading on Tuesday 25/09/1435H (Corresponding to 22/07/2014) provided that the subscription in the New Shares shall be carried out through two phases:

(a) First Offering Period: from 11/09/1435H (Corresponding to 08/07/2014) until the end of the day on Thursday 20/09/1435H (Corresponding to 17/07/2014), during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The first Offering period coincides with the Trading Period during which Registered Shareholders and the public may trade in the Rights.

(b) Second Offering Period From Sunday 23/09/1435H (Corresponding to 20/07/2014) until the end of the day on 25/09/1435H (corresponding to 22/07/2014), during which all Eligible Persons, whether Registered Shareholders or purchasers of Rights during the Trading Period, may exercise their Rights to subscribe. No trading of Rights shall take place in this period.

In the event that any Shares remain unsubscribed for after the Second Offering Period, they will be offered to a number of Institutional Investors procured by the Lead Manager following discussions with the Company, provided that such Institutional Investors shall submit offers to purchase the Rump Shares. Receipt of such offers will start at 10:00 AM on 07/10/1435H (corresponding to 03/08/2014G) until the following day at 10:00 AM on 08/10/1435H (corresponding to 04/08/2014G). The Rump Shares will be allocated to Institutional Investors in order of the price of the offers with the highest first until all of the Rump Shares have been allocated, with the Rump Shares being proportionally divided among Institutional Investors that tendered at the same price. Fractional Shares will be added to the Rump Shares and treated in the same manner. All proceeds resulting from the sale of Rump Shares and



Fractional Shares up to the paid Offer Price shall be distributed to the Company and any proceeds in excess of the paid Offer Price shall be distributed to the Eligible Persons no later than 23/10/1435H (corresponding to 19/08/2014G).

Industry and Market Data

In this Prospectus, information and data regarding economic figures and insurance industry have been obtained from different sources believed to be reliable and the Company has made all reasonable inquiries as to the accuracy of the information obtained from these sources. While neither the Company nor its Directors have a reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information. The referenced sources include:

- (i) Saudi Insurance Market Survey Report 2010 issued by the Saudi Arabian Monetary Agency (SAMA)

Saudi Arabian Monetary Agency (SAMA)

Ma'azar Street



P.O.Box:2992 Riyadh 11169 Saudi Arabia

Tel: +966 1 4633000 Fax: +966 1 4662966

Website: www.sama.gov.sa

The central bank of the Kingdom of Saudi Arabia, which was established in 1952.

The main Functions of SAMA include:

- Issuing the national currency, the Saudi Riyal;
- Acting as a banker to the government;
- Supervising commercial banks;
- Managing the Kingdom's foreign currency reserves;
- Conducting monetary policy to promote price and exchange rate stability;
- Promoting growth and ensuring the soundness of the financial system.

The information obtained from SAMA is publicly available and obtainable from internet therefore no consent has been obtained to use such information.

(ii) Swiss Re Co.

An international pioneer company in re-insurance founded in 1863 in Zurich, Switzerland with operations in more than 25 countries around the world. The Company issues reports on insurance sector all over the world and these reports are available for public in its website.

The information obtained from Swiss Re is publicly available and obtainable from internet therefore no consent has been pursued to use such information.

Financial and Statistical Information

The audited financial statements for the financial period starting from 2010G, 2011G, and 2012G and the notes thereto have been prepared in conformity with the standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). The Company will publish its financial statements in Saudi Arabian Riyals ("SAR"). Audit for year 2009 and 2010 has been conducted by Ernst & Young and Deloitte & Touché Baker Abu Al-Khair & Co while the audit for 2011 and 2012 has been conducted by Deloitte & Touché Baker Abu Al-Khair & Co and Al-Bassam Certified Accountants & Consultants.

Forecasts and Forward Looking Statements

Forecasts set forth in this Prospectus have been prepared on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute "forward-looking-statements". Such statements can generally be identified by their use of forward-looking words such as "plans", "estimates", "believes", "expects", "may", "will", "should", or "are expected", "would be", "anticipates" or the negative or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company and its management with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (please refer to "Risk Factors" section). Should any one or more of the risks or uncertainties materialize or any underlying assumptions prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus as anticipated, believed, estimated, planned or expected.

Subject to the requirements of the Listing Rules, the Company must submit a supplementary prospectus to the CMA if at any time after the Prospectus has been approved by the CMA and before admission to the Official List, the Company becomes aware that: (1) there has been a significant change in material matters contained in the Prospectus or any document required by the Listing Rules, or (2) additional significant matters have become known which would have been required to be included in the Prospectus. Except in the aforementioned circumstances, the Company does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.



Corporate Directory

Board Members (Directors)

	Name	Position	Nationality	Age	Share- holding	Representing	Status
1	HRH Prince Mohamed Bin Bandar Bin Abdulaziz Al Saud	Chairman	Saudi	49	2000*	.	Independent, Non-executive
2	Mohamed Najeeb Naser	Director	American	61	-*	Al-Masaq Co.	Executive
3	Prince Abdullah Bin Naif Al Saud	Director	Saudi	35	21	Kayed Al-Enjaz Co.**	Independent Non-executive
4	Yasir Bin Mohamed Atiq Al-Harbi	Director	Saudi	44	4026	-	Independent Non-executive
5	Sami Bin Ezzat Al-Ali	Director	Saudi	56	1000	-	Executive
6	Omer Salih Babakr	Director	Saudi	53	-	Omer Bin Salih Babakr Co.**	Independent Non-executive
7	Abdulmohsen Al-Zakary	Director	Saudi	54	-	Al-Zakary Trading & Industry**	Independent Non-executive
8	Abdulaziz Bin Saud Al-Bilaid	Director	Saudi	57	-	Sedir Trading & Contracting**	Independent Non-executive
9	Ali Bin Haif Al-Qahtani	Director	Saudi	43	-	Haif Al-Qahtani Co.**	Independent Non-executive
10	Ashraf Abdulrazaq Al-Jundi	Director	Egyptian	47	-	Misr Life Insurance Co.**	Non-executive
11	Saeed Saeed Ahmed Bayomi	Director	Egyptian	50	-	Misr Life Insurance Co.**	Non-executive

Source: The Company

*1000 shares have been allocated from the portfolio of HRH Prince Mohamed Bin Bander as qualification shares for Mr. Mohamed Najeeb Naser.

** 1,000 shares of the companies represented shares have been allocated as qualified shares for the representative.

Al-Ahlia for Cooperative Insurance Co.



AL AHLIA
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for cooperative insurance

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Kingdom of Saudi Arabia
Tel: +966 11 472666 Fax: +966 11 4771608
Website: www.alahlia.com.sa
E-mail: customercare@alahlia.com.sa

Secretary to Board of Directors

Ayman Hassan Alam
Abdurrahman Bin Shagran Road, Malaz
P.O.Box: 939 Riyadh 11312
Kingdom of Saudi Arabia
Tel: +966 11 472666 Fax: +966 11 4771608
Website: www.alahlia.com.sa
E-mail: customercare@alahlia.com.sa

Company's Authorized Representative (1)

Mr. Sami Ezzat Al-A'ali
Abdurrahman Bin Shagran Road, Malaz
P.O.Box: 939 Riyadh 11312
Kingdom of Saudi Arabia
Tel: +966 11 472666 Fax: +966 11 4771608
Website: www.alahlia.com.sa
E-mail: customercare@alahlia.com.sa

Company's Authorized Representative (2)

Mr. Mohammad Ahmed Lutffi Masood
Abdurrahman Bin Shagran Road, Malaz
P.O.Box: 939 Riyadh 11312
Kingdom of Saudi Arabia
Tel: +966 11 472666 Fax: +966 11 4771608
Website: www.alahlia.com.sa
E-mail: customercare@alahlia.com.sa

Share Registrar



Tadawul
Abraj Attuwenya - King Fahd Road
P.O. Box 60612 Riyadh 11555
Kingdom of Saudi Arabia
Tel: +966 11 218 1200 Fax: +966 11 218 1220
E-mail: webinfo@tadawul.com.sa
Website: www.tadawul.com.sa



Principal Bankers



The National Commercial Bank

King Abdulaziz Road
P.O. Box 3555, Jeddah 21481
Kingdom of Saudi Arabia
Tel: +966 (12) 649 3333
Fax: +966 (12) 7426 643
www.alahli.com.sa
info@alahli.com.sa

Al Rajhi Bank مصرف الراجحي



Al Rajhi Banking and Investment Corporation

Head Office, Olaya Road
P.O. Box 28, Riyadh 11411
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Fax: +966 (11) 4624311
www.alrajhibank.com.sa
contactcenter1@alrajhibank.com.sa

البنك
السعودي
الفرنسي
Banque
Saudi
Fransi



Banque Saudi Fransi

Al Maathar Street, Riyadh
P.O. Box 56006 Riyadh 11554
Kingdom of Saudi Arabia
Tel: +966 11 404 2222, Fax: +966 11 402 2311
Website: www.alfransi.com.sa
E-mail: communications@alfransi.com.sa

Advisors

Financial Advisor, Lead Manager and Underwriter



السعودي الهولندي المالية
Saudi Hollandi Capital

Saudi Hollandi Capital

P.O.Box: 1467, Riyadh 11431

Tel: +966 11 416 3133 Fax: +966 11 416 3133 Ext 5308

www.shc.com.sa

info@shc.com.sa

Reporting Accountants 2011 & 2012

Deloitte.

Deloitte & Touché Bakr Abulkhair & Co.

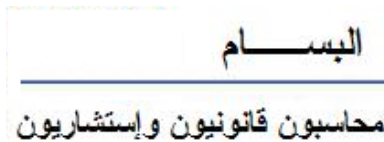
Al Sulaimaniyah, Prince Turki Bin Abdullah Street

P.O. Box 213 Riyadh 11411

Kingdom of Saudi Arabia

Tel: +966 11 282 8400 Fax: +966 11 293 0880

Website: www.deloitte.com



Al-Bassam Certified Accountants & Advisors

Head Office: 96th Floor, Al-Mohaisin Building

King Abdulaziz Road, Malaz, Riyadh

Kingdom of Saudi Arabia

Tel: +966 11 2065 333 Fax: +966 11 2065 444

info@albassamcpa.com

Website: www.albassamcpa.com

Previous Reporting Accountant 2009 & 2010



Ernst & Young

Al Faisaliah Tower, King Fahd Road

P.O. Box 2732 Riyadh 11461

Kingdom of Saudi Arabia

Tel: +966 11 215 9898 Fax: +966 11 273 4730

Website: www.ey.com

E-mail: riyaad@ey.com

Deloitte.

Deloitte & Touche Bakr Abulkhair & Co.

Al Sulaimaniyah, Prince Turki Bin Abdullah Street

P.O. Box 213 Riyadh 11411

Kingdom of Saudi Arabia

Tel: +966 11 282 8400 Fax: +966 11 293 0880

Website: www.deloitte.com

Legal Advisor to the Offering

BAKER & MCKENZIE

Legal Advisors

Abdulaziz I. Al-Ajlan & Partners in Association with Baker & McKenzie Limited

Olayan Tower, Al Ahsa Road, Riyadh

P.O. Box 4288, Riyadh 11491

Kingdom of Saudi Arabia

Tel: +966 11 291 5561 Fax: +966 11 291 5571

Website: www.bakermckenzie.com

E-mail: legaladvisors@bakermckenzie.com

Financial Due Diligence Advisor¹



PricewaterhouseCoopers

21 st Floor, Kingdom Tower
P.O.Box :1393, Riyadh 11414
Kingdom of Saudi Arabia
Tel: +966 11 2110400 Fax: +966 11 2110401
www.pwc.com/me

Actuary Advisor



Nitaq Actuaries

Office # 603, Al-Oula Building
1073 King Fahd Road
Riyadh, Kingdom of Saudi Arabia
Tel: +966 11 2079878
Fax: +966 11 2079878
Website: www.actuscope.com.sa

Public Relation Advisor



ADVERT ONE

Al-Shawaf International Co.

Al-Safwa Commercial Center, Al-Sulaimanya
P.O.Box: 43307 Riyadh 11561
Tel: + 966 11 288632 Fax: +966 11 288631
www.advert1.com
info@advert1.com

Note: All the aforementioned parties have given and not withdrawn their written consent to the publication of their names and logos in the Prospectus; and do not themselves, or any of their relatives or affiliates have any shareholding or interest of any kind in the Company.

¹ PricewaterhouseCoopers conduct financial due diligence for fiscal years 2009, 2010 and 2011

Receiving Agents

البنك السعودي الهولندي
Saudi Hollandi Bank



Saudi Hollandi Bank

Prince Abdulaziz bin Musa'ed bin Jilawy Street
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Tel: +966 11 406 7888, Fax: +966 11 403 1104
www.shb.com.sa
info@shb.com

NCB الأهلي



The National Commercial Bank

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Kingdom of Saudi Arabia
Tel: +966 (12) 649 3333, Fax: +966 (12) 7426 643
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بنك الرياض
riyadh bank

Riyadh Bank

King Faisal Road, Main Branch
P.O. Box 22622, Riyadh 11614
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Fax: +966 (11) 404 2618
www.riyadbank.com
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بنك الجزيرة
BANK ALJAZIRA
مصرفية إسلامية حديثة
INNOVATIVE ISLAMIC BANKING

Bank AlJazira

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samba سامبا

Samba Financial Group

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البنك
السعودي
الفرنسي
Banque
Saudi
Fransi



Banque Saudi Fransi

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Kingdom of Saudi Arabia
Tel: +966 11 404 2222, Fax: +966 11 402 2311
Website: www.alfransi.com.sa
E-mail: communications@alfransi.com.sa

العربي
anb



Arab National Bank

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Tel: +966 11 402 9000, Fax: +966 11 402 7747
Website: www.anb.com.sa
info@anb.com.sa

Summary of the Offering

The Company	Al-Ahlia for Cooperative Insurance Company, a Saudi joint stock company established in accordance with Royal Decree No. 60 dated 18/09/1427H (Corresponding to 11/10/2006). The Company operates under Commercial Registration No. 1010238441.
The Company Activities	The Company is practicing, in compliance with the provisions of the Cooperative Insurance Companies Control Law, its executive by-laws and prevailing rules and regulations, cooperative insurance activities for all insurance businesses and related services including agencies, representation, corresponding or brokerage. The Company may exercise all related activities necessary to achieve insurance and investment businesses objectives. The Company may also, solely or jointly with others, own and trade in fixed or current assets directly or indirectly through its wholly-owned subsidiaries or associated entities. The Company may also own or have shares or interests with similar firms or other financial institutions that may assist the Company in achieving its objectives through merger or acquisition. The Company may exercise all these activities inside or outside the Kingdom of Saudi Arabia.
Substantial Shareholders	The Company has only one substantial shareholder, which is Misr Life Insurance Company (A Public Company based in Egypt), with an ownership percentage of 18% of the Company's share capital prior to the Offering (1.8 Million Shares).
Nature of Offering	Rights Issue Offering
Offer Price	SAR 10 per New Share
Adjusted Price	The Company's share value in Tadawul has been adjusted to SAR 24.15 per share at the close of trading on the day of the EGM and after shareholders' approval of capital increase. This represents a reduction of SAR 31.13 in the share value.
Nominal Value	SAR 10 per New Share
Total number of Existing issued Shares prior to the Offering	10,000,000 fully paid Shares
Company's capital prior to the Offering	SAR 100,000,000
Number of Offer Shares	22,000,000 ordinary shares
Total number of Shares post-Offering	32,000,000 Shares
Percentage increase in share capital	220%
Total Proceeds of the Offering	SAR 220,000,000
Offering expenses	SAR 10,000,000
Net Proceeds of the Offering after deduction of offering expenses	SAR 210,000,000
Number of Underwritten New Shares	22,000,000 ordinary shares
Value of Underwritten New Shares	SAR 220,000,000

Use of the Offering Proceeds	Gross Offering Proceeds are estimated to be SAR 220,000,000. The offering expenses, including the fees of the Financial Advisors, legal advisors to the offering, reporting accountants, and the media and public relations consultants, as well as the Underwriter fees, Receiving Agent's expenses, marketing expenses, printing and distribution expenses and other related expenses, of SAR10,000,000 will be deducted from the Gross Offering Proceeds. The net offering proceeds will be used by the Company to finance future expansion of the Company's operations in addition to maintain the minimum solvency requirements and the Company's capital as requested by the provisions of the Cooperative Insurance Companies Control Law, its executive by-laws. Shareholders will not receive any part of these proceeds (Please refer to "Use of Proceeds" Section).
Eligibility Date	Close of trading on the day of the EGM voting on the increase in the Company's capital according to the Board recommendation on 04/09/1435H (corresponding to 01/07/2014G).
Registered Shareholders	Shareholders registered in the Company's Register as at the close of trading on the day of the EGM.
Rights Issue	Rights are issued as tradable securities giving their holders the priority to subscribe for the New Shares, upon approval of the capital increase. All shareholders registered in the Company's Register at the end of the day of the EGM will be entitled to receive Rights. Each Right grants its holder eligibility to subscribe in one New Share at the Offer Price. Rights will be deposited within two days after the date of the EGM. The rights will appear in the accounts of the Registered Shareholders under a new symbol specifying the Rights Issue. The Registered Shareholders will be informed of the deposit of the Rights in their accounts.
New Shares	The Shares offered for subscription by Registered Shareholders resulting from the Capital increase of the Company.
Rights Issue Ratio	2.2 Rights for every 1 existing Share owned by a Registered Shareholder. This ratio is the outcome of dividing the number of New Shares by the number of the Company's existing shares.
Number of Issued Rights	22,000,000 Rights
First Offering Period	The Period from Tuesday 11/09/1435H (Corresponding to 08/07/2014) until the end of the day on Thursday 20/09/1435H (Corresponding to 17/07/2014) during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The first Offering period coincides with the Trading Period during which Registered Shareholders and the public may trade in the Rights.
Trading Period	From Tuesday 11/09/1435H (Corresponding to 08/07/2014) until the end of the day on Thursday 20/09/1435H (Corresponding to 17/07/2014) during which Registered Shareholders and the public may trade the Rights.
Second Offering Period	The period from Sunday 23/09/1435H (Corresponding to 20/07/2014) until the end of the day on 25/09/1435H (22/07/2014) during which all Rights' holders whether Registered Shareholders or purchasers of Rights during the Trading Period, may exercise their Rights to subscribe in New Shares. No trading of Rights shall take place in this period.
Subscription Procedure	Qualifying shareholders who have interest to subscribe to the new offered shares shall complete the application forms and submit to the branches of the Receiving Agents during business hours of the Subscription Period. Subscription may be made through Internet, banking phone or ATMs to the receiving banks that provide any of such services provided that: (1) Eligible Shareholders should have a valid banking account with a Receiving Agent (2) No amendment has been introduced to data related to the subscriber (by addition or deletion any of the family members) since the latest offer he subscribed to unless this amendment has been communicated to and approved by the Receiving Agent.



Rump Shares	The New Shares which were not subscribed for during the First Offering Period and the Second Offering Period.
Rump Offering	The Rump Shares will be offered to a number of Institutional Investors procured by the Lead Manager following discussions with the Company, provided that such Institutional Investors shall submit offers to purchase the Rump Shares. Receipt of such offers will start at 10:00 AM on 07/10/1435H (corresponding to 03/08/2014G) until the following day at 10:00 AM on 08/10/1435H (corresponding to 04/08/2014G).. The Rump Shares will be allocated to Institutional Investors in order of the price of the offers with the highest first until all of the Rump Shares have been allocated, with the Rump Shares being proportionally divided among Institutional Investors that tendered at the same price. Fractional Shares will be added to the Rump Shares and treated in the same manner.
Eligible Persons	All holders of Rights, whether they are Registered Shareholders or purchasers of Rights during the Trading period.
Listing of/Trading in the Rights Issue	<p>"Tadawul" is preparing mechanisms regulating the trading of the Rights in its system. A separate symbol will be given to Ahlia's Rights Issue (separate from the Ahlia's trading symbol for the existing Shares on the Tadawul screen). Registered Shareholders shall have the following options during the offering and trading period of the trading of the Rights:</p> <ol style="list-style-type: none"> 1. Keeping the Rights as at the Eligibility Date and exercising their Rights to subscribe in the New Shares. 2. Selling the Rights or a part thereof through the Exchange. 3. Purchasing additional Rights on the Exchange. 4. Refraining from taking any action relating to the Rights, whether selling the Rights or exercising the right to subscribe for the same. The Rump Shares resulting from not exercising the Rights or selling the same will be offered in the Rump Offering. The public may, during the Trading Period, purchase and sell Rights through the Exchange and (provided the Rights are held until the end of the First Offering Period) may exercise such Rights to subscribe for New Shares, only during the Second Offering Period. The "Tadawul" system will cancel Ahlia Rights Issue symbol on the Tadawul screen after the end of the Trading Period. Therefore, the Rights trading will end with the end of the Trading Period.
Indicative Value of the Right	The indicative value of a Right reflects the difference between the Company's share market value during the Trading Period and the Offer Price. Tadawul will continuously calculate and publish the indicative value of a Right during the First Offering Period on its website with 5 minutes delay. The market information service providers will also publish this information. This will allow investors to be informed of the indicative value of a Right when entering the orders.
Right Trading Price	The price at which the Right is traded. This price is set through the market offer and demand mechanism; therefore, it may differ from the Indicative Value of the Right.
Exercising the Issued Rights	<p>Eligible Persons may subscribe for New Shares by completing a Subscription Application Form and paying the relevant fee at the Receiving Agents' branches or by subscribing electronically through the Receiving Agents offering such services to Applicants. Eligible Persons may exercise their Rights as follows:</p> <ol style="list-style-type: none"> 1- During the First Offering Period, only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the Number of Rights deposited in their accounts after the EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The First Offering period coincides with the Trading Period during which Registered Shareholders and the public may trade in the Rights. 2- During the Second Offering Period, all Rights' holders, whether Registered Shareholders or purchasers of Rights during the Trading Period may exercise their Rights to subscribe. No trading of Rights shall take place in this period. <p>In the event that Rights have not been exercised by Eligible Persons before the end of the Second Offering Period, the Rump Shares resulting from the unexercised Rights or failure to sell the Rights will be offered in the Rump Offering.</p>

Public	The public, including all institutional and individual investors.
Shares Allocation	<p>New Shares will be allocated to each investor according to the number of Rights subscribed for in a complete and correct manner. (Fractional Shares will be collected and offered to Institutional Investors during the Rump Offering).</p> <p>All proceeds resulting from the sale of Rump Shares and fractional Shares up to the Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed to the Eligible Persons no later than 23/10/1435H (corresponding to 19/08/2014G).</p>
Payment of Compensation Amounts (if any)	Cash compensation amounts will be paid to Eligible Persons who did not subscribe wholly or partially for New Shares, as well as to the holders of fractional Shares on 23/10/1435H (corresponding to 19/08/2014G) at the latest (please see "Subscription Terms and Conditions"). Compensation amounts represent remaining sale proceeds resulting from the Rump Shares and fractional Shares (in excess of the Offer Price).
Shares' Dividends	The New Shares will be entitled to receive their portion of any dividends declared by the Company for future years for the period from the commencement of the Offering and for the following financial years (see "Dividends Distribution Policy" Section).
Voting rights	The Company has only one class of Shares. No Shareholder shall have any preferential rights. Each of the Shares entitles its holder to one vote. Each Shareholder with at least 20 (twenty) shares has the right to attend and vote at the General Assembly meeting.
Shares trading	Trading in the New Shares will start on Tadawul upon the completion of all procedures relating to the registration, allocation and listing of the New Shares.
Risk Factors	There are certain risks relating to an investment in the Offering. These risks can be generally categorized into (i) risks related to the Company; (ii) risks related to the insurance market and the legal and regulatory environment in the KSA; and (iii) risks related to the Rights Issue Shares. These risks should be considered carefully prior to making an investment decision in the Rights Issue Shares (see Section titled "Risk Factors" for details)
Previously listed shares	The Company has listed 10,000,000 ordinary shares on 24/10/1428H corresponding to 06/10/2007 in Tadawul. The founding shareholders subscribed for 60% of the Company's share capital while the remaining 40% were publicly offered.
Restrictions to shares	The Company's shares had been listed in Tadawul on 06/10/2007 and the restriction period already elapsed many years ago and the shares are no longer under restriction.

*The "Important Notice" and "Risk Factors" sections in this Prospectus should be considered carefully prior to making any investment decision.



Key Dates for Eligible Persons

EGM, setting the Eligibility Date and Registered Shareholders	04/09/1435H (corresponding to 01/07/2014G)
First Offering Period Date and Trading in Rights	From 11/09/1435H (corresponding to 08/07/2014G) To 20/09/1435H (corresponding to 17/07/2014G)
Second Offering Period Date	From 23/09/1435H (corresponding to 20/07/2014) To 25/09/1435H (corresponding to 22/07/2014G)
Offering Period End Date and deadline for submitting Subscription Applications Forms	25/09/1435H (corresponding to (22/07/2014G)
Rump Offering Period	07/10/1435H (corresponding to 03/08/2014G) to 08/10/1435H (corresponding to 04/08/2014G)
Final Allocation Notification	14/10/1435H (corresponding to 10/08/2014G)
Payment of Compensation Amounts (if any) for Eligible Persons who did not participate in the Offering and those entitled to Shares fractions	23/10/1435H (corresponding to 19/08/2014G)
Expected date for the commencement of trading in Offer Shares	After completing all necessary procedures. Dates will be communicated through the local newspapers and on Tadawul website.

The above timetable and all dates therein are indicative. Actual dates will be communicated through local newspapers published in KSA as well as on Saudi Stock Exchange ("Tadawul") website www.tadawul.com.sa

Key Announcement Dates

Announcement	Announcing Party	Announcement Date
Announcement regarding the EGM (Eligibility Date)	Company	04/09/1435H (corresponding to 01/07/2014G)
Announcement regarding the EGM outcome, including the approval of the Company's capital increase	Company	05/09/1435H (corresponding to 02/07/2014G)
Announcement regarding the change in Company's share price, Rights' deposit and announcement regarding the Indicative Value of the Right	Tadawul	05/09/1435H (corresponding to 02/07/2014G)
Announcement regarding the New Shares subscription periods	Company	05/09/1435H (corresponding to 02/07/2014G)
Announcement regarding the First Offering Period and the Trading Period	Company	11/09/1435H (corresponding to 08/07/2014G)
Reminder announcement of the last Trading day for the Rights Issue and the importance of selling Rights for those not willing to exercise such Rights	Tadawul	20/09/1435H (corresponding to 17/07/2014G)
Announcement regarding the end of the First Offering Period and the commencement of the Second Offering Period	Company	20/09/1435H (corresponding to 17/07/2014G)
Announcement regarding the commencement of the Second Offering Period	Company	23/09/1435H (corresponding to 20/07/2014G)
Reminder about the last day for submitting Subscription Application Forms for the Second Offering Period	Company	25/09/1435H (corresponding to 22/07/2014G)
Announcement regarding: <ul style="list-style-type: none"> • Outcome of the First Offering Period and the Second Offering Period • Details of the sale of unsubscribed Shares, if any, and commencement of the Rump Offering 	Company	07/10/1435H (corresponding to 03/08/2014G)
Announcement regarding the outcome of the Rump Offering and Notification of the final allocation	Company	14/10/1435H (corresponding to 10/08/2014G)
Announcement regarding the deposit of New Shares in the investors' accounts	Tadawul	15/10/1435H (corresponding to 11/08/2014G)
Announcement regarding distribution of the compensation amounts (if any) to Eligible Persons	Company	16/10/1435H (corresponding to 12/08/2014G)

The above timetable and all dates therein are indicative. Actual dates will be communicated through local newspapers published in KSA as well as on Tadawul's website www.tadawul.com.sa.



How to Apply

Subscribing for the New Shares shall be limited to Eligible Persons. In the event that Eligible Persons do not subscribe for the New Shares, the unsubscribed shares shall be offered to Institutional Investors through the Rump Offering.

Eligible Persons wishing to subscribe for the New Shares shall fill the Subscription Application Forms available during the First Offering Period and the Second Offering Period (as applicable) at the Receiving Agents' branches then deliver the same to any of these Receiving Agents during the Offering period. It is also possible to apply through the internet, phone or ATMs of any of the Receiving Agents that offer one or all of these services to the Applicants, under two basic conditions: (1) the Applicant "Eligible Person" shall have a bank account with the Receiving Agent which offers such services, (2) there should have been no changes in the personal information or data of the "Eligible Person" (by deleting or adding a family member) since his subscription in a recent offering, unless the Receiving Agent was notified of and approved these amendments.

Subscription Application Forms must be completed in accordance with the instructions mentioned under section "Subscription Terms and Conditions" of this Prospectus. The Company reserves the right to reject, in full or in part, any application for New Shares that does not comply with any of the Subscription terms or requirements. No amendment or withdrawal can be made to the Subscription Application Form after submission to the Receiving Agents. Once accepted by the Company, a Subscription Application Form shall represent a legally binding contract between the Company and the Eligible Person (Please see section "Subscription Terms and Conditions" of this Prospectus).

FAQs about the Rights Issue Mechanism

What is a Rights Issue?

A Rights Issue is an offering of tradable securities that give their holders the priority to subscribe for New Shares upon approval of the capital increase of the Company. They are acquired rights for all Registered Shareholders in the Company's Register as at the close of trading on the date of the EGM. Each Right grants its holder eligibility to subscribe in one New Share at the Offer Price.

Who is granted the Rights?

The Rights are granted to all Registered Shareholders in the Company's Register as at the close of trading on the date of the EGM.

When are the Rights deposited?

The Rights are deposited within two days after the EGM. The Shares will appear in the accounts of Registered Shareholders under a new symbol that designates these Rights. These Rights cannot be traded or exercised by the Registered Shareholders until the beginning of the First Offering Period.

How are Registered Shareholders notified of the Rights being deposited in their accounts?

The Registered Shareholders are notified through an announcement on the Tadawul website.

How many Rights can be acquired by a Registered Shareholder?

The number of Rights to be acquired by a Registered Shareholder is subject to the Rights Issue ratio and the number of Shares held by the Registered Shareholder as at the close of trading on the date of the EGM.

What is the Rights Issue ratio?

It is the ratio that permits the Registered Shareholder to know how many Rights he/she is entitled to in relation to the Shares that he/she already owned on the date of the EGM. If a company, for example, has issued 1,000 shares and increases its capital by offering 200 new shares, its number of shares becomes 1,200. Then, the eligibility ratio is 1 to 5 (one new share for every five existing shares).

Are these Rights tradable and will they be added to the Shareholders accounts under the same name/symbol as the Company's shares; or will they be assigned a new name?

The Rights will be deposited in Shareholders' accounts under a new symbol specially assigned to the Rights Issue.

What is the Right value upon the trading commencement?

The Right opening price is the difference between the share closing price on the day preceding such Right listing, and the Offer Price. For example, if the closing price of a share on the preceding day is SAR 35 (thirty-five Saudi Riyals) and the Offer Price is SAR 10 (ten Saudi Riyals), the opening price of the Rights will be 35 minus 10, i.e. SAR 25 (twenty-five Saudi Riyals).

Can Registered Shareholders subscribe for additional shares?

Registered Shareholders can subscribe for additional shares by purchasing new Rights during the Trading Period. These Rights can be exercised to subscribe for the new additional shares only during the Second Offering Period.

How does the Offering take place?

The Offering will take place as it currently does by submitting Subscription Application Forms at any of the Receiving Agents' branches (mentioned in this Prospectus) and only during the First Offering Period and/or the Second Offering Period.

Are share certificate holders allowed to subscribe and trade?

Yes, they are allowed to subscribe. However, they will only be able to trade after depositing their certificates in investment accounts through the Receiving Agents or the Tadawul's depository center and submitting the requisite documents.

What happens if New Shares are subscribed for, and then the Rights have been sold after that?

If a Registered Shareholder subscribes, then sells the Rights without purchasing a number of Rights equal to the number of exercised Rights prior to the end of the Offering period, then the Subscription Application will be rejected entirely, if all Rights have been sold, or partly in an amount equal to the number of sold Rights. In this case, the Registered Shareholder will be notified by its Receiving Agent and the rejected Offering amount will be refunded.

Are additional Rights purchasers entitled to trade them once again?

Yes, purchasers of additional Rights may sell them and purchase other Rights only during the Trading Period.

Is it possible to sell a part of these Rights?

Yes, the investor may sell a part of these Rights and subscribe for the remaining part.

Is it possible to subscribe during the weekend between the First and Second Offering Periods?

No, that is not possible.

Can the Eligible Person sell the Right after expiry of the Trading Period?

That is not possible. After the expiry of the Trading Period, the Eligible Person may only exercise the right to subscribe for the capital increase. In case the Right is not exercised, the investor may be subject to loss or decrease in the value of his investment portfolio.

What happens to Rights that are unsold or unsubscribed for during the Trading Period as well as the First and Second Offering Periods?

The Rump Shares resulting from a failure to exercise or sell these Rights will be offered during the Rump Offering, organized by the Lead Manager according to the standards set forth in this Prospectus.

Will there be any additional fees for the trading in Rights?

The same commissions applying to the shares will also apply on sale and purchase operations, without a minimum commission being imposed.



Summary of Key Information

This summary is a brief overview of the information contained in this Prospectus and does not contain all of the information that may be important to Subscribers. Recipients of this Prospectus should read the whole Prospectus before making a decision as to whether or not to invest in the new Shares. Certain terms contained in this Prospectus have been defined in the “Definitions and Abbreviations” section of this Prospectus.

Company Background

Al-Ahlia for Cooperative Insurance Company (the “Company”) is a Saudi joint stock company established in 2007 with Commercial Registration No. 1010238441. The Company is practicing, in compliance with the provisions of the Cooperative Insurance Companies Control Law, its executive by-laws and prevailing rules and regulations.

The Company’s head office is situated in Riyadh and it practices insurance activities in compliance with the provisions of the Cooperative Insurance Companies Control Law and under supervision of SAMA which is responsible for implementation of the law, its executive by-laws. The insurance businesses activities carried-out by the Company include fire, property, engineering, general accidents, liability, motor, marine, aviation, energy and group medical insurance.

The Company’s Mission

“Commit ourselves to offering high quality insurance solutions and services and a complete portfolio of products answering the market needs and our clients’ requirements and expectations through the most state-of-the-art technological systems and a highly professional team responsible for our customers’ service”

The Company’s Strategy

Ahlia’s overall strategy will be based on four pillars from which the Company’s strategic goals are derived which are: customers’ satisfaction, operation effectiveness, people and profitability.

The Company’s policy is to:

- Target different segments of customers and providing products and services with the best quality/price mix, tailored to anticipate and respond to the needs of each segment separately;
- Provide high quality service and assistance in claims management to exceed customer’s expectations;
- Provide intimate relationship with the clients by maintaining a first in class CRM system; and
- Maintain high percentage of client retention rates by building loyalty and high level service standards.

The Company aims to optimize the effectiveness of the overall operations of the Company through streamlined documented processes and a robust IT infrastructure as well as efficient support functions.

The Company provides equal opportunities for employees to realise their potential within the Company and developing the “Al-Ahlia Academy” to provide first in-class education and training to its employees, covering technical and interpersonal skills. The Company adopts and implements a clear and integrated Saudization Plan.

The Company aims to achieve high technical profitability by optimising its underwriting, reinsurance and claims functions and striving to realize a significant increase in gross premium during the coming five years. The Company also works for achieving a sustainable return on investment for its shareholders by proper management of the Company’s internal and external resources, minimizing costs.

Summary of Insurance Businesses

The Company offers various types of insurance coverage businesses to its clients in accordance with standard conditions. The Company is not allowed to offer its products prior to obtaining SAMA’s approval for each product advising that the Company has obtained final and use approvals from SAMA. Each policy stipulates that the Company must distribute 10% of the net annual surplus raised from insurance operations, if any, to the policyholders either in term of money or as reduction in the following year premiums. Exceptions, conditions, premiums and cancellation vary from one policy to another depending on the coverable product.

The Company offers the following products to its customers:

1. All Property insurance policies.
2. House and Burglary Policy.
3. Fire and Risks Insurance Policy.
4. Business Interruption Insurance Policy.
5. Marine Cargo Insurance Policy (Open).
6. Marine Cargo Insurance Policy (One Time).

7. Land Transportation Insurance Policy.
8. On-road Goods Insurance Policy.
9. All Contracting Insurance Policy.
10. All Machinery Insurance Policies.
11. Cold Stores Stocks Rotten Insurance Policy.
12. Electronics Insurance Policy
13. All Construction Works Insurance Policy.
14. Plant and Machinery Insurance Policy.
15. Group Medical Insurance Policy.
16. Comprehensive Motor Insurance Policy (Private/Commercial).
17. Motors Mandatory Insurance Policy (Private-Commercial). This policy covers third party insurance for motors.
18. Medical Malpractice insurance Policy.
19. Workmen compensation Policy.
20. Money Insurance Policy.
21. General Liability Insurance Policy.
22. Individual Accident Insurance Policy.
23. GP Accident Insurance Policy.
24. Fidelity Guarantee Insurance Policy.
25. Glass Insurance Policy.
26. Travel Care Insurance Policy.

Overview of the Saudi economy

Saudi Arabia's economy has maintained its robustness in recent years, driven by government spending and per capita expenditure and investments. The government spending has grown rapidly from SAR 285.2 billion in 2004 to SAR 853 billion in 2012.

The number of people listed under the incentive program, a program that gives each member of SAR 2,000 per month for a period of one year, is about 1,700,000, representing 17% of the labor force.

Saudi Arabia has raised oil production in 2012 to make up the shortfall caused in Iran's oil production and to meet the growing demand particularly from countries outside the Organization of Petroleum Exporting Countries ("OPEC"). As a result, the oil sector recorded a growth rate of 5.5%, while the government sector grew by 6.2%, and non - oil economic growth amounted to 7.2% while growth in non - oil sector was 7.5%.

The rate of growth of real GDP was 6.8% on an annual basis. The nominal GDP amounted to SAR 2.7 trillion at current prices, a growth rate of 8.6% compared to 2011. The public debt was down by SAR 98.8 billion. In addition, the inflation rate was estimated at 4.5%, compared with 4.9% in 2011. This decline is due to the decline in food prices and rents.

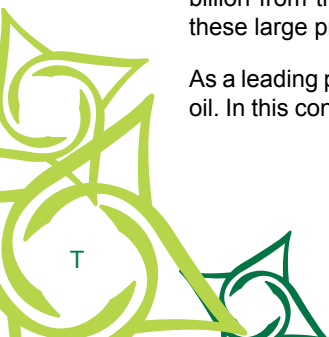
The Saudi government also encourages the expansion of the private sector for economic diversification and creates additional job opportunities for Saudi nationals. Economic diversification efforts are concentrated in the sectors of power generation, telecommunications and exploration of natural gas and petrochemicals.

In 2011, the government disclosed a series of new investment programs worth more than SAR 412 billion out of which SAR 116 billion had been allocated for spending during the year while the remaining amount been allocated for spending during the following years. The bulk of these financial allocations will be spent in the establishment of a number of infrastructure projects, especially those that aim to support transport and logistics. Additional financial allocations have been directed to finance projects concerned with providing an economic low - cost housing in addition to improving medical and educational services and expand the economic base and strengthen the infrastructure of services in the Kingdom of Saudi Arabia.

The Kingdom of Saudi Arabia has maintained its expansionary trend in 2012 as the level of expenditure budgeted was SAR 690 billion as against SAR 580 billion in 2011. The actual expenditure in 2011 was SAR 804 billion, an excess of SAR 224 billion over budget. Accordingly, the expenditure budget for 2012 is the largest with an increase of about 19% from the previous budget amount.

The 2012 budget allocated SAR 265 billion to finance new projects and other on-going projects (expenses) and this means that the remaining amount of the SAR 425 billion has been allocated for ongoing expenses, representing 62% of the budget. The amount allocated to this item in 2012 increased by 15% which is equivalent to SAR 54.5 billion from the previous budget. It is expected that the construction sector benefit from the growing numbers of these large projects.

As a leading producer of oil in the OPEC, the Kingdom of Saudi Arabia may take advantage of the global demand for oil. In this context, it is planned to raise production capacity and refining of oil for the promotion of economic growth.



Middle Eastern & North African Insurance Market Overview

The insurance industry in the Middle East and North Africa ("MENA") is still in its nascent stages, compared with other advanced world economies. Proof of this is the low penetration and density rates, low capitalization rates, and to some extent weakness of legislative regulations of the insurance sector compared to the more developed economies.

During the past five years the insurance sector witnessed strong growth rates. Although these growth rates are important, the region still has a long way to go before becoming a mature insurance sector. We expect that the movement of MENA countries economics, government's efforts to develop legislative regulations and increased investments will have a positive impact on the insurance sector and ensure continuous growth in the coming years.

The insurance sectors of the Middle Eastern countries basically fall into two categories. The first category is characterized by a relatively small number of companies, whose positions may have been formally protected by law. The companies are large by local standards, but no more than medium-sized companies by other standards. The second category is characterized by the extremely large number of local players relative to the present market opportunity. By world standards, these are small companies. Typically they are either pure non-life companies or non-life companies who derive a small portion of total income from life products. Often they have a close association with a local banking or trading company, which may assist with procurement of business.

The insurance sector of Saudi Arabia appears to be in the later stages of a transition process of changing from the first to second category due to the increase in the number of companies and availability of various options. Thanks to this development the total premiums are growing fast and industry competition is rapidly changing.

Strengths of the Company

- Deep rooted and known name in the Region.
- Highly Qualified Work Team.
- Regional Support.

Share Capital Structure

The Company's share capital is One Hundred Million Saudi Riyals (SAR 100,000,000) composed of Ten Million (10,000,000) shares with a nominal value of SAR 10 per share and all shares are fully paid. The founding shareholders have subscribed to 60% of the total shares and the remaining 40% had been subscribed to by the public through an Initial Public Offering ("IPO") that took place 19/05/2007. No advantage or preferential rights have granted to the founding or else shareholders.

Major Shareholders as of 30 June 2013

Name	%	Number of Shares	Amount in SAR
Misr Life Insurance Co.	18%	1,800,000	18,000,000

Summary of Financial Performance and Indicators as of 31 Dec. 2013

The following summary of the financial statements is based on the unaudited financial statements for the year ended 31 Dec. 2013, audited financial statements for the year ended 31 Dec. 2012 the year ended 31 Dec. 2011 and for the year ended 31 Dec. 2010 including the notes attached therewith.

Balance Sheet (Thousands of Saudi Riyals)	Year ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2012	Year ended 31 Dec. 2013
Total assets of the insurance operations	250,861	253,695	212,859	227,703
Total assets of the shareholders' operations	64,096	51,399	54,715	59,904
Total assets	314,956	305,094	267,574	287,607
Total liabilities of the insurance operations	250,861	253,695	212,859	227,703
Total Shareholders, liabilities	25,667	18,738	10,228	33,870

Balance Sheet (Thousands of Saudi Riyals)	Year ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2012	Year ended 31 Dec. 2013
Total shareholders' equity	38,428	32,661	44,487	26,034
Total shareholders' equity and liabilities	64,096	51,399	54,715	59,904
Total liabilities of the insurance operations and shareholders' equity and liabilities	314,956	305,094	267,574	287,607

Results of Operations (Thousands of Saudi Riyals)	Year ended December 31, 2010	Year ended December 31, 2011	Year ended December 31, 2012	Year ended December 31, 2013
Total written premiums	260,648	257,738	235,636	219,469
Total claims and expenses	120,712	198,843	171,531	156,651
Surplus (deficit) from insurance operations	(11,283)	(4,855)	15,171	(14,987)
Surplus (Deficit) Transferred to the Statement of shareholders	(11,283)	(4,855)	13,654	(14,987)

Shareholders' Operations Statement

Deficit transferred from the results of insurance operations	(11,283)	(4,855)	13,654	(14,987)
General and administrative expenses	(389)	(355)	(295)	(3,177)
Net profit (loss) for the year	(11,393)	(5,090)	13,497	(17,875)
Profit (loss) per share for the year	(1.14)	(0.51)	1.35	(1.79)

Statement of cash flows for the insurance operations

Net cash from operating activities	94,807	29,181	(20,768)	(9,554)
Net cash from (used in) investing activities	(1,423)	(572)	(3,016)	(3,842)
Net cash from financing activities	-	-	-	-
Cash and cash equivalents at the end of the year	96,524	125,132	101,348	87,953

Cash flows to shareholders

Net cash used in operating activities	(14,190)	(3,275)	106	309
Net cash from investing activities	-	53,387	-	-
Net cash used in financing activities	(866)	(9,497)	-	-
Cash and cash equivalents at end of year	715	41,332	41,438	41,747

Summary of Risk Factors

Risk factors related to Rights Issue Offering can be summarized as follows:

- Risks related to company's operations.
- Risks related Market and Regulatory Environment
- Risks related to the Offering Shares



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1. Definitions and Abbreviations

Term	Definition
Al-Ahlia, Al Ahlia, Ahlia or The Company	Al-Ahlia for Cooperative Insurance Co., a Saudi Joint Stock Company
Advisors	The Company's advisors whose names appear on pages H and I
Actuary	A person who conducts various statistical and probability theories using which services are priced, liabilities are assessed and provisions are calculated
Gross Written Premium	Gross written premium of insurance policies within certain timeframe without deducting assigned premiums.
Net Written Premium	Calculated by deducting the relevant reinsurance amount of each line of insurance
Board or Board of Directors	The Company's board of directors
By-Laws	The Company's by-laws
CAGR	Compounded Annual Growth Rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA or the Authority	Capital Market Authority of Saudi Arabia
Companies Regulations	The Companies Regulations issued by Royal Decree No. M/6, dated 22/3/1385H, as amended
Claims Solvency Premium	Average total claims of the three recent years which is classified according to the different lines of insurance where a specified coefficient should be used for each line in accordance with SAMA's guidelines
Exchange or Tadawul	The Saudi Arabian Stock Exchange
Facultative Reinsurance	An optional case-by-case method of reinsurance. The reinsurer has the option to accept or reject the offered risks.
Founding Shareholders	Founding Shareholders of the Company
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product of K.S.A
General Assembly	General Assembly of Shareholders of the Company
Government	The Government of Saudi Arabia

Term	Definition
Insurance Law or Cooperative Insurance Companies Control Law	Law on Supervision of Cooperative Insurance Companies promulgated by Royal Decree No. M/32 dated 2/6/1424H (corresponding to 31/7/2003G)
Insurance Policy	A contract issued to the Insured by the Company setting out the terms of the contract to indemnify the Insured for loss and damages against a premium paid by the Insured
Implementing Regulations or SAMA Implementing Regulations	The Implementing Regulations for Law on Supervision of Cooperative Insurance Companies promulgated by the ministerial order No. 1/561 dated 1/3/1425H (corresponding to 20/4/2004G).
Corporate Governance Regulations or Corporate Governance Rules	The corporate governance regulations in KSA issued by Capital Market Authority under resolution No 2006/212/1 dated 12/10/1427H corresponding to 13/11/2006G and subsequent amendments.
Insured	A natural person or legal entity, which has taken an Insurance Policy
Insurer	An insurance company that accepts insurance contracts to assume the risk of the insured loss and to compensate for that loss directly to insured(s)
KSA, Saudi Arabia, or the Kingdom	The Kingdom of Saudi Arabia
Listing Rules	The Listing Rules issued by the CMA pursuant to Article 6 of the Capital Market Regulations promulgated under Royal Decree No. M/30 dated 2/6/1424H (corresponding to 31/7/2003G)
Lead Manager	Saudi Hollandi Capital
Management	The management of Ahlia
Net Proceeds	The net proceeds of the Offering, after deducting the Offering expenses
Offer Price	Ten Saudi Arabian Riyals (SAR 10) per Offer Share
Eligibility Date	Close of trading on the EGM voting on the increase in the Company's capital according to the Board recommendation on 04/09/1435H (corresponding to 01/07/2014G).
First Offering Period	The Offering will start on 11/09/1435H(Corresponding to 08/07/2014) and will last for 10 calendar days, up to and including the last day of the offering closing on 20/09/1435H (corresponding to 17/07/2014).
Trading Period	The shares trading period will coincide with the start of the First Offering Period and will commence on 11/09/1435H(Corresponding to 08/07/2014)) and will last for 8 working days, up to and including 20/09/1435H (Corresponding to 17/07/2014).
Second Offering Period	The Second Offering Period will start on 23/09/1435H (Corresponding to 20/07/2014) and will last for 3 working days up to and including 25/09/1435H (Corresponding to 22/07/2014)
Rump Offering Period	Unsubscribed Rump Shares, if any, will be offered for subscription during the period from 10:00 AM on 07/10/1435H (corresponding to 03/08/2014G) until the following day at 10:00 AM on 08/10/1435H (corresponding to 04/08/2014G).
Rump Offering	Offering of any Rump Shares unsubscribed for by the Eligible Persons to Institutional Investors during the Rump Offering Period.

Term	Definition
Eligible Persons	Eligible Persons includes both Registered Shareholders and purchasers of Rights during the Trading Period.
Trading of Rights	Eligible persons may trade in (Buy and Sell) the rights issue of 2.2rights for each of the Company's shares in Tadawul.
Exercising of Rights	Application for subscription to the New Shares by the eligible persons through completion of application forms and payment of the money to the Receiving Agents or through electronic subscription to the Receiving Agents providing such type of service.
Registered Shareholders or Qualifying Shareholders	Shareholders registered in the Company's Register as at the close of trading on the date of the EGM.
Official Gazette	Um Al Qura, the official Gazette of the Government of Saudi Arabia
Official List	List of securities maintained by the CMA in accordance with the Listing Rules
Person	A natural person
Prospectus	This document prepared by the Company in relation to the Offering
Policyholders	The persons who, according to the Company's records, are at any given time the holders of insurance policies issued, or acquired by the Company
Premium Solvency Margin	The solvency margin is calculated by multiplying the specified coefficient for the specific insurance line (according to SAMA guidelines) by the Adjusted Written Premium for each line of insurance and aggregating the results.
Receiving Agents	Saudi Hollandi Bank, National Commercial Bank, Riyadh Bank, Saudi Fransi Bank, Samba Financial Group, Bank Al Jazira and Arab National Bank
Reinsurance	The process by which an insurer or reinsurer insures or reinsures another insurer or reinsurer (the ceding company) against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies
Reinsurer	A reinsurance company that accepts insurance contracts from another insurer for some or all the risks it has assumed
SAMA	The Saudi Arabian Monetary Agency
SAR or SR	Saudi Arabian Riyal
Shareholders	The holders of the Shares as of any particular time
Shares	The Ordinary shares of the Company with a nominal value of ten Saudi Arabian Riyals (SAR 10) each
SHB	Saudi Hollandi Bank
SHC	Saudi Hollandi Capital, a company licensed by the Saudi Capital Market Authority to offer Advising, Arranging, Dealing and Managing services. It is a subsidiary of Saudi Hollandi Bank

Term	Definition
Institutional Investors	Includes: <ol style="list-style-type: none"> 1. Publicly Offered Investment Funds established in Saudi Arabia and investing in Saudi Securities provided that the Fund terms and provisions allow and the terms and conditions of the Investment Funds Regulations are observed. 2. Persons authorized by CMA to deal in securities as principal provided that the financial adequacy requirements are observed. 3. Publicly listed companies via its portfolios managed by authorized persons and the banking and the publicly listed insurance companies in compliance with CMA regulations provided that their subscription shall not involve any conflict of interest.
SAGIA	Saudi Arabian General Investment Authority
SOCPA	Saudi Organization for Certified Public Accountants
Subscriber	Anybody who subscribes in the offered shares
Subscription Application Form	The application form submitted by the subscriber to purchase the offered shares
Surplus Distribution	Method by which profit of insurance and reinsurance companies is distributed among Policyholders
Technical Provisions	The value set aside to cover expected losses arising on a book of insurance policies and its financial obligations
Underwriter	Saudi Hollandi Capital
Underwriting Agreement	The underwriting agreement between the Company and the Underwriter
BBB	A credit rating from S&P
S&P	Standard and Poor's, an American company specialized in rating and development of rating indicators for the financial markets performance in different world markets in addition to providing analysis and studies to more than 2000 internationally listed companies.
AAA	A credit rating from S&P
USD	United States Dollar
GOSI	General Organization for Social Insurance
IBNR	Incurred But Not Reported, insurance claims that have been incurred but not yet reported to the insurer
MLIC	Misr Life Insurance Company
EGM	Extraordinary General Meeting
The EGM	The EGM approving the Offering

Term	Definition
Eligibility Date	The date of the EGM
IPO	Initial Public Offering
The Offering	The current Rights Issue Offering of Ahlia
IFRS	International Financial Reporting Standards
Chairman	The Chairman of the Board of Directors of the Company
Board or Board of Directos	The Board of Directors of the Company
Massaq	Al-Massaq Support Services Company
MOCI	Ministry of Commerce and Industry

2. Risk Factors

In addition to the information contained in this Prospectus (this “Prospectus”), prospective investors should carefully consider all the risk factors described below before deciding whether to purchase the Offer Shares (the “Offer Shares” or the “New Shares”). The risk factors described below are not inclusive of all the risks that the Company may encounter; there could be other risks currently unknown to or considered immaterial by the Company, which may preclude its operations. The Company’s business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected if any of the following risks, which the Directors currently believe may be material, or any other risks that the Directors have not identified or that they do not currently consider to be material, actually occur or become material. The occurrence of any of these risks could cause the value of the Offer Shares to materially decrease and prospective investors may lose all or part of their investment.

2 - 1 Risks Relating to the Company's Operations

2 - 1 - 1 Adequacy of Reserves

As per the implementing regulations of insurance companies control, Al-Ahlia for Cooperative Insurance Company (“**Al Ahlia**”, “**Al-Ahlia**”, “**Ahlia**” or the “**Company**”) shall maintain adequate provisions to meet and cover financial obligations under Article 69 of the regulations which stipulated the following minimum reserves:

Unearned Premium Reserves

Unpaid Claims Reserves

Claim Expense Reserves

Incurred But Not Reported (“**IBNR**”) Claims Reserves

Unexpired Risk Reserves

Catastrophe Risk Reserves

General Expenses Reserves

The process of estimating reserve liabilities is a difficult and complex exercise and involves many variables and subjective assumptions. Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid Insurance Policy claims, the Company cannot determine precisely the amount, which would ultimately be paid to settle these liabilities. The assumptions upon which reserve calculations are based may also be revised as additional experience or data become available, as new or improved methodologies are developed, as loss trends and inflation claims impact future payments, or as current laws or interpretations thereof change. In addition, the relatively short history and the limited amount of data on the Saudi insurance industry in terms of claims experience may affect the Company’s capability to establish actuarial assumptions for certain products, such as health care insurance products.

As a result, the reserves established for future insurance policy claims may prove to be insufficient and the Company then will need to increase reserves. An increase in loss reserves may reduce the net income and, if large enough, will have a material adverse effect on its business, financial condition and results of operations.

2 - 1 - 2 Non-Satisfactory investment returns

Cooperative Insurance Companies Control Regulation imposes certain restrictions on the Company’s investments that must vary to reduce the risk of volatility or loss of part of its value. Given the diversity in investments imposed by regulation in addition to the low returns on cash deposits to the lowest level, the Company is not expected to achieve significant growth in its investment portfolio and therefore limits the Company’s ability to cope with any unexpected increase in insurance claims that are not covered by reserves.

If the Company fails to succeed in the management of liquidity in the short term, they may have to liquidate their investments at some times and at unfavorable prices, which could have a material adverse effect on the financial position of the Company and results of operations. Management of these investments requires an effective administrative system and high ability to choose quality and diversity of investments. However, any failure in this regard may result in decrease of the company’s revenues and subsequently its shareholders’ equity.

2 - 1 - 3 Acquisition of Business Portfolio from Al-Ahlia BSC of Bahrain (“Ahlia BSC” or “Al Ahlia BSC” or “Al-Ahlia BSC”)

Ahlia plans to complete the acquisition of the Saudi business portfolio of Ahlia BSC . The approval for proceeding with the completion of the acquisition is currently awaited from the Saudi Arabian Monetary Agency (“SAMA”) after capital increase and improvement of solvency margin (For further details please refer to Section 13.7.4 of the Prospectus entitled “Purchase of Assets and Portfolio Transfer Agreement”. If the acquisition is completed, there is no guarantee that this acquisition would not negatively affect the business of the Company or its financial position or performance. Accordingly, this acquisition may have a negative impact on Ahlia’s business, financial position and financial performance or share prices.

If the acquisition is completed, it would be with effect from 1st January 2009. Hence, the audited financial statements of the Company for some or all of the years preceding the year of completion of the acquisition may be restated to include the performance of Ahlia BSC since 1st January 2009. There is no guarantee that these restatements of historical financial statements would not negatively affect the share prices of the Company.

The summary of the expected restated financial statements that have been presented in this prospectus (Section 13.7.4 of the Prospectus entitled “Purchase of Assets and Portfolio Transfer Agreement”) are not audited and have been prepared by the Company using certain assumptions and methodologies. There is no guarantee (i) that these assumptions and/or methodologies will hold true or be applicable till or at the time of completion of the acquisition; or (ii) that the actual audited restated financial statements to be prepared after completion of the acquisition will not be different from the restated financial statements presented in this prospectus. As a result, any differences between these two sets of restated financial statements may negatively impact the share prices of Ahlia.

2 - 1 - 4 Related Parties

The Company is engaged in a variety of transactions with related parties, including its Directors and Founding Shareholders. The Company contracted with Al-Massaqa Support Services Company (“**Massaqa**”), wherein the Chairman of the Board of Directors (the “**Chairman**”) has an interest, for the latter to provide cleaning and maintenance services. These transactions are conducted on arm’s length basis and are not subject to any preferential rights. However, there can be no assurance as to the terms of those transactions or that all of the Company’s transactions will be considered by Shareholders to be in their best interests. Please refer to the “Certain Relationships and Significant Related Party Transactions” section.

2 - 1 - 5 Litigations, Claims and Regulatory Action

In the ordinary course of its business, an insurer may pursue litigation claims against third parties and may also have litigation claims filed against it (Please refer to “Disputes and Litigations” section for further details on the existing litigations). Some of these claims could result in the Company having to pay substantial compensations. Payment of substantial compensations could adversely affect insurers’ financial position or results of operation.

As an example, there is a claim against the Company for payment of attorney fees of SAR 2,140,000 (Please refer to section 13.8 titled “Disputes & Litigations” for further details). While the Company deems that the claimed amount is relatively high, it may adversely impact the Company’s financial position if the plaintiff wins the case and the Company is compelled to pay the claimed amount.

It is possible that insurers may be subject to future reviews or inspections at any time by the regulator. The Company cannot predict the scope or outcome of any such reviews, investigation, or proceeding (if it was to occur) and cannot assure that such reviews would not result in any change which would have adverse impact on the Company’s results or financial condition.

2 - 1 - 6 Risks Related to the Company’s Losses

The Company has reported losses of SAR 55.54 Million as of 30 September 2013G which amounts to 55.54% of its share capital. There is no guarantee that the Company will not continue to suffer losses, and if that happens, the Company will be subject to a number of laws and regulations in the Kingdom.

The Companies Regulations state that where a joint stock company has suffered losses amounting to 75% of its share capital, the Board of Directors must call for an extra-ordinary general assembly to decide whether the Company should continue or dissolve. Should Ahlia continue to suffer losses and if at such extra-ordinary general assembly, the shareholders decide to dissolve the Company, then prospective investors could lose all or part of their investment.

2 - 1 - 7 Insurance Underwriting Risks

Underwriting is a matter of judgment, involving important assumptions about matters that are inherently unpredictable and beyond the Company's control, and for which historical experience and probability analysis may not provide sufficient guidance.

Miscalculation of net exposures could have a material adverse effect on the financial condition and results of operations of the Company. Insurance business undertaken by the Company focus on the motor insurance and medical insurance, which represented more than 94% of total premiums written in 2012.

There is also a risk that the Company may be unable to purchase Reinsurance in the market in the future. The insolvency, inability or unwillingness of any of the Company's present or future Reinsurers to make timely payments and to comply with the terms of their Reinsurance agreements may also have an adverse effect.

2 - 1 - 8 Risk Management Policies

The Company relies on cooperative insurance regulations and risk management regulation (To be submitted Monthly) in drawing and measure risk control policy. Non-implementation and non-updating of this policy and non-availability of adequate information to respond in a timely manner expose the Company to a variety of risks, including, for example non-compliance with regulations of cooperative insurance and risk management regulations.

2 - 1 - 9 Unpredictable Catastrophic Events

As a property and casualty insurer, the Company is vulnerable to losses from catastrophes. Catastrophes can be caused by various natural and unnatural events, the incidence and severity of which are inherently unpredictable. The Company's property and casualty insurance operations expose it to claims arising out of, among other events, hailstorms, floods, wind, fires, explosions and industrial accidents.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Catastrophes can cause losses in a variety of property and casualty lines. Although the Company attempts to manage exposure to catastrophic events through underwriting controls and Reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent and severe than contemplated in the Company's pricing and risk management expectations. Claims related to catastrophes could cause substantial volatility in financial results of the Company for any fiscal quarter or year and severe catastrophic events could have a material adverse effect on the Company's financial condition and results of operations.

2 - 1 - 10 Renewals of Existing Policies

The Company's Insurance Policies are generally short term in nature. If actual renewals of the Company's existing contracts with Policyholders do not meet expectations, the Company's premiums written in future years and its future results of operations could be materially adversely affected.

2 - 1 - 11 Information Technology, Operational Systems and Infrastructure

The business and future prospects of the Company are highly dependent on the ability of the operational and information technology systems to process, store and transmit a large number of transactions in a timely and uninterrupted manner, especially at a time when transaction processing has become increasingly complex with the volume of such transactions growing at a considerable rate.

The proper functioning of the operational systems and control procedures related thereto are critical to its operations and the ability to compete successfully.

The inability of the Company's information systems to issue periodic financial reports to senior management of the Company or to the Saudi Arabian Monetary Agency could expose the Company to the risk of the lack of response in the form required for insurance business variables as well as non-compliance with regulations and rules.

There can be no assurance that the Company's business activities would not be interrupted or materially impacted in the event of a partial or complete breakdown of any of the main information technology or communications systems. In addition any unauthorized access, computer viruses or other events with security consequences could affect the business of the Company and lead to reputational damage.

The Company may also be affected if a client, counterparty or third party with whom it does business, suffers a serious breakdown or security breach in its information or communication systems. Equally, clients, counterparties

and third parties may suffer damage if the Company's information or communication systems break down or are breached.

2 - 1 - 12 Employee Misconduct or Error

The Company cannot guarantee that it can always deter or prevent employee misconduct, such as fraud, intentional error, and failure to document transactions properly and to obtain proper internal authorization, and to fully train employees to prevent unintentional errors. As a result, employee misconduct or error could result in violation of law by the Company, regulatory sanctions, financial liability and/or serious damage of reputation to the Company. The Company cannot guarantee that employee misconduct or error will not materially and adversely affect its financial condition and results of operations.

2 - 1 - 13 Dependence on Key Personnel

Key personnel of the Company play an important role in the success of the Company's business and its success and future prospects will depend to a large extent on its ability to recruit and retain high quality personnel.

There can be no assurance that the Company will be able to find, or find in a timely manner, qualified replacements for individuals or to attract and retain additional qualified personnel as and when needed.

Furthermore, competition for personnel with relevant expertise is intense in the market due to the scarcity of qualified individuals. In order to retain skilled and qualified individuals, the Company may need to offer higher compensation and other benefits. The Company is not insured against the detrimental effects to its business resulting from the loss or dismissal of key personnel and it can provide no assurance that it will be able to attract and retain key personnel that will help to achieve business objectives. The business of the Company may be adversely affected by the loss of services of one or more members of key personnel in the short to medium term which could lead to a disruption of the Company's operations and adversely impact the Company's business prospects, financial condition, or results of operations.

Many of the Company's key personnel working in Saudi Arabia are not Saudi Arabian. Under Saudi law, non-Saudis may not engage in any gainful occupation in Saudi Arabia without an appropriate governmental work permit. The Company's success may depend in part on the continued services of key personnel in Saudi Arabia. No assurances can be given that any work permit will be issued or, if issued, renewed upon the expiration of the relevant term. It is possible that Saudi Arabia could change its laws or policies in a way that would make it more difficult for non-Saudis to obtain work permits.

2 - 1 - 14 Vacancy of the Investment Manager Position

Up to the date of this prospectus, the investment manager position is vacant and the Company plans to fill this vacancy right after the completion of the rights issue transaction. Appointing an investment manager to manage the rights issue proceeds and the capital of the Company is a necessity. The Company's investment performance might be adversely affected if the Company failed to fill this position or failed to hire a professional with the right set skills and experience.

2 - 1 - 15 Lack of and Importance of Insurance Cultural Awareness in KSA

Insurance plays a significant role in the human life and communities, however, there are risks on society's perception on the insurance sector in general as it sees that the sector does not play a key role or operating under scope of services that do not comply with the principles of solidarity and Shari'a and society may lose confidence in the sector and this may adversely affect the Company's business and the percentage of revenue.

2 - 1 - 16 Saudization

Compliance with the Saudization requirements stands as a challenge to the Company in consideration of the limited trained manpower and high competition of other insurance companies.

Although the Company's Saudization percentage has reached 43% of its total manpower as of 30 June 2013, there are no guarantees that the Company will maintain the Saudization level in place.

Non-compliance with Saudization requirements may entail a range of sanctions including suspension of applications for employment visas or the transfer of sponsorship for non-Saudi employees, or the exclusion of the Company from bidding for government tenders. The operations of the Company, its ability to honor its commitments and its business, financial condition, results of operations and prospects may be adversely affected due to non-compliance with Saudization requirements.

2 - 1 - 17 Reinsurance Risk

The Company cedes a portion of its premiums to its Reinsurers in exchange for their agreement to assume a portion of the Company's losses under the policies it writes. Reinsurance makes the assuming Reinsurer liable to the Company to the extent of the risk ceded, but it does not relieve the Company of its primary liability to the Policyholders as the direct insurer. As a result, the Company is exposed to credit risk with respect to its Reinsurers.

In addition, as per the Implementing Regulations, the Company must select a reinsurer with a minimum of BBB rating from Standard & Poor's ("S&P") or its equivalent rating from a recognized international rating organization. If the Company wishes to do business with a reinsurer that is not rated by any international rating company nor has a rating less than the minimum requirement mentioned above, the Company should obtain prior written approval from the SAMA. Failure to comply with applicable requirements of Implementing Regulations could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

2 - 1 - 18 Reinsurance concentration counterparty Risk

The Company's insurance portfolio is reinsured by few reinsurers and it has high counterparty risk exposure to Mapfre Re & Korean Re. Financial contract's terms between the Company and the reinsurers may not be met because of bankruptcy, insolvency or other financial impairment, which might impact the financial and operational performance of the Company negatively.

Source of funds

The future capital requirements of the Company depend on many factors, including its ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. The Company may need to raise additional funds through financings or curtail its growth and reduce its assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to the Company. In the case of equity financings, shareholders' equity could be diluted. If the Company cannot obtain adequate capital, its business, results of operations and financial condition could be adversely affected.

2 - 1 - 19 Arrangements with other parties

The Company, in its due course of business, has entered into distribution and cooperation agreements with third parties. In such agreements the Company depends on the party's ability to meet their contractual obligations. No assurance can be given as to extent of such third parties' meeting of their obligations, which may in turn adversely affect the Company's financial condition, prospective, cash flow and operational results.

2 - 1 - 20 Competition

The Company is likely to find itself operating in an increasingly competitive environment, which could adversely impact its operating margins. In accordance with the latest information from SAMA, the number of licensed insurance companies has reached 33 and they are in severe competition to increase their market share.

Competition in the insurance industry is based on many factors, including premiums charged, terms and conditions of coverage, services provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the insurance company. The Health Insurance Council has initiated an integrated regulation for medical insurance which all operating insurance companies are required to comply with. This is likely to increase competition in the medical insurance sector and this may adversely affect the profit margins.

There can be no assurance that the Company will be able to achieve or maintain any particular level of premiums in this competitive environment. The increased competitive pressures may materially and adversely affect the business of the Company, its prospects and financial condition by:

- Reducing market share
- Reducing margins and spreads
- Hindering the growth of the Company's customer base
- Increasing turnover of management and sales personnel
- Elevating operating expenses, such as sales and marketing expenses
- Increasing policy acquisition **costs**

2 - 2 Risks Relating to the Market and Regulatory Environment

2 - 2 - 1 Cooperative Insurance Companies Control Law and Implementing Regulations

Insurance business in Saudi Arabia is subject to Cooperative Insurance Companies Control Law and Implementing Regulations issued by SAMA, which is the main Saudi government body responsible for regulating the insurance sector and is responsible for policies and regulations, licensing, competition, investment allocation, service standards, technical standards and settlement arrangements.

The Company's operations must adhere to the provisions of the Insurance Regulations. These laws, rules and regulations may change from time to time. This evolving regulatory framework may limit the Company's ability to implement its business objectives/plans and respond to market conditions. There can be no assurance that applicable laws or the regulatory framework will not change further or be interpreted in a manner that could materially or adversely affect the Company's operations. As an example, the company has enhanced its technical provisions by an increase of SAR29.2m in order to cope with the new policies for computation of technical provisions as required by SAMA.

Under the Cooperative Insurance Companies Control Law and Implementing Regulations, SAMA has broad powers that include amending, suspending, revoking or not renewing the insurance license or imposing penalties against the Company, if the Company has failed to comply with the Insurance Regulations. Any such action against the Company or affecting the Company or imposition of penalties, could materially and adversely affect the Company's business and financial conditions, prospects or results of operations.

2 - 2 - 2 Withdrawal of Insurance License

The Company has obtained SAMA's license to practice insurance activities on 12/03/1430H and has renewed this license to a three-year period that expires on 11/03/1436H.

Article 76 of the Implementing Regulations states that SAMA has the right to withdraw the license of the Company in the following cases:

- If the Company does not practice its licensed activities for a period of six months from the issuance date of the license;
- If the Company does not fulfill its requirements of the Insurance Regulations;
- If it is established that the Company has deliberately provided SAMA with false information in Its licensing application;
- If the Company carries out the licensed activities in a manner that exposes the rights of the Insured, the beneficiary or the Shareholders;
- If the Company becomes bankrupt;
- If the Company deliberately conducts business in a fraudulent manner;
- If the paid up capital of the Company falls below the prescribed minimum limit or the Company does not fulfill the solvency requirements under Article 68 of the Implementing Regulations;
- If the business or volume of the Company's activities in the classes of insurance falls to a limit that SAMA deems unviable for the Company to operate under;
- If the Company refuses or delays payments, due to beneficiaries, without just causes;
- If the Company refuses to be examined or to produce its accounts, records, or files for examination by the inspection team appointed by SAMA; and
- If the Company fails to pay a final judgment against it in connection with any insurance dispute.

Should the license be withdrawn, the Company will not be able to continue to conduct its business legally in Saudi Arabia.

2 - 2 - 3 Reporting Requirements

The Insurance Regulations require the Company to periodically file financial statements and annual reports, prepared on a statutory accounting basis, and other information with SAMA, including information concerning the Company's general business operations, capital structure, ownership, financial condition including, on an annual basis, the aggregate amount of contingent commissions paid. The Company could be subject to regulatory actions, sanctions and fines if SAMA believes that the Company has failed to comply with any applicable law or regulation.

Any such failure to comply with applicable laws could result in the imposition of significant restrictions on the Company's ability to do business or significant penalties, which could adversely affect the Company's results of operations and financial condition.

2 - 2 - 4 Solvency Requirements

According to Articles 66, 67 and 68 of the Implementing Regulations, the Company has to maintain certain solvency levels for different classes of businesses. The Company's solvency level is affected primarily by the technical reserve that it is required to maintain, which in turn is affected by the volume of insurance policies sold and incurred claims. The Company's ability to effectively manage its risks and suitably price its products to maintain the solvency requirements is a big challenge.

SAMA imposes various remedial actions for the companies that fail to comply with the solvency requirements levels including the following:

1. Increase company's share capital.
2. Amend product prices.
3. Decrease costs.
4. Stop underwriting new policies.
5. Liquidate certain assets.
6. Any other action deemed appropriate to the Company and approved by SAMA.

In case of company's failure to satisfy the solvency requirements within timeframe set by SAMA and after taking aforementioned actions SAMA may solicit appointment of a financial advisor to restructure the Company or otherwise withdraw the license.

2 - 2 - 5 Restriction on Ownership of Insurance Companies

Insurance Law places certain restrictions on owning shares in insurance companies. According to Article 9 of the Cooperative Insurance Companies Control Law, Articles 38 and 39 of the Implementing Regulations, insurance or reinsurance companies may not merge with, own, control or purchase shares in other insurance or reinsurance companies without written approval from SAMA. The Company shall notify SAMA of the percentage ownership of any person who owns 5% or more of the Company through a quarterly report, and the person himself shall notify SAMA in writing of his percentage ownership and any changes thereof within 5 working days of the date of occurrence of such an event.

These restrictions may, in some cases, impede the Company's ability to attract financial and strategic investors if SAMA denies or delays timely approval, or places conditions that cannot be implemented, which will in turn adversely affect the Company's operations.

2 - 2 - 6 Compliance with Council of Cooperative Health Insurance Regulations

After being approved by SAMA, the medical insurance products offered by the Company are subject to control by the Council of Cooperative Health Insurance (the "CCHI"). The CCHI regulations require the Company to comply with the regulations for offering of medical products including provision of specialized medical staff to process the approvals within time ceiling not exceeding 60 minutes. These regulations also direct the insurance companies to pay the medical service providers as hospitals and clinics within the timeframe not exceeding 30 days. The Company's non-compliance with CCHI's regulations may entail penalties including withdrawal of the license to provide medical services products which may adversely affect the Company's operations.

2 - 2 - 7 Obtaining Approvals for Launching new Products

The Company complies with the cooperative insurance companies control law and its implementing regulations with respect to launching of new products which require prior approval of SAMA. The Company has an initial approval for 26 products on file and use basis and such approvals usually remain valid for 12 months from the date of issue. Therefore, any delay in obtaining the final approval on any of the new products may adversely affect the Company's operations and consequently its profitability.

Since most of the approvals obtained by the Company are temporary, the Company may face difficulty in renewal or in obtaining the final approvals which may adversely affect the Company's financial results and operations.

2 - 2 - 8 Economic and Industry Conditions

The financial performance of insurance companies depends significantly on economic conditions in Saudi Arabia and on global economic conditions that affect the economy of Saudi Arabia. Changes in the economic conditions can affect the financial results of insurers through their effect on market conditions and investment income and through changes in consumer demand for insurance products and services. In addition, premium and claim trends in insurance and reinsurance markets are cyclical in nature and unpredictable events such as the occurrence of

natural disasters, inflationary pressures, competition and judicial decisions may affect the size of future claims and adversely impact the industry's profitability.

The Company cannot predict the impact that future economic and industry conditions will have on its business. Future economic and industry conditions may be unfavorable, and as a result there can be no assurance that future conditions will not materially adversely affect the Company's profitability.

2 - 2 - 9 Market growth

The growth rate of the Saudi Arabian insurance market may not be as high and sustainable as currently anticipated by the Company. This may be the case even though the Company expects the insurance market in Saudi Arabia to expand and the penetration rate to rise with the growth of the Saudi Arabian economy and population, continued social welfare reforms, demographic changes and the opening of the Saudi Arabian insurance market to foreign participants.

The impact on the Saudi Arabian insurance industry of certain trends and events, such as the pace of economic growth in Saudi Arabia, and ongoing reform of the social welfare system is generally prospective and is currently not clear. Consequently, the growth and development of the Saudi Arabian insurance market is subject to a number of uncertainties that are beyond the control of the Company.

2 - 2 - 10 Drop in Customers' Confidence

Customers' confidence in the international insurance sector is vital to enhance the sector strength. Any drop in customers' confidence towards insurance sector as general may result in an increase in cancellation of insurance policies and refund of monies which may adversely affect the Company's sales and consequently the financial conditions and operation results of the Company.

2 - 3 Risks Relating to the Shares

2 - 3 - 1 Potential Fluctuations in the Share Price

The market price of the Company's Rights during the Offering period may not be indicative of the market price of the Company's Shares after the Offering. In addition, the Company's share price may not be stable and could be significantly affected by fluctuations resulting from a change of market's trends in connection with the Rights or the Company's existing Shares. These fluctuations may also result from several factors including, without limitation, market conditions for equity, any regulatory changes in the insurance sector or conditions and trends of the insurance sector, deterioration in the Company's performance, inability to implement future plans, entry of new competitors, announcements by the Company or its competitors concerning mergers, acquisitions, strategic alliances, joint ventures and sale of shares in the subsidiaries, changes made by experts and securities analysts concerning the financial performance estimates.

Selling substantial quantities of Shares by the shareholders or the perception that such sale may take place, may adversely affect the share price in the market. In addition, the investors may be unable to sell their Shares in the secondary market without adversely affecting the price.

There is no guarantee that the market price of the Company's Shares will not be lower than the issue price. If this happens once the investors have subscribed for the New Shares, such subscription may not be cancelled nor amended; therefore, the investors may immediately suffer from unrealized losses. Moreover, there is no guarantee that the Shareholder will be able to sell his Shares at a price equal or higher than the issue price after subscribing for them.

2 - 3 - 2 Potential Fluctuations in the Price of the Rights

The Rights' market price may be subject to significant fluctuations due to the change of market trends with regard to the Company's Shares. These fluctuations may be significant due to the difference between the authorized limits of price change for trading in the Rights, as compared to the authorized limits of price change for trading in the Shares. In addition, the trading price of the Rights depends on the trading price of the Company's Shares and the market perception of the potential price of the Rights. These factors and the factors mentioned under the "Potential Fluctuations in the Share Price" above may also affect the trading price of the Rights.

2 - 3 - 3 Lack of Demand for the Company's Shares and Rights

There is no guarantee that there will be sufficient demand for the Company's Rights during the Trading period, in order to enable the holder of such Rights (whether a Registered Shareholder or a new investor) to sell the Rights and realize a profit, or enable him to sell these Rights at all. There is also no guarantee that there will be sufficient demand for the Rump Shares by the Institutional Investors during the Rump Offering. In case the Institutional Investors do not subscribe for the Rump Shares at a high price, the compensation amount may not be sufficient in order to be distributed to the holders of unexercised Rights.

Moreover, there can be no assurance that there will be sufficient market demand for the New Shares obtained by an Applicant either (a) through subscription to the Rights, (b) during the Rump Offering or (c) in the open market.

2 - 3 - 4 Speculation Relating to the Rights

Speculation relating to the Rights Issue may cause material losses. The limits of price change allowed for the trading of the Rights ("share's indicative value") exceeds the percentage of the shares' prices (by 10% upward or downward). There is also a direct correlation between the Company's share price and the share's indicative value. Accordingly, the daily price limits for the trading of a Right will be affected by the daily price limits for share trading. In case a speculator fails to sell the Rights before the end of the Trading Period, he will be forced to exercise these Rights to subscribe for New Shares and may incur some losses. Thus, the investors should review the full details of the mechanism of listing and trading of Rights and New Shares and the functioning method thereof and should be aware of all the factors affecting them, to make sure that any investment decision will be based on complete awareness and understanding.

2 - 3 - 5 Potential dilution of ownership

If the holders of the Rights do not fully exercise their Rights with respect to the acquisition of New Shares in the Offering, their shareholding percentage and voting rights will be reduced. In case the registered holder of the Rights wishes to sell his Rights during the Trading Period, there can be no assurance that its returns will be sufficient to fully compensate the drop of its shareholding percentage in the Company's capital resulting from the Company's capital increase.

2 - 3 - 6 Failure to Exercise the Rights in a Timely Manner

The subscription period will start on 11/09/1435H (corresponding to 08/07/2014 G) and end on 25/09/1435H (corresponding to 22/07/2014G). The Eligible Persons and financial intermediaries representing them should take the appropriate measures to comply with all required instructions and receive their certificates prior to the expiry of the subscription period. If the holders of the Rights and the financial intermediaries are not able to properly follow the procedures for the trading of the Rights, the Subscription Application Form may be rejected (See Section 16 "Subscription Terms and Instructions"). If the Eligible Persons are not able to exercise their subscription rights properly by the end of the Second Offering Period, according to the Rights held by them, there can be no assurance that a compensation amount will be distributed to the Eligible Persons who did not participate or did not properly subscribe for the New Shares.

2 - 3 - 7 Effective Control by the Founding Shareholders

Although the 3-year lock-up period has elapsed, a major founding shareholder, Misr Life Insurance Co. ("MLIC") still holds 18% of the Company's issued Shares. Collusion of this shareholder with any other shareholders may entail influence on all matters requiring Shareholder approval, including significant corporate expenditures and the appointment of directors (except as prescribed by Articles 69 and 70 of the Companies Regulations, and Article 18 of the Corporate Governance Regulations (the "**Corporate Governance Regulations**" or the "**Corporate Governance Rules**" of the Capital Market Authority of Saudi Arabia ("**CMA**"). As a result, the Founding Shareholders may exercise their powers in a manner that could have a significant effect on the Company's business, financial condition, and results of operations.

2 - 3 - 8 Dividends

Future dividends will depend on, amongst other things, the future profit, financial position, capital requirements, distributable reserves and available credit of the Company, general economic conditions, and other factors that the Directors of the Company deem significant from time to time. Increase in capital may lead to dilution in the value of existing shares which may affect the Company's share market price.

Although the Company intends to pay annual dividends to its shareholders, the Company does not make any assurance that any dividends will actually be paid nor any assurance as to the amount, which will be paid in any given year. The distribution of dividends is subject to certain limitations contained in the By-Laws and subject to SAMA's approval (Please refer to the "Summary of the Company's By-Laws" section).

The Company has never paid any dividends to its shareholder since its inception.

2 - 3 - 9 Risks Related to Expiry of Lock-up Period

Upon listing of the Company's shares on the Saudi Stock Exchange ("**Tadawul**" or the "**Exchange**") on 24/09/1428H (corresponding to 06/10/2007) the Founding Shareholders whose aggregate shareholding was 60% of the Company's total shares were restricted from selling their Shares in the Company for a period of 3 full fiscal years elapsed after announcement of the financial results for fiscal year 2010 and the founding shareholders have the right to dispose their shares. Any further selling or buying of shares by the founding shareholders may affect the Company's share value.

3. Market Overview

3 - 1 Source of Information

In this Prospectus, information and data regarding economic figures and insurance industry have been obtained from different sources believed to be reliable and the Company has made all reasonable inquiries as to the accuracy of the information obtained from these sources. While neither the Company and its Directors nor any of its advisors whose names appear in on pages H and I of this prospectus have a reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information. The referenced sources include:

Saudi Insurance Market Survey Report 2012 issued by SAMA

The central bank of the Kingdom of Saudi Arabia, which was established in 1952G. The main Functions of SAMA include:

- Issuing national currency, the Saudi Riyal;
- Acting as a banker to the government;
- Supervising commercial banks;
- Managing the Kingdom's foreign currency reserves;
- Conducting monetary policy to promote price and exchange rate stability;
- Promoting growth and ensuring the soundness of the financial system.

The information obtained from SAMA is publicly available and obtainable from internet therefore no consent has been pursued to use such information.

Report of Swiss Reinsurance Company ("Swiss Re")

Swiss Re is one of the leading companies in the field of reinsurance. It was established in 1863G in Zurich, Switzerland. Swiss Re has a presence in more than twenty five (25) countries and publishes a range of reports on insurance markets worldwide. These reports are publicly available and obtainable from their website.

The information obtained from Swiss Re as used in this Prospectus is publicly available and can be obtained via the internet and therefore consent to use their reports in the Prospectus has not been sought. Neither Swiss Re, nor any of its subsidiaries, shareholders, directors or Relatives has any interest in the Company.

3 - 2 Saudi Economy at a glance²

Saudi Arabia's economy has maintained its robustness in recent years, driven by government spending and per capita expenditure and investments. The government spending has grown rapidly from SAR 285.2 billion in 2004 to SAR 853 billion in 2012.

The number listed under the incentive plan (Hafiz) is about 1,700,000 people, representing 17% of the labor force. Under this program, each registered member receives a monthly amount of SAR 2,000 for a period of one year.

Saudi Arabia has raised oil production in 2012 to make up the shortfall caused in Iran's oil production and to meet the growing demand particularly from countries outside the Organization of Petroleum Exporting Countries ("OPEC"). As a result, the oil sector recorded a growth rate of 5.5%, while the government sector grew by 6.2%, and non - oil economic growth amounted to 7.2% while growth in non - oil sector was 7.5%.

The rate of growth of real GDP was 6.8% on an annual basis. The nominal GDP amounted to SAR 2.7 trillion at current prices, a growth rate of 8.6% compared to 2011. The public debt was down by SAR 98.8 billion. In addition, the inflation rate was estimated at 4.5%, compared with 4.9% in 2011. This decline is due to the decline in food prices and rents.

The Saudi government also encourages the expansion of the private sector for economic diversification and creates additional job opportunities for Saudi nationals. Economic diversification efforts are concentrated in the sectors of power generation, telecommunications and exploration of natural gas and petrochemicals.

In 2011, the government disclosed a series of new investment programs worth more than SAR 412 billion out of which SAR 116 billion had been allocated for spending during the year while the remaining amount been allocated for spending during the following years. The bulk of these financial allocations will be spent in the establishment of

² Saudi Arabian General Investment Authority (SAGIA), Saudi Arabian Monetary Agency (SAMA), Country Report, Economist Intelligence Unit (EIU).

a number of infrastructure projects, especially those that aim to support transport and logistics. Additional financial allocations have been directed to finance projects concerned with providing an economic low - cost housing in addition to improving medical and educational services and expand the economic base and strengthen the infrastructure of services in the Kingdom of Saudi Arabia.

The Kingdom of Saudi Arabia has maintained its expansionary trend in 2012 as the level of expenditure budgeted was SAR 690 billion as against SAR 580 billion in 2011. The actual expenditure in 2011 was SAR 804 billion, an excess of SAR 224 billion over budget. Accordingly, the expenditure budget for 2012 is the largest with an increase of about 19% from the previous budget amount.

The 2012 budget allocated SAR 265 billion to finance new projects and other on-going projects (expenses) and this means that the remaining amount of the SAR 425 billion has been allocated for ongoing expenses, representing 62% of the budget. The amount allocated to this item in 2012 increased by 15% which is equivalent to SAR 54.5 billion from the previous budget. It is expected that the construction sector benefit from the growing numbers of these large projects.

As a leading producer of oil in the OPEC, the Kingdom of Saudi Arabia may take advantage of the global demand for oil. In this context, it is planned to raise production capacity and refining of oil for the promotion of economic growth.

The following key indicators reflect the robust growth of the Saudi Economy during the last six years:

Table 3.1: Key Economic Indicators

Economic Indicators	2006	2007	2008	2009	2010	2011	2012 E
Nominal GDP (SAR billion)	1,411.4	1,558.8	1,949.2	1,609.1	1,975.5	2,510.6	2,727.4
Real GDP (SAR billion)	848.37	899.6	975.4	993.2	1,067.1	1,157.5	1,236.3
Real GDP Growth (%)	5.5	6.0	8.4	1.8	7.4	8.4	6.8
Estimated Population (in millions)	24.12	24.94	25.79	26.66	27.56	28.37	29.19
GDP per Capita (SAR)	58,515	62,502	75,879	60,356	71,680	88,494	93,436
Inflation rate (%)	2.2	4.1	9.9	5.1	5.3	5.0	4.56
Average Daily Saudi Oil Production (million barrels)	9.2	8.8	9.2	8.2	8.2	9.3	9.8
Average Price of Arabian Light Oil (USD per barrel)	61.05	68.74	94.77	61.38	77.75	108	105
Oil Sector Contribution to GDP (%)	53.3	54.0	60.0	46.9	48.4	56.2	42.0
Government Finances	2006	2007	2008	2009	2010	2011	2012
Government Revenues (SAR billion)	637.7	642.8	1,101.0	509.8	741.6	1,110.0	1,240.0
Government Expenditures (SAR billion)	393.3	466.2	520.1	596.4	653.9	804.0	853.0
Budget Déficit/Surplus (SAR billion)	280.4	176.6	580.9	-86.6	87.7	306	385.8
Budget surplus to GDP (%)	21.0	12.2	32.5	-6.1	5.2	14.2	14.15
Debt to GDP (%)	27.3	18.5	13.2	15.9	9.9	12.8	3.6

Source: SAMA Annual Report 2012

3 - 2 - 1 GDP by Economic Activity

All GDP components witnessed a positive growth in 2012 with non-oil industrial private sector increasing by 7.5 percent. The private sector contributed 58 percent to the GDP. Sectors with the highest growth rates included transportation, storage and communications (10.7 percent), construction (10.3 percent), wholesale, retail,

restaurants and hotels (8.3 percent), electricity, gas and water sector (7.3%), and finance, insurance and real estate (4.4 percent).

Table 3.2: Trend of Real GDP by Economic Activity

(SAR million)	2006	2007	2008	2009	2010	2011	2012 E
Agriculture, forestry & fishing	38,862	39,619	40,145	40,559	40,156	41,026	42,078
Mining & Quarrying	220,245	224,077	204,166	203,177	221,537	211,982	236,719
Manufacturing Industries	102,500	113,315	125,193	128,462	141,478	160,849	173,059
Electricity, Gas & Water	17,031	17,722	18,353	21,382	26,216	27,583	29,589
Construction	58,172	64,930	67,430	68,474	75,818	83,300	91,847
Wholesale, Retail, Restaurants & Hotels	83,517	97,371	112,681	114,347	133,658	143,401	155,342
Transport, Storage & Communication	49,513	61,236	78,238	87,247	96,460	109,768	121,459
Finance, Insurance, Real Estate & Business services	116,819	127,142	139,478	149,597	156,667	159,946	166,925
Community & Social & Personal services	29,346	30,658	31,720	33,265	35,114	37,019	39,153
Less: imputed bank service charges	(15,395)	(15,508)	(15,529)	(15,869)	(16,104)	(16,316)	(16,654)
Sub-total	700,608	748,468	819,247	830,641	893,631	970,653	1,039,526
Producers of Gov. Services	139,142	141,821	145,210	152,510	162,926	175,858	185,097
Import duties	8,992	9,312	10,955	10,104	10,539	11,065	11,758
Gross Domestic Product	848,742	899,601	975,412	993,254	1,067,097	1,157,577	1,236,364

Source: SAMA Annual Report 2012

3 - 3 Middle Eastern & North African Insurance Market Overview

The insurance industry in the MENA is still in its nascent stages, compared with other advanced world economies. Proof of this is the low penetration and density rates, low capitalization rates, and to some extent weakness of legislative regulations of the insurance sector compared to the more developed economies.

During the past five years the insurance sector witnessed strong growth rates. Although these growth rates are important, the region still has a long way to go before becoming a mature insurance sector. We expect that the movement of MENA countries economics, government's efforts to develop legislative regulations and increased investments will have a positive impact on the insurance sector and ensure continuous growth in the coming years

The insurance sectors of the Middle Eastern countries basically fall into two categories. The first category is characterized by a relatively small number of companies, whose positions may have been formally protected by law. The companies are large by local standards, but no more than medium-sized companies by other standards. The second category is characterized by the extremely large number of local players relative to the present market opportunity. By world standards, these are small companies. Typically they are either pure non-life companies or non-life companies who derive a small portion of total income from life products. Often they have a close association with a local banking or trading company, which may assist with procurement of business.

The insurance sector of Saudi Arabia appears to be in the later stages of a transition process of changing from the first to second category due to the increase in the number of companies and availability of various options. Thanks to this development the total premiums are growing fast and industry competition is rapidly changing.

Figure 3.3: Gross Underwritten Premiums (Excluding Protection and Saving “P&S”) for MENA, 2012:

Countries	Written Premiums	% of Global Market
Algeria	4,353	0.6%
Bahrain	1,815	0.02%
Egypt	3,873	0.05%
Jordan	2,242	0.03%
Kuwait	2,958	0.04%
Lebanon	3,442	0.05
Morocco	7,226	0.10%
Nigeria	5,077	0.07%
Oman	2,388	0.03%
Qatar	4,657	0.06%
Saudi Arabia	19,575	0.26%
South Africa	37,815	0.51%
Tunisia	2,602	0.03%
UAE	21,551	0.29%

Source: Swiss Re

3 - 3 - 1 Development of Insurance Industry in Saudi Arabia

The number of insurance companies operating in Saudi Arabia had reached 34 as of 8th October 2013. The Insurance sector witnessed a transitional period where existing companies that have not applied for a license have to obtain licenses in accordance with the Cooperative Insurance Companies Law (2003) or else exit the market, the grace period having ended on 9th April 2008. SAMA has allowed the companies whose files already been studied or those who already obtained Royal Decrees and not yet been incorporated to renew their existing clients' policies up to 17th February 2010.

The number of listed insurance companies has reached 34 as stated hereunder:

Companies listed in Tadawul as of 8th October 2013:

1. National Company for Cooperative Insurance (“Tawuniya”)
2. Mediterranean & Gulf Cooperative Insurance & Reinsurance (“Med Gulf”)
3. Malath Cooperative Insurance & Reinsurance Company
4. Saudi Arabian Cooperative Insurance Company (“SAICO”)
5. Al-Ahli Takaful Company (“ATC”)
6. SABB Takaful Company
7. Arabian Shield Cooperative Insurance Company
8. Saudi IAIC for Cooperative Insurance (“SALAMA”)
9. Gulf Union Cooperative Insurance Company
10. Saudi Fransi Cooperative Insurance Company (“Allianz SF”)
11. Sanad Insurance & Reinsurance Cooperative Company (“SANAD”)
12. Trade Union Cooperative Insurance Company
13. Al Sagr Company for Cooperative Insurance
14. Saudi Indian Company for Cooperative Insurance
15. Saudi United Cooperative Insurance (“Wala’a”)
16. Arabia Insurance Cooperative Company

17. BUPA Arabia for Cooperative Insurance
18. Saudi Re for Cooperative Reinsurance Company
19. Allied Cooperative Insurance Group ("ACIG")
20. Al-Ahlia for Cooperative Insurance
21. United Cooperative Assurance ("UCA")
22. Wiqaya Takaful Insurance & Reinsurance Company
23. Al Rajhi Company for Cooperative Insurance
24. AXA Cooperative Insurance Company
25. Ace Arabia Cooperative Insurance Company
26. Buruj Cooperative Insurance Company
27. Al Alamiya for Cooperative Insurance
28. Gulf General Insurance Company
29. Solidarity Saudi Takaful Company
30. Wataniya Insurance Company
31. Amana Cooperative Insurance Co.
32. Saudi Enaya Insurance Co.
33. Tokyo Marine Saudi Arabia
34. Jazira Takaful Cooperation Co.

3 - 3 - 2 Gross Written Premiums

The gross written premiums had increased by SAR 1.77 billion reaching SAR16.39 billion in 2010 compared to SAR 14.6 billion in 2009 with a growth rate of 12.2%.

Health insurance premiums ranked at the first place as the biggest insurance activity in 2010, as its contribution to the total gross written premiums increased from 50% in 2009 to 53% in 2010. The General Insurance contribution to the insurance sector increased from 43% 2009 to 41% in 2010.

Health Insurance contributed SAR1.39 billion of the total increase of SAR1.77 billion which represents 78.6% of the increase witnessed by the gross underwritten premiums.

Protection & savings insurance maintained its rank as the lowest insurance activity as it represented in the total underwritten premiums 6% in year 2010 which represents a decrease of 3.1% of the underwritten premiums in 2010.

The following table shows the total value of Gross Premiums by line of business for the period 2008G-2012G:

Figure 3.4: Total value of Subscribed Premiums by line of business for the period 2007G-2011G:

SAR million	2008		2009		2010		2011		2012		Growth
Line of Business	Gross Premiums	% of Gross	Gross Premiums	% of Gross	Gross Premiums	% of Gross	Gross Premiums	% of Gross	Gross Premiums	% of Gross	% of Growth Y toY
Health	4,805	44.0%	7,292	50.0%	8,690	53%	9,708	52.5%	11,825	52.5%	11.7%
Motor	2,542	23.0%	3,055	21.0%	3,239	20%	3,922	21.2%	4,689	21.2%	21.1%
Property & Fire	798	7.0%	905	6.0%	959	6.0%	1,157	6.3%	1,348	6.3%	20.7%
Accident & Other Liability	531	5.0%	544	4.0%	507	3.0%	632	3.4%	691	3.4%	24.6%
Engineering	682	6.0%	810	6.0%	869	5.0%	913	4.9%	1,077	4.9%	5%
Marine	620	6.0%	525	4.0%	518	3.0%	634	3.4%	743	3.4%	22.4%
Protection & Saving	594	5.0%	1,003	7.0%	972	6.0%	905	4.9%	889	4.9%	-6.9%
Energy	208	2.0%	302	2.0%	329	2.0%	361	2.0%	385	2%	9.8%
Aviation	139	1.0%	174	1.0%	304	2.0%	272	1.5%	67	1.5%	-10.6%
Total	10,919	100%	14,610	100%	16,387	100%	18,504	100%	21,174	100%	12.9%

Source: Saudi Insurance Market Survey Report 2008-2012

3 - 3 - 3 Retention Ratio

A retention ratio is a measure of the written risks retained by an insurance company. It is calculated by expressing net written premiums as a percentage of gross written premiums. The overall retention ratio of insurance companies in the Saudi market was around 72.1% in 2011 and slightly increased to 75.4% in 2012. The retention ratio in 2012 was 94.0% for motors and was 88.2% for medical.

Figure 3.5: Premium Retention by Lines of Business

Line of Business	2008	2009	2010	2011	2012	Change %
Health	78.1%	76.2%	81.9%	84.7%	88.2%	4.1%
Motor	96.7%	96.4%	95.7%	94.6%	94.0%	0.6%
Property/Fire	11.9%	11.6%	13.2%	11.7%	15.1%	28.6%
Accident & Liability and Other	40.9%	44.9%	54.4%	44.3%	47.7%	7.5%
Engineering	17.9%	15.5%	13.1%	14.4%	15.4%	7.2%
Marine	32.5%	34.9%	33.8%	32.3%	30.9%	4.4%
Energy	0.4%	1.7%	2.3%	2.05%	1.9%	-7.3%
Aviation	4%	0.6%	1.6%	0.5%	3.6%	682.2%
Total	64.4%	67.4%	70.9%	72.1%	75.4%	4.5%

Source: Saudi Insurance Market Survey Report 2008-2012

3 - 3 - 4 Insurance Penetration and Density

- Insurance penetration is defined as gross written premium as a percentage of Gross Domestic Product ("GDP"). The level of insurance penetration in Saudi Arabia was 0.78% in 2012 and decreased from 0.86% in 2011.
- Insurance density is defined as gross written premium per capita. The insurance density in Saudi Arabia increased from (SAR 682) in 2011 to (SAR 725) in 2012, an increase of 6.3%.
- The penetration and density of general insurance is much higher than that of health and protection and savings insurance.

Figure 3.6: Insurance Penetration and Density by Lines of Business

Lines of Business	Penetration						Density					
	2008	2009	2010	2011	2012	% Change	2008	2009	2010	2011	2012	% Change
Total General Insurance	0.31%	0.46%	0.40%	0.36%	0.33%	-9.5%	222,5	248,9	247,8	290,8	308,3	6%
Total Health Insurance	0.27%	0.53%	0.51%	0.45%	0.41%	-7.8%	19,7	287,4	320,2	357,8	386,5	8%
Total P&S Insurance	0.03%	0.07%	0.06%	0.04%	0.03%	-22.10%	23.9	39.5	35.8	23.4	30.4	-8.80
Total Industry	0.62%	1.06%	0.97%	0.86	0.78%	-9.2%	440.1	575.8	603.9	682.0	725.2	6.3%

Source: Saudi Insurance Market Survey Report 2008-2012 issued by SAMA

3 - 3 - 5 Cooperative Insurance Companies Control Law and Implementing Regulations

The Cooperative Insurance Companies Control Law was approved by Royal Decree number M/32 dated 2/6/1424H (corresponding to 31/7/2003G) which set the stage for the legal framework and supervision of the insurance sector. SAMA was appointed to act as a regulator and responsible body for the supervision of the insurance sector.

Subsequently, Implementing Regulations were issued by Ministerial Decree No. 1/596 dated 1/3/1425H (corresponding to 20/4/2004G) to govern the insurance business in Saudi Arabia. Some of the salient features of Cooperative Insurance Companies Control Law and its Implementing Regulations are as follows:

- Insurance activities within Saudi Arabia must be carried out by insurance companies established and registered in Saudi Arabia and operated in a “Cooperative/Takaful” manner consistent with the principles of Islamic Law and Jurisprudence.
- Applicant insurer/reinsurer must be a joint stock company, established primarily to engage in insurance and/or reinsurance activities with direct insurers having a minimum capital of one hundred million Saudi Arabian Riyals (SAR 100,000,000) and reinsurers having a minimum capital of two hundred million Saudi Arabian Riyals (SAR 200,000,000).
- Gross premiums written should not exceed ten times the amount of the paid up capital of the company.
- Direct insurers must retain at least 30% of total gross written premiums within the Kingdom of Saudi Arabia.
- 90% of the net surplus must be transferred from insurance operations to the Shareholders’ income statement and the balance of 10% must be distributed to the policyholders either directly or in the form of a future reduction in premiums.
- Direct insurers must reinsure a minimum of 30% of total gross written premiums within the Kingdom of Saudi Arabia.

3 - 3 - 6 Demand Drivers

Saudi Arabia is all set to see a huge expansion in insurance premiums driven by the Implementing Regulation's safeguarding of public interest, the economic boom in the region, and greater awareness among people.

Expected growth factors of the Saudi Arabian insurance market are summarized below:

Compulsory Health Insurance

The Council of Ministers passed resolution No.71 in 27/4/1427H (corresponding to 11/8/1999G) announcing the implementation of mandatory health insurance for all expatriates employed in Saudi Arabia and the formation of the CCHI.

The CCHI was officially established in 1/1/1422H (corresponding to 26/3/2001G) and is responsible for the implementation and supervision of mandatory health insurance in the Kingdom.

The law is aimed to ease the financial burden on the Saudi government, which offers free medical services to over 22 million people. The new cooperative health insurance program to be implemented in three phases would cover about six to seven million expatriates. The first phase that was implemented in June 2006 required companies with more than 500 expatriate workers to provide medical insurance cover for their employees, and would cover 450 companies employing over 500,000 expatriates. The second phase which was started in September 2008 would cover companies with 100 to 500 expatriate workers while the companies with a non-Saudi work force of less than 100 will be covered in the third and final phase. Medical insurance is eventually expected to be made compulsory for the Saudi nationals.

Compulsory Motor Insurance

In 2002, due to the high rate of car accidents, Saudi Arabia made third-party liability motor vehicle insurance a requirement for in-country transit of foreign vehicles. Moreover, obtaining third-party liability motor vehicle insurance has been made a prerequisite for renewals of drivers’ licenses (Rukhsa) for Saudi nationals and expatriates within the country. As per the resolution of Saudi Council of Ministers No. 271 dated 25/12/1427H (corresponding to 15/1/2007G), the vehicle liability insurance became compulsory as alternative to driving license insurance (Rukhsa).

The compulsory insurance initiatives coupled with a growth in the number of registered cars in the KSA have led to high demands for insurance coverage and dramatic increase in issued insurance policies. As the regional and local economies expand due to the increased sale price of crude oil, it is expected that the demand for insurance protection will continue to grow exponentially over the next four years based on the increased number of registered cars.

Protection & Saving Insurance

Protection & saving insurance is currently almost non-existent in the Saudi market. This has been due to cultural, religious as well as other factors such as lack of awareness and education regarding Protection & Saving insurance products. With the market becoming regulated and sophisticated and with increased awareness amongst the consumers, it is expected that penetration of conventional Protection & Saving insurance as well as Takaful products will grow.

In addition, with new entrants to the market, each insurance company is expected to offer more sophisticated and tailored products to increase its market share, which will lead to a change in the insurance products being offered. Products such as credit and mortgage insurance, refundable and modified Protection & Saving insurance are currently almost non-existent in the Saudi market. The level and sophistication of distribution channels is also likely to increase.

3 - 3 - 7 Future Developments

The insurance industry in Saudi Arabia is expected to undergo significant development as a result of the Insurance Regulations, and due to general macroeconomics changes and new government policies. Management believes that these developments are expected to be along the following lines:

- The insurance market is likely to become more attractive to many insurance companies, although the capitalization of many of the newly established affiliates (mainly of major international insurance companies) implies that they will not have very large market shares.
- The non-Protection & saving market is expected to become less fragmented in the future. SAMA has indicated that it will not be issuing new licenses for five years.
- Massive competition may result in lower premiums and lower profits. Under such competitive conditions, consolidation by mergers or exits from the market is likely to occur before investments mature and result in significant returns.
- Licensed companies are likely to operate in a more transparent business environment as a result of their joint stock status and regulatory reporting requirements.
- The enforcement of the mandatory medical insurance for expatriates and the implementation of a similar system covering Saudis will significantly increase the customer base of insurance companies.
- New insurance products may be launched in the market due to the dynamic changes in operating activities of the companies. As a result, consumers may have more options and choices.
- Companies are expected to be financially stronger as a result of mandatory reserves.
- Based on SAMA's excellent reputation as the regulator of the banking sector, the insurance sector is likely to be well regulated through implementation of the regulatory framework.
- Some of the players in the non-Protection & saving sector may seek to diversify their business into Protection & Saving insurance, especially if competitive conditions in the markets for health and motor insurance prove tougher than most commentators are currently expecting.
- Protection & saving insurance is currently almost non-existent in the Saudi market. However, with the market becoming regulated and sophisticated and with increased awareness amongst consumers, conventional Protection & saving insurance as well as Takaful is likely to achieve an increase from its current level of penetration.

4. Company

Ahlia is a Saudi public joint stock company, with its head office located in Abdurrahman Bin Shagran Street, Malaz District, Riyadh and registered under the commercial registration number 1010238441 issued from Riyadh on 07/08/1428H and licensed to practice insurance business by SAMA under License No. EMA/20/20093. The Company established based on Royal Decree No. M/60 dated 18/09/1427H (corresponding to 11/10/2006G) and the Council of Ministers' Resolution No. 233 dated 16/09/426H (corresponding to 09/10/2006G). Ahlia started underwriting insurance business on 9th March 2009 and since then it provides various types of insurance business based on cooperative insurance principles and under the supervision of SAMA, the official insurance activities regulator in Saudi Arabia. Ahlia's main lines of business include all classes of general insurance including motor, medical, engineering, medical malpractices, fire and burglary, marine and general accidents. Aside from what is stated above, the Company has no intention to either add any new products or introduce any material change to the Company's main business.

The Company's share capital is One Hundred Million Saudi Riyals (SAR 100,000,000) comprising ten Million (10,000,000) shares with a nominal value of SAR 10 per share and all shares are fully paid. At inception, the founding shareholders had subscribed to 60% of the total shares and the remaining 40% had been subscribed to by the public through an Initial Public Offering ("IPO") that took place towards the end of the first half of 2007. Ahlia has recently obtained SAMA's approval under letter No. 184/IS dated 18/01/1433H to increase its share capital by SAR 220,000,000 through a Rights Issue Offering (the "Offering"). Upon completion of the Offering, the Company's share capital will be SAR 320,000,000 comprising 32,000,000 shares with nominal value of SAR 10 per share. The Company's board has issued its resolution dated 25/06/1433H (corresponding to 16/05/2012G) recommending increase of the Company's capital to meet its solvency requirements.

4 - 1 Key History

- Founding Shareholders obtained the permit to establish the Company based on Royal Decree No. M/60 dated 18/09/1427H (corresponding to 11/10/2006G) and decision of the Council of Ministers No. 233 dated 16/09/426H (corresponding to 09/10/2006G).
- Initial Public Offering in May 2007.
- Licensed to practice insurance business by SAMA under License dated 12/03/1430H.
- Commencement of underwriting insurance business on 09/03/2009.
- Obtained SAMA's approval to increase the Company's capital share under letter No. 1840/IS dated 8/01/1433H.

4 - 2 The Company's Mission

"Commit ourselves to offering high quality insurance solutions and services and a complete portfolio of products answering the market needs and our clients' requirements and expectations through the most state-of-the-art technological systems and a highly professional team responsible for our customers' service."

4 - 3 Share Capital Structure

The Company's share capital is One Hundred Million Saudi Riyals (SR100,000,000) comprising Ten Million (10,000,000) shares with a nominal value of SAR 10 per share and all shares are fully paid. At inception, the founding shareholders had subscribed to 60% of the total shares and the remaining 40% had been subscribed to by the public through an IPO that took place towards the end of the first half of 2007. No advantage or preferential rights have been granted to the founding or other shareholders.

Figure 4.1: Major Shareholders who own 5% and above as of 31 Dec. 2012

Name	%	Number of Shares	Amount in SR
MLIC	18%	1,800,000	18,000,000

Source: Company

4 - 4 Institutional Founding Shareholders who own 5% and above as of 10 December 2012

MLIC was formed as a result of a reorganization of one of the oldest life insurance companies in Egypt, Africa and the Arab world. Established in July 2010, MLIC is the product of the merger of the life insurance activities of the oldest and largest insurance companies in Egypt owned by the state being Misr Insurance Company, Al Chark Insurance Company, Al Ahlia Insurance Company and Egyptian Reinsurance Company.

Brief summary of the company's history is as below:

As per the merger decision taken in 1964, the state insurance company in Egypt became 4 instead of 14 (three direct insurance companies & one reinsurance company):-

- Misr Insurance Company established in 14/1/1934G (by Mohamed Talaat Harb)
- Al Chark Insurance Company established in 14/6/1931G
- Al Ahlia Insurance Company established in 29/5/1900G
- Egypt Reinsurance Company established in 1957G

The Egyptian Government established The Insurance Holding Company by the Presidential decision No. 8 in 2006 in order to make a balance in the insurance entity, to maximize the profit and to minimize the expenses in the subsidiary companies, which will in turn help to have flexibility in the reserves and enable optimum exploitation of the capital to achieve effectiveness in the administration.

The merger of Al Chark Company and Egyptian Reinsurance Company into Misr Insurance Company took place on 30/6/2007G. The transfer of the non-life activities of Al Ahlia Insurance Company to Misr Insurance Company took effect from 1/7/2009G. The transfer of the life activities of Misr Insurance Company to Al Ahlia Insurance Company took effect from 1/7/2010G.

The name of Al Ahlia Insurance Company was changed to Misr Life Insurance Company (or MLIC) from 7/10/2010G and was one of the largest companies of the Insurance Holding Company and held the name of its home land "Misr".

MLIC commenced operation in 2010 as the largest life insurance entity in both the domestic and regional market in terms of paid up capital, earned premium, investment and assembles and brought together the combined experience of the four original companies into a single dedicated life insurance company focused upon meeting the needs of its clients. The Company had:

- Authorized Capital is One Billion Egyptian Pounds
- Premium income 1.5 billion Egyptian Pounds
- 700, 000 Individual Clients
- 1,000 Enterprises with Group Life insurance contracts
- 180 Regional Offices (distributed all over Egypt)
- 2,600 Employees
- 4,000 Insurance Brokers

4 - 5 The Company's Strategy

- Ahlia's overall strategy will be based on four pillars from which the Company's strategic goals are derived which are: customers' satisfaction, operation effectiveness, people and profitability.
- The Company's policy targets different segments of customers, providing products and services with the best quality/price mix, tailored to anticipate and respond to the needs of each segment separately.
- The Company aims to provide high quality service and assistance in claims management to exceed customer's expectations, intimate relationship with the clients by maintaining a first in class CRM system and maintain high percentage of client retention rates by building loyalty and high level service standards.
- The Company aims to optimize the effectiveness of the overall operations of the Company through streamlined documented processes and a robust IT infrastructure as well as efficient support functions.
- The Company provides equal opportunities for employees to realise their potential within the Company and develops the "Al Ahlia Academy" to provide first in class education and training to its employees, covering technical and interpersonal skills. The Company adopts and implements a clear and integrated Saudization plan.
- The Company aims to achieve high technical profitability by optimising its underwriting, reinsurance and claims functions and striving to realize a significant increase in gross premium during the coming five years.
- The Company also works for achieving a sustainable return on investment for its shareholders by proper management of the Company's internal and external resources, minimizing costs.

4 - 6 Products & Services

1. **Property All Risks insurance Policy** - insurance under this policy aims to cover the insured property or any part thereof in the event of material damage or destruction by mistake. The property could include buildings (including fixtures and accessories of the owner), machinery and equipment, devices, tools and inventory (products, materials and spare parts), furniture, office equipment, and fixtures. The Company has obtained a temporary approval from SAMA on this policy for an additional period of 6 months effective 10/11/1434H.
2. **Household insurance Policy** - insurance under this policy aims to cover the insured against any loss or damage to the building/buildings insured. The buildings include outbuildings, garages, gates, fences, walls and internal fuel tanks, swimming pools, water pipes, gas pipelines and ground drainage pipes and electricity cables related to the main source of electrical feed. The Company has obtained temporary approval of this policy from SAMA for an additional period of 6 months effective 10/11/1434H.

3. **Fire, Burglary and various threats Insurance Policy** - insurance under this policy covers damage to property if caused by fire, lightning or fire following the explosion. The property could include: buildings (including fixtures and accessories of the owner), machinery and equipment, devices, tools and inventory (Products, materials and spare parts), furniture, office equipment, and fixtures. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
4. **Business interruption Insurance Policy** – under this policy insurance covers business interruption. In the event of any damage or destruction, at any time during the period of insurance under this policy, in any building or any other property or any part of the insured property, such damage or destruction was caused by any risk insured, and provided that such damage was compensable, the Company will compensate the insured amount of the loss caused by business interruption or interference with respect to each of the items that have been covered. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
5. **Shipping Insurance Policy (Open)**-The goal of insurance under this policy is the coverage of goods transported by sea or by air. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
6. **The shipping Insurance Policy (One shipment)** - The purpose of insurance under this policy is to cover goods transported by sea or by air. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
7. **Land Transport Insurance Policy** - insurance under this policy covers all the risks arising from loss or damage that may occur during transportation of goods by trucks/trains except for the exceptions. The Company has obtained a temporary approval for this policy from SAMA for additional six months effective 10/11/1434H.
8. **On-Road Cargo insurance policy** - Insurance under this policy covers any material loss or damage to goods resulted from collision, fire or overturn. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
9. **Contractor's All Risks insurance** - Insurance under this policy covers the project works carried out by the Contractor. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
10. **Machinery insurance Policy** - Insurance under this policy covers all machineries. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
11. **Cold Storages Inventory** – Insurance under this policy covers the goods stored in cold storages. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
12. **Electronic Equipment insurance Policy** - insurance under this policy covers electronic equipment. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
13. **Erection All Risks Insurance Policy** - insurance under this policy covers all the risks related to the construction work. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
14. **Plant and Machinery Insurance Policy** - Insurance under this policy covers factories and machinery. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
15. **Group Medical Insurance Policy**- insurance under this policy provides coverage for employees and their dependents. The Company, under this policy, will cover the costs of providing medical services to the insured persons (beneficiaries) according to specific categories of network service providers appointed by the Company, and in accordance with the terms and conditions and restrictions contained in the policy. SAMA has approved this product under its letter dated 10/11/1434H
16. **Mandatory Motor Insurance** - insurance under this policy covers motor liability towards third parties whereby the Company pays cash compensations on the occurrence of any damage covered under the policy during use or parking of the vehicle within the geographical boundaries of the Kingdom of Saudi Arabia. This will cover all amounts that the insured or driver is legally eligible for with respect to (a) personal injury that affects third parties while the insured is located inside or outside the vehicle and (b) physical damage to property of others while the insured is present in the car. The SAMA approved this product under its letter dated 19/05/1434H.
17. **Comprehensive Car Insurance (Private/Commercial)** - under this policy the Company has to compensate the insured for loss or damage to any vehicle described in the table and its accessories are as a direct result of the risks referred to in the policy. The Company will also pay cash compensations on occurrence of any damage covered under the policy as a result of the use or parking the car within the geographical boundaries of the Kingdom of Saudi Arabia. This will cover all amounts that the insured or driver is legally eligible for with respect to (a) personal injury that affects third parties while the insured/driver exists inside or outside the vehicle and (b) physical damage to property of others while the insured/driver is present in the car. SAMA approved this product under its letter dated 19/05/1434H.
18. **Medical Malpractice Policy** – Insurance under this policy covers medical malpractice cases and payment of all attorney costs incurred with the consent of the Company provided it does not exceed the sum of the

amounts owed for damages (including costs and expenses of the plaintiff) and defense costs defined as the limits of compensation set forth in the Annex to the policy. However, the Company is not obliged to pay any claim or judgment or arbitral award or defense or pay costs or continue to take over the defense in the context of any suit or proceeding after the exhaustion of the set limit of compensation. The Company has obtained temporary approval of this document from SAMA for an additional period of 6 months starting from 10/11/1434H.

19. **Workmen Compensation Policy** - The insurance under this policy is to cover the liability of the insured, in accordance with the terms of the policy, for the payment of compensation and/or expenses specified in the labor law in Saudi Arabia. This policy excludes any responsibility for the payment of compensation and/or expenses included in the program of the General Organization for Social Insurance ("GOSI"), or that it can be accepted by the social insurance if the insured committed to provide and collect the related claims. The Company has obtained a temporary approval for this document from SAMA for an additional period of 6 months effective 10/11/1434H.
20. **Money Insurance Policy** – insurance under this policy covers loss of money for any reason not excluded under the policy (a) during the transfer of money in the custody of the insured or his designated staff to and from the bank or the post office and the insured location; and (b) during the transfer of money as specified in the Annex to the policy. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
21. **General Liability Insurance Policy** - Taking into account the terms, conditions, exceptions and limitations of liability set forth in the Annex to the insurance policy; the Company compensates the insured for all amounts which the insured is legally eligible for as compensation to him under the rules with respect to (a) death or bodily injury resulting from an incident which affects any person who is not covered by an employment or vocational training contract with the insured if the death or injury happened outside the work territory or affects any of his family members; and (b) damage to property owned, leased or rented by the insured under installment program or other property in the custody of the insured or under his control excluding the buildings temporarily occupied by the insured for business purpose or visiting employee property. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434 H.
22. **Individual Accident Insurance Policy** – Insurance under this policy covers compensation for death and full & partial disability from an accident. The Company has obtained a temporary approval of this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
23. **Group Accident Insurance Policy** – Insurance under this policy covers compensation for death and permanent total or partial disability. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
24. **Fidelity Insurance Policy** - The Company has received temporary approval on this policy from SAMA for an additional period of 6 months effective 10/11/1434H .
25. **Glass Insurance Policy** - In the case of breaking any glass in the building during the period of insurance and if this breakage runs through the entire thickness of the glass as a result of any accident or non-excluded reason, the Company will replace the broken glass of comparable quality or, in its sole discretion, pay the value of the broken glass of the insured in accordance with the rates applicable at the date of breakage minus the salvage value. The Company must also pay the reasonable costs of any necessary panels installed temporarily until the replacement of broken glass. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
26. **Traveler Care Insurance Policy** - This policy covers incidental costs incurred outside the Kingdom of Saudi Arabia, subject to the maximum limit mentioned in the schedule of benefits annexed to the policy, including medical treatment and surgical emergency costs, additional reasonable and necessary travel expenses, and medical vacation. The Company has obtained a temporary approval for this policy from SAMA in force for a period of 6 months effective 10/11/1434H

The Company has no any plan as of the date of this Prospectus to launch new products.

4 - 7 Reinsurance

The Company reinsures a portion of the risks it assumes under its insurance operations to reduce its exposure to losses, stabilize its earnings and protects its capital resources in compliance with the implementing regulations.

To reduce its reinsurance concentration risk, the Company has established reinsurance programs with various leading international reinsurers. The criteria for selecting its reinsurers include (i) financial strength (a minimum S&P rating of BBB or an equivalent rating from a recognized international rating organization); (ii) quality of service; (iii) claims settlement efficiency; (iv) terms of coverage; and (v) price.

The Company deals with more than 17 reinsurers rated by AM Best at B++ and above. Mapfre Re represents 100% of the medical insurance portfolio and Korean Re 50% of motors reinsurance. The following table shows the details of the reinsurers with whom the Company deals:

Figure 4.2: The Company's Reinsurers

Reinsurer's Name	Credit Rating Authority	Issuer Credit Rating	Outlook
SCOR, Bahrain	S&P	A	Positive
Mapfre Re	S&P	AA-	Positive
Odyssey Re	S&P	A-	Stable
TRUST	A.M. Best	A-	Stable
GENERALI	S&P	AA-	Stable
GIC, India	A.M. Best	A-	Positive
Korean Re	S&P	A-	Stable
Saudi Re	S&P	BBB+	Stable
ACR Bahrain	S&P	A-	Stable
Sompo	S&P	AA-	Stable
ARIG	A.M Best	B++	Positive
Alfajer Re	A.M Best	B++	Good
Kuwait Re	A.M Best	A-	Good
Takaful Re	S&P	BBB+	Stable
Africa Re	S&P	A-	satisfied
QBE	S&P	A+	Positive
IGI	AM Best	A-	Stable

Source: The Company

The Company's reinsurance program aims to gradually increase the retention levels of the Company while duly considering risk probabilities, protection against catastrophic losses, adequacy of reserves and protection of Shareholders' and insurance operations' funds.

4 - 8 Technical Provisions (Reserves)

Technical provisions have been calculated in accordance with SAMA requirements based upon acceptable accounting standards, and have been approved by the Company's actuary reflecting the Company's obligations, and include the following technical provisions:

Unearned Premium Reserves

Technical Reserves on policies that are still in force after the financial year end and those reserves are computed for the period for which these policies are still in force.

Unpaid Claim Reserves

Technical Reserves on claims incurred and declared to the Insurance Company but still not settled yet, and these reserves are equal to the amount of losses claimed by the insured.

Claims Expense Reserves

The claims expenses are the additional amount paid by the insurance companies for the surveyors and loss adjusters involved in the assessment of claims and a reserve for such expenses is taken for the unsettled claims.

IBNR Claims Reserves

Technical reserves known as IBNR represent the insurance company's assumptions for losses that have not yet been reported by the insured before the financial year end, but are likely to be reported at later stage, especially on medical and liability policies.

Catastrophe Risk Reserves

Additional reserves created by the insurance company and built up year after year in order to face any unexpected catastrophic event involving many losses at the same time and exposing the retention of the insurance company.

General Expenses Reserves

It is a reserve for any general expenses that the Company might incur after the financial year end but related to the previous year operations.

4 - 9 The Company's Strengths

- Deep rooted and well known name in the Region
- Highly Qualified Management Team
- Low General and Administrative Expenses
- Regional Expansion

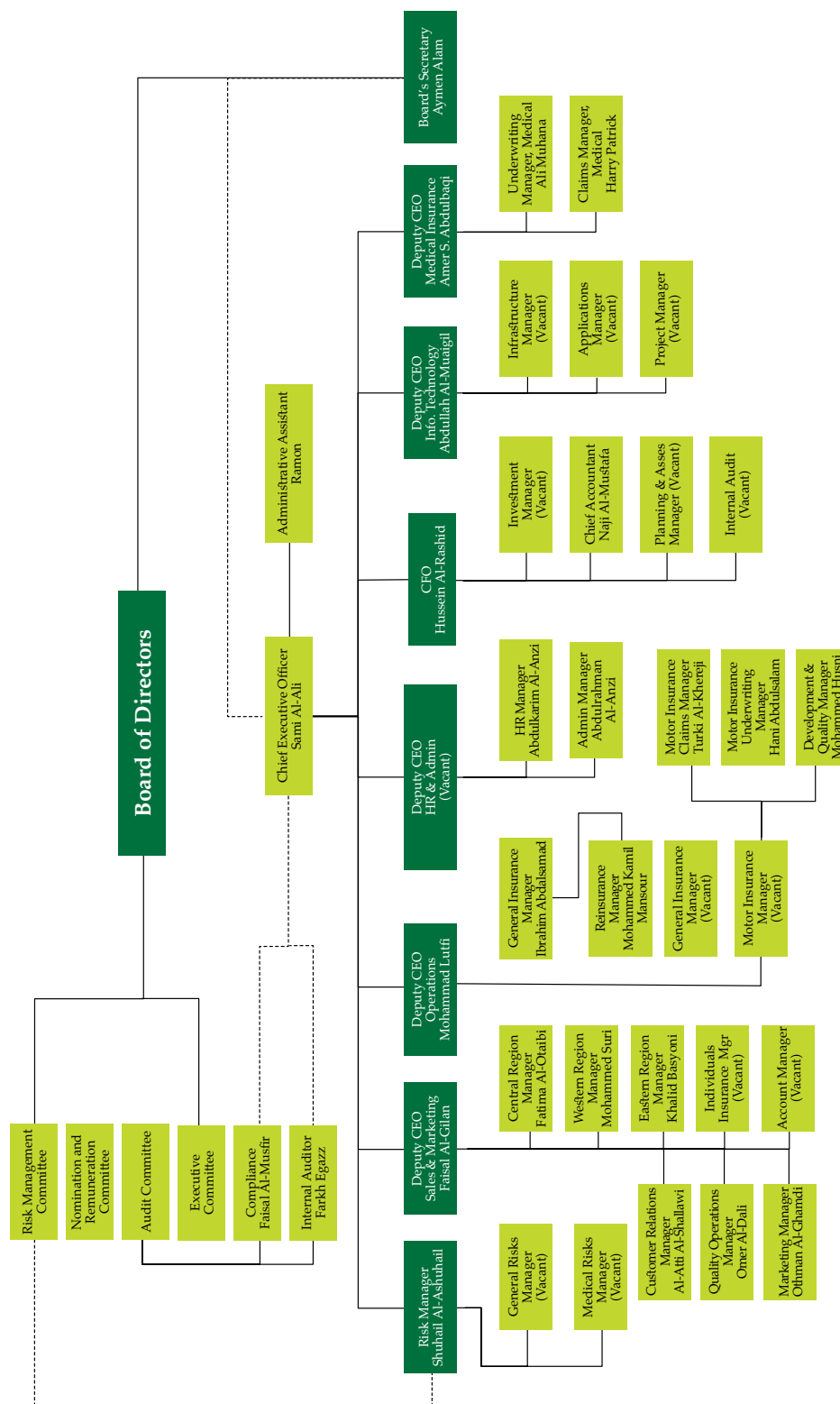
5. The Company's Organization

5 - 1 Organization Structure

The Company has a simple organization structure covering the various functions such as sales, distribution and operations, aimed at optimizing performance.

Following is the Company's organization structure:

Figure 5.1: The Company's Organization Structure



5 - 2 Board of Directors

The Company is managed by a Board of Directors comprising eleven (11) Directors appointed by the ordinary General Assembly. The Board of Directors has appointed sub-committees including an executive committee, audit committee, remuneration committee and risks committee. These committees will extend the role of the Board of Directors in reviewing The Company's activities and providing guidance to its management. The committees will meet more regularly than the full Board of Directors and report back to the Board of Directors.

The primary responsibility of the Board of Directors is to ensure long-term success of the Company. This includes, among other things, the following:

- Reviewing and guiding corporate strategy, risk management policies, financial planning, annual budgets and business plans as recommended by the Company's management;
- Setting performance objectives;
- Overseeing major capital expenditure;
- Reviewing remuneration committee resolutions relating to senior management and members of the Board of Directors;
- Monitoring and managing potential conflicts of interest of senior management, members of the Board of Directors and Shareholders;
- Ensuring the adequacy of the Company's internal accounting and financial reporting systems, including to support the Company's independent audit functions and ensuring that appropriate systems of control are in place, particularly systems for monitoring risk, financial controls and compliance with relevant laws;
- Monitoring the effectiveness of corporate governance practices; and
- Overseeing the process of corporate public disclosure and communications.

The term of the current Board of Directors started on 12/06/1431H and includes the following persons:

Figure (5-2): Board of Directors

	Name	Position	Nationality	Age	Share-holding	Representing	Status
1	HRH Prince Mohamed Bin Bandar Bin Abdulaziz Al Saud	Chairman	Saudi	49	2000*	.	Independent, Non-executive
2	Mohamed Najeeb Naser	Director	American	61	-*	Al-Masaq Co.	Executive
3	Prince Abdullah Bin Naif Al Saud	Director	Saudi	35	21	Kayed Al-Enjaz Co.**	Independent Non-executive
4	Yasir Bin Mohamed Atiq Al-Harbi	Director	Saudi	44	4026	-	Independent Non-executive
5	Sami Bin Ezzat Al-Ali	Director	Saudi	56	1000	-	Executive
6	Omer Salih Babakr	Director	Saudi	53	-	Omer Bin Salih Babakr Co.**	Independent Non-executive
7	Abdulmohsen Al-Zakary	Director	Saudi	54	-	Al-Zakary Trading & Industry**	Independent Non-executive
8	Abdulaziz Bin Saud Al-Bilaid	Director	Saudi	57	-	Sedir Trading & Contracting**	Independent Non-executive
9	Ali Bin Haif Al-Qahtani	Director	Saudi	43	-	Haif Al-Qahtani Co.**	Independent Non-executive
10	Ashraf Abdulrazaq Al-Jundi	Director	Egyptian	47	-	MLIC**	Non-executive
11	Saeed Saeed Ahmed Bayomi	Director	Egyptian	50	-	MLIC**	Non-executive

Source: The Company

*1,000 shares have been allocated from the portfolio of HRH Prince Mohamed Bin Bander as qualification shares for Mr. Mohamed Najeeb Naser.

** 1,000 shares of the companies represented shares have been allocated as qualified shares for the

representative.

Brief profiles of the members of the Board of Directors of Ahlia are shown below:

Name:	HRH. Prince Mohammad Bin Bandar Bin Abdul Aziz Al Saud, Saudi, Non-Executive (49)
Date of Appointment:	12/06/1431H
Position:	Chairman
Education:	He was awarded a MBA by John Hopkins University, USA in 1986 and a Bachelor's degree in Geopolitics by King Saud University, Riyadh, KSA in 1980.
Work Experience:	Chairman of Massaqa, a limited liability company operating in the field of General Contracting, since 1992.
Other Directorships:	N/A

Name:	Mohammad Najib Nasr, American, Executive, (61)
Date of Appointment:	12/06/1431H
Position:	Board Member
Education:	He was awarded MBA by Wexford University, USA in 1991 and a Bachelor's degree in Business Administration by the same University in 1978.
Work Experience:	He is currently the G.M of Massaqa, a limited liability company operating in the field of General Contracting, since 1992.
Other Directorships:	N/A

Name:	Yasser Bin Mohammed Atiq Al-Harbi, Saudi, Non-executive, independent, (44)
Date of Appointment:	12/06/1431H
Position:	Board Member
Education:	Executive MBA from Al-Sharqa University, UAE in 2003, Ph.D. in Information Systems from Al-Asharqa University in 2005 and Bachelor of Linguistics from King Saud University, Riyadh, KSA in 1990.
Work Experience:	Deputy Chairman and Chief Executive Officer ("CEO") of Apral International Co., a limited liability company operating in the telecom sector, since 1990.
Other Directorships:	N/A

Name:	Ali Bin Haif Al-Qahtani, Saudi (43), Independent, Non-executive
Date of Appointment:	12/06/1431H
Position:	Board Member
Education:	Bachelor of Arts from King Abdulaziz University in Jeddah, KSA, 1997.
Work Experience:	General Supervisor to Jeddah and Madinah Hilton Hotels since 2003. From 2000 to 2003 he was the Deputy General Manager of Haif Bin Mohammad Al-Qahtani Co., a closed joint stock company operating in contracting works.

Other Directorships: Haif Bin Mohammad Al-Qahtani Co. (Closed joint stock operating in Contracting)
Taif Investment and Tourism Co. (Closed joint stock Co. operating in Tourism Investment)

Name:	Omer Saleh Abdulaziz Babakr, Saudi (53), Independent, Non-executive
Date of Appointment:	12/06/1431H
Position:	Board Member
Education:	Bachelor of Civil Engineering from King Saud University, Riyadh, KSA, 1984.
Work Experience:	General Manager of Omer Babakr Supplies Co. (Limited Partnership operating in Wholesale and Retail of Food Supplies) since 1991. He is Chairman of Saleh Babakr Sons Trading Co. (Limited Partnership operating in Wholesale and Retail of Food Supplies and Catering) since 1990. He was the Projects Manager at the High Commission for Development of Riyadh City during the period from 1984 to 1989.
Other Directorships:	Eshraq Real Estate (UAE joint stock Co. operating in Real Estate activities)

Name:	Abdulaziz Bin Saud Al-Blehed, Saudi (57), Independent, Non-executive
Date of Appointment:	12/06/1431H
Position:	Board Member
Education:	Bachelor of Industrial Management from Oregon State University, USA, 1981.
Work Experience:	President of Seder Contracting Co., Limited Liability Co. operating in General Contracting, since 1982.
Other Directorships:	N/A

Name:	Abdulmohsen Mohammed Al-Zakary, Saudi (53), Independent, Non-executive
Date of Appointment:	12/06/1431H
Position:	Board Member
Education:	Bachelor of Architectural Engineering from King Saud University, Riyadh, KSA, 1981.
Work Experience:	President and CEO of Al-Zakary Industrial & Trading Co., Limited Liability Co. operating in Real Estate Development and Investment, since 2002. He was a member of Shura Council in KSA during the period from 1422H To 1434H.
Other Directorships:	Arriyadh Development Co., a public company operating in real estate development, since 2006.

Name:	Ashraf Abdulrazaq Al-Jundi, Egyptian (47), Non-executive
Date of Appointment:	Safar 1434H
Position:	Board Member
Education:	Bachelor in Commerce from Holwan University, Egypt, 1988 and Applied Diploma in Computer from Ein Shams University, Egypt, 1997.

Work Experience:	He is currently working as Information Technology Manager at MLIC, Egyptian Public Co. operating in Insurance, since 2012. He worked at the same company as a director of Information Technology during the period from 2009 to 2011 and Information Technology Specialist during the period from 1990 to 2008.
Other Directorships:	N/A
Name:	Prince Abdullah Bin Naif Bin Abdullah Al Saud, Saudi, (35), Independent, Non-executive
Date of Appointment:	12/06/1431H
Position:	Board Member
Education:	Bachelor of Law from King Saud University, Riyadh, KSA, 1422H.
Work Experience:	Manager of Lawyers Office, Law firm practicing in attorney services, since 1422H.
Other Directorships:	N/A
Name:	Sami Ezzat Al-Ali, Saudi, (56), Executive
Date of Appointment:	11/06/1431H
Position:	Board Member & CEO
Education:	Fellowship of Insurance from the Chartered Insurance Institute in Britain, 1995 and Bachelor of Civil Engineering from Wisconsin University, USA in 1981.
Work Experience:	He is currently working as CEO of Ahlia for Cooperative Insurance Co., a public company operating in field of Insurance, since 2011. He worked as Deputy CEO for Technical Affairs at Malath Cooperative Insurance Co., a public company operating in the field of Insurance, during the period from 2007 to 2011.
Other Directorships:	N/A
Name:	Saeed Saeed Ahmed Bayomi, Egyptian (51), Non-executive
Date of Appointment:	Safar 1434H
Position:	Board Member
Education:	Bachelor of Commerce from Cairo University, Egypt, 1985 and Insurance Diploma from the same University, 1996. Advanced Insurance Training Course with Munich Re in 2000.
Work Experience:	He is currently working as Director of Medical Insurance at MLIC, Egyptian Public Co. operating in Insurance, since 2011. He worked at the same company as a Medical Insurance Manager during the period from 2009 to 2011 and Director of Fire and Burglary Insurance during the period from 2006 to 2009.
Other Directorships:	N/A

Following is the summary qualifications and experiences of the Secretary to the Board of Directors.

Name:	Ayman Hassan Alam, Egyptian (37), Non-executive
Date of Appointment:	01/06/2006G
Position:	Secretary to the Board of Directors
Education:	L.L.B. from faculty of law at Alexandria University 1999 and Diploma of International Arbitration from the same University in 2012. Fellowship of Chartered Insurance Institute in 2012. He was awarded a Diploma in life insurance and medical insurance from Loma Association, USA in 2012. Diploma of Insurance from CCI in 2012 and Financial Planning Diploma from the same university in 2011. He obtained IRCA in 2011.
Work Experience:	He is currently working as Secretary of the Company's Board of Directors, Audit Committee and Executive Committee as well as in-charge of Shareholders' Affairs at Ahlia for Cooperative Insurance Co., a public company operating in Insurance. During the period from 2000 to 2006, he was working as a freelance legal consultant.
Other Directorships:	N/A

5 - 3 Remuneration of Directors and Senior Executives

Compensation of the executive officers and senior managers of the Company are proposed by the nomination and remuneration committee of the Board of Directors and are approved by the ordinary General Assembly in accordance with the Company's By-Laws and within the limits and related provisions of the Companies Law, Insurance Law, and all other applicable laws and regulations.

The total salaries and allowances for five senior executives including the CEO and the Chief Financial Officer ("CFO") was SAR 3,950,400 in 2010, SAR 5,060,398 in 2011 and 5,063,734 in 2012.

Total remunerations and allowances for Board Members amounted to SAR626,805 in 2010, SAR 3,178,260 in 2011 and SAR 1,009,512 in 2012.

5 - 4 Corporate Governance

The Company is committed to practicing and implementing the highest standards of corporate governance that are fully compliant with the Corporate Governance Regulations issued by CMA under Board and any amendments thereto.

The Company's Board of Directors believes that good governance is a clear indication of the Company's success and the Company's commitment to practicing good corporate governance takes form in its implementation of a clear framework for transparency and disclosure ensuring that the Board of Directors acts in the best interests of the Shareholders and presents a true and fair report of the Company's financial condition and results of operations.

The Corporate Governance Regulations have been approved during the General Assembly Meeting convened in Riyadh on 13/06/1430H (corresponding to 06/06/2009G). The Company has also approved and adopted a policy for conflict of interests as well as criteria for appointment of directors as well as elaborated disclosure procedures. The Company is fully compliant with applying all rules and regulations issued by the regulatory and supervisory authorities.

The Company has a clear division of responsibilities between the Board of Directors and executive management of the Company and, in keeping with international best practice; more than one third of the Company's directors are independent, non-executive directors.

The Company has efficient internal control systems. It has a professionally staffed internal audit body to undertake independent reviews of all functions of the enterprise. Moreover, the Company's external auditors are engaged to provide audit services and do not provide any services which are incompatible with such role. The Company's external auditors will provide annual reporting to the Company and an annual management letter.

The following is a summary of the Company's proposed corporate governance framework:

Shareholders' General Assembly: The Shareholders will be kept well informed of all major developments within the Company by way of periodic financial performance reports, publication of all material news and information

concerning the Company and its operations and performance using commonly accessible and up to date means of communications and through promotion of the participation of non-institutional Shareholders in the Company's General Assembly meetings. The Company's fifth General Assembly Meeting was held on 16/05/2012G.

Board of Directors: The Board of Directors will have the ultimate responsibility of running the Company, providing leadership and maintaining a system of internal controls to safeguard the interests of the Shareholders. The second Board of Directors was appointed on 12/06/1431H.

Chairman and CEO: Clear guidelines will be provided as to the responsibility sharing between the Chairman of the Board and the CEO, in order to ensure balanced power-sharing and authority.

Balance: In order to provide objectivity and balance to the decision making process of the Board of Directors, the majority of its members will be non-executive.

Presentation of Financial and Other Information: The Board of Directors will be responsible for submitting to the Shareholders a fair and factual image of the Company's financial performance. Moreover, the Company will institute a mechanism to ensure the timely transfer and receipt by the Board of Directors of all relevant information necessary for the effective discharge of its obligations.

Committees of the Board of Directors: The Board of Directors will form committees to enable it to perform its duties in a more effective manner. In forming such committees, the Board of Directors will comply with corporate governance regulations in Saudi Arabia and all other applicable laws.

5 - 5 Executive Committee

The Executive Committee is in charge of the daily management of the Company's operations and business including implementation of Board resolutions and also recommends and determines the targets and strategies of the Board and supervises operations and works progress. The Board of Directors delegates all required powers to the Executive Committee that are necessary to perform its function in accordance with the Company's By-Laws and applicable law, provided, however, that the Executive Committee's exercise of such delegated powers conforms to the Company's overall policies and procedures and the specific instructions and guidelines imposed on the Executive Committee by the Board of Directors. The executive committee submits to the Board of Directors, periodic reports on its management function and exercise of such delegated powers. The Executive Committee comprises the following members:

- HRH Prince Mohammed Bin Bander Al-Saud, Chairman, Non-executive
- Mohammed Najib Nasr, Member, Executive
- Sami Al-Ali, Member, Executive

Please refer section 5.2 titled "Board of Directors" for the profiles of the above committee members.

5 - 6 Audit Committee

The main function of the Audit Committee is to assist the Board to effectively carry out its tasks particularly, in ensuring the integrity and completeness of financial statements and internal audit policies and procedures with the external auditors. The Audit Committee consists of not less than three members, including a specialist in financial and accounting matters. The Board of Directors will review and consider the audit committee's recommendations and evaluate its charter annually. The audit committee will be responsible, among other things, for:

- Supervising the Company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors;
- Reviewing the efficiency of internal controls and procedures executed by the Company's internal audit department and issuing a written report setting out the results of such review and its related recommendations;
- Reviewing internal audit reports and ensuring implementation of corrective measures recommended therein;
- Advising the Board of Directors regarding the appointment, dismissal, and remuneration of external auditors;
- Supervising the activities of the external auditors and approving any activities beyond the scope of the audit work initially assigned to them during the performance of their duties;
- Working with the external auditors to review and evaluate the annual audit and the framework and methodology of the audit plan;
- Reviewing the external auditor's comments on the financial statements and following up on all recommendations concerning the same;
- Reviewing the interim and annual financial statements prior to presentation to the Board of Directors and issuing recommendations with respect thereto; and
- Reviewing accounting policies and advising the Board of Directors on recommended updates or amendments.

Members of the audit committee include:

1. Saeed Bayomi, Non-executive, Chairman
2. Naser Al-Oufi, Member, Non-director
3. To be appointed

Please refer section 5.2 titled "Board of Directors" for the profile of Saeed Bayomi.

Name:	Naser Al-Oufi, Saudi, Audit Committee Member, (58)
Position:	Member of Audit Committee
Education:	Masters degree in Accounting from New Hampshire College, USA in 1985 and Bachelor of Civil Engineering from King Saud University, Riyadh, KSA, 1980.
Work Experience:	Financial and Administrative Advisor at Taj Financial Consultants (Professional Firm operating in the field of Consultancy). He worked as Director of Finance and Administration in Saudi Pharmaceuticals (a Joint Stock Company operating in drug manufacturing) during the period from 1992 to 2006.
Other Directorships:	<ul style="list-style-type: none"> • Member of Audit Committee at Al-Jouf Agricultural Co. (a public company operating in the field of agriculture). • Independent director at Saudi Automotive Services Co. (a public company operating in the field of auto services).

5 - 7 Nomination and Remuneration Committee

The Nomination and Remuneration Committee aims to develop and retain the human resources and develop strategic plans to upgrade the Company's performance. It also aims to develop administrative programs such as job succession as well as attracting leaders. The committee will operate in accordance with the charter approved by the Board of Directors. The chairman and the other members of the Nomination and Remuneration Committee are appointed by the Board of Directors in accordance with rules of office, appointment procedure, and other related procedures to be issued by the General Assembly upon the Board of Directors' recommendations.

The Board of Directors will review and consider the Nomination and Remuneration Committee's recommendations and evaluate its charter annually. The Nomination and Remuneration Committee will be responsible, among other things, for:

- Recommending to the Board of Directors, appointments to membership of the Board of Directors in accordance with the approved policies and standards while ensuring that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership;
- Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, inter alia, the time that a Board member should reserve for the activities of the Board;
- Review the structure of the Board of Directors and recommend changes;
- Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the Company's interest;
- Ensure on an annual basis, the independence of the independent members and the absence of any conflict of interest, in case a Board member also acts as a member of the Board of Directors of another company;
- Draw clear policies regarding the indemnities and remunerations of the Board members and top executives, in laying down such policies, the standards related to performance that shall be followed.

Nomination and Remuneration Committee members include:

1. HRH Prince Mohammed Bin Bandar Bin Abdulaziz Al-Saud, Chairman, Non-executive
2. Prince Abdulla Bin Naif Al-Saud (Member, Independent, Non-executive)
3. Omer Bin Saleh Babakr, Member, Independent Non-executive

Please refer section 5.2 titled "Board of Directors" for the profiles of the above committee members.

5 - 8 Risk Management Committee

The basic function of the Risk Management Committee to assist the Board in carrying out and approving risk management policies in the Company efficiently and effectively, including strategy, risk management, policies and procedures for risk management, enacting risk management framework and setting the limits of acceptable risk in the operation of the Company and its future projects. The committee's functions include:

- Working with the Company's Board of Directors to promote a culture of risk in the functioning of the Company considering strategies that obligate the Company in the future;
- Examine any of the matters entrusted to them in accordance with the powers and make recommendations to the Board of Directors;
- Provide the Board of Directors with periodic reports of the Company's senior management on the functioning of the Company;
- Identify weaknesses and strengths in the Company with regard to risk management, and propose processes in accordance with the Company's interest; and
- Carry out any other tasks as required by the Board of Directors.

The Risk Management Committee is composed of the following members and a Chairman shall be selected there from:

1. Sami Ben Ezzat Al-Ali - Member (Executive)
2. Mohammed Najib Nasr - Member (Executive)
3. Ashraf Abdulrazaq Al-Jundi - Member (Non-executive)

Please refer section 5.2 titled "Board of Directors" for the profiles of the above committee members.

5 - 9 Conflict of Interest

In accordance with Article 69 of Company by-Laws and Article 18 of Corporate Governance Regulations, a Board Member has no right, unless by the General Assembly's yearly mandate, to have any interest, direct, or indirect, in business and contracts undertaken for the account of the Company, with the exception of business conducted by public competition, where the Board Member has bid the best offer. The Board Member must inform the Board of any personal interest he has in business and contracts undertaken for the account of the Company, and such a statement must be officially recorded in the Board of Directors' Minutes of Meeting, and the Board Member with such an interest cannot vote on the decision taken thereon. The Chairman of the Board of Directors will inform the General Assembly on business and contracts on which a Board Member has a personal interest therein, and the Chairman of the Board of Directors shall attach the External Auditor's special report thereon.

In accordance with Article 70 of Company by-Laws and Article 18 (B) of Corporate Governance Regulations, a Board Member has no right, unless by a by the General Assembly's yearly mandate, to participate in any act that may compete with the Company, or deal in any activity undertaken by the Company, otherwise the Company can demand compensation, by considering the Board Member's acts made for his account, as acts having been made for the Company's account.

In accordance with Article 71 of Company by-Laws and Article 18 (C) of Corporate Governance Regulations, the Company cannot make a cash offer of any sort, to its Board Members, or guarantee any loans taken up by any of them. Moreover, the Chairman and Members of the Board of Directors cannot vote on any decisions pertaining to their compensations and allowances.

The Company, its Board of Directors and its senior executives, hereby confirm their full compliance with the Provisions of Articles 69, 70 and 71 of the companies law and Article 18 of Corporate Governance.

The Company has an agreement with a related party which will be presented annually to the General Assembly for approval (For further details please refer to section titled "Related Parties Transactions").

5 - 10 Service contracts of Senior Executives

Certain members of senior management and senior executives have signed fixed - term service contracts with the Company identifying the conditions of their employment and their allowances.

Mr. Sami Ezzat Al-Ali has signed an employment contract with the Company dated 11/06/2011G under which Mr. Sami has been appointed as CEO of the Company.

This contract became enforceable effective 11/06/2011G and either party may express its desire to terminate the contract six months before the date of termination.

Under the terms of this contract, Mr. Sami Al-Ali receives constant annual financial compensation and varying bonus in addition to the usual allowances granted to the occupants of such job grade. He has committed himself not to take any other job throughout the term of this contract, whether paid for or not and regardless of whether it is carried out during his leave, on public holidays or outside official working hours of the Company.

According to the provisions of this agreement Mr. Al-Ali is committed to keeping all confidential information relevant company's activities confidential and to not disclosing to any other person or entity.

Mr. Hussein Abdelmohsen Al-Rashed has signed an employment contract with the Company on 03/12/2012G under which he has been appointed as CFO of the Company.

This contract became enforceable effective 03/12/2012G and either party may express its desire to terminate the contract six months before the date of termination.

Under the terms of this contract, Mr. Al-Rashed receives constant annual financial compensation and varying bonus in addition to the usual allowances granted to the occupants of such job grade. He has committed himself not to take any other job throughout the term of this contract, whether paid for or not and regardless of whether it is carried out during his leave, on public holidays or outside official working hours of the Company.

According to the provisions of this agreement Mr. Al-Rashed is committed to keeping all confidential information relevant company's activities confidential and to not disclosing to any other person or entity.

These agreements are subject to the Saudi Arabian Labor law and all of disputes arising from will be resolved by the competent judicial authorities in Saudi Arabia.

5 - 11 Senior Executive Management

Under the leadership of its CEO, the Company will be functioning with a small yet strong senior management team and a commercial oriented organizational structure. These attributes and experiences are keys to offering innovative products and solutions to customers. The positions of the Deputy CEO for Human Resources & Administration and Investment Manager are vacant and the Company intends to fill them in accordance with SAMA's requirements.

Figure 5.3: Top Executive Management Team:

Name	Title	Nationality	Age
Sami Ezzat Al-Ali	CEO	Saudi	55
Hussein Abdulmohsen Al-Rashed	CFO	Saudi	31
Faisal Hussein Al-Gillan	Deputy CEO for Sales & Marketing	Saudi	40
Mohammed Ahmed Lutfi Masoud	Deputy CEO for Operations	Egyptian	39
Dr. Amer Saied Abdulbaqi	Deputy CEO for Medical Insurance	Egyptian	52
Abdullah Abdurrahman Al-Muagil	Deputy CEO for Information Technology	Saudi	39

Source: Company

Below is a summary of the Senior Management Team Profiles

Name:	Sami Ezzat Al-Ali, Saudi, (56), Executive
Date of Appointment:	11/06/1431H
Position:	Board Member & CEO
Education:	Fellowship of Insurance from the Chartered Insurance Institute in Britain, 1995 and Bachelor of Civil Engineering from Wisconsin University, USA in 1981.
Work Experience:	He is currently working as CEO of Al-Ahlia for Cooperative Insurance Co., a public company operating in field of Insurance, since 2011. He worked as Deputy CEO for Technical Affairs at Malath Cooperative Insurance Co., a public company operating in the field of Insurance, during the period from 2007 to 2011.
Other Directorships:	N/A

Name:	Hussein Abdulmohsen Al-Rashid, Saudi, (31), Executive
Date of Appointment:	13/11/2012H
Position:	CFO
Education:	Bachelor of Accounting from King Faisal University, Ahsa, KSA in 2005 and Master of Accounting from Poling Green State University, Ohio, USA in 2009.
Work Experience:	He is currently working as CFO of Al-Ahlia for Cooperative Insurance Co., (a public company operating in field of Insurance) since 2012. Prior to that he worked for the same company as Chief Accountant during the period from 2011 to 2012. He worked as an accountant at Global Cooperative Insurance Co. (a public company operating in the field of Insurance) during the period from 2009 to 2011. Prior to that he worked as assistant auditor at Ernst & Young (Certified Accountants) from 2005 to 2006.
Other Directorships:	N/A

Name:	Faisal Hussein Al-Gillan, Saudi, (40)
Date of Appointment:	01/09/2012H
Position:	Deputy CEO for Sales & Marketing
Education:	Bachelor of Agricultural Sciences from King Saud University, Riyadh, KSA.
Work Experience:	He is currently working as Deputy CEO for Sales & Marketing of Al-Ahlia for Cooperative Insurance Co. (a public company operating in field of Insurance) since 2012. Prior to that he worked as Regional Manager for Southern Riyadh Area at Al-Rajhi Bank (a public banking company) during the period from 1999 to 2012.
Other Directorships:	N/A

Name:	Saied Amer Abdulbaqi, Egyptian, (52)
Date of Appointment:	01/12/2012H
Position:	Deputy CEO for Medical Insurance
Education:	Bachelor of Medicine and Surgery from Cairo University in 1985, Master of Public Health from Al-Zagazig University in 1991, Master of General Surgery from Aien Shams University in 1995 and Insurance Fundamental Diploma from DLHI in 2008.
Work Experience:	He is currently working as Deputy CEO for Medical Insurance of Al-Ahlia for Cooperative Insurance Co. (a public company operating in field of Insurance) since 2010. Prior to that he worked as Director of Medical Insurance Claims at the same company during the period from 2007 to 2010. During the period from 1997 to 2008 he worked as Director of Preventive Medicine in Royal Saudi Air Force, Ministry of Defense, KSA. He worked as Head of Medical Committee at General Organization of Social Insurance, Dammam, KSA during the period from 1994 to 1997. During the period from 1990 to 1994 he worked s Specialist at the High Commission for Medical Insurance in Cairo.
Other Directorships:	N/A

Name:	Abdullah Abdurrahman Al-Mugil, Saudi, (39)
Date of Appointment:	01/08/2012H
Position:	Deputy CEO for Information Technology

Education:	Bachelor of Computer and Information Technology from King Saud University, Riyadh, KSA in 1999 and MBA from the same University in 2009.
Work Experience:	He is currently working as Deputy CEO for Sales & Marketing of Al-Ahlia for Cooperative Insurance Co. (a public Company operating in field of Insurance) since 2012. Prior to that he worked as Senior Manager for Card Services at Al-Rajhi Bank (a public banking company) during the period from 2007 to 2012.
Other Directorships:	N/A

Name:	Mohammed Ahmed Lutfi Masoud, Egyptian, (39)
Date of Appointment:	01/11/2011H
Position:	Deputy CEO for Operations
Education:	Chartered Insurance Institute Fellowship, Britain in 2011 and Bachelor in Commerce (Major Accounting) from Cairo University in 1999.
Work Experience:	He is currently working as Deputy CEO for Operations of Al- Ahlia for Cooperative Insurance Co. (a public company operating in field of Insurance) since 2011. Prior to that he worked as Claims Reconciler in Allianz Insurance Co. (an Egyptian public company operating in field of insurance) during the period 2001 to 2007. He worked as Manger of Cargo and Insurance in Great Western Textile Co. (an Egyptian public company. operating in textiles) during the period from 1998 to 2001.
Other Directorships:	N/A

5 - 12 The Company's Business Units

Business Units are be directly responsible for various aspects of the Company's insurance business and consist of the following:

- Insurance Operations (Underwriting & Claims)
- Finance Department
- Information Technology
- Human Resources and Administrative Affairs
- Internal audit
- Compliance
- Sales & Marketing
- Risk Management
- Reinsurance Department.

5 - 12 - 1 Insurance Operations

- Develop insurance underwriting policies and procedures
- Prepare underwriting manuals and amend them as needed
- Secure appropriate evaluation systems for the various data bases
- Build and implement guidelines for retrocession
- Interact with regulators and conduct training of underwriters and other relevant personnel
- Gather and assess background information related to the risk in question
- Assess risk exposure with actuarial support
- Prepare quotations and compute premium level using actuarial information, other statistics and own judgment
- Price the offered business, accept and administer the desirable and profitable risks
- Negotiate and draft contracts with clients
- Assist in development and implementation of insurance solutions for individual clients
- Manage timely and accurate preparation of client documentation
- Analyze and monitor the performance of the portfolio

The claims service department focuses on developing professional expertise to upgrade the level of services offered to claimants. The department is equipped with professionally qualified competent staff on a par with international standards, to ensure that policyholders' rights are protected whilst preserving the interests of the Company.

Claims services include risk improvement and loss control measures. This is done through statistical analysis of clients' experiences and the nature of losses, leading to the sustained growth of a profitable portfolio. One of the main objectives of the Company's claims department is to effectively control costs and this is achieved through the following:

- Salvage management;
- Recovery management; and
- Verification of Claims Soundness.

In addition to managing reported claims and conferring with ceding companies on claims matters, the Company's claims department conducts periodical reviews on specific claims and reviews the overall procedures of its claims department.

A speedy and equitable settlement is negotiated with claimants presenting valid claims. In cases where claims are not covered, prompt and adequate explanations for claim rejections are provided to the claimant. Losses to the Company are expected to be minimized by prompt recoveries from reinsurers, active pursuit of claims against those third parties who may be liable and the prudent sale of all salvage. It is intended that all claim transactions are appropriately processed and documented.

The Claims Manager (a member of the facultative Business Unit specialized in a line of business) is responsible for the following:

- Apply the claims procedure and suggest updates to senior management when appropriate;
- Collect and process information related to claims;
- Verify claims and related conditions;
- Manage proper and timely preparation of claims documents;
- Coordinate with respective departments to ensure timely payout of valid claims;
- Evaluate impact on the global portfolio and quarterly/annual results;
- Secure proper data base structure to facilitate meaningful actuarial application for ultimate loss ratio calculation and appropriate evaluation for the pricing tools; and
- Secure recovery process from reinsurance companies to which transactions have been referred.

5 - 12 - 2 Finance Department

This department is responsible for verification of accuracy and soundness of the Company's financial information, prepare annual budgets, manage cash flows and coordinate with the external auditor on matters related to preparation of the financial statements. It supervises the Company's investment through an investment strategy, aims to maintain strong solvency margins and to protect shareholders' interests in accordance with SAMA's regulations. The finance department's tasks are summarized as follows:

- Draw up financial statements, provide information about and monitor compliance with the accounting standards adopted by the Company as well as the accounting and financial procedures for the investment portfolio, general as well as technical accounting;
- Ensure that appropriate financial policy framework and systems are in place so that the division can effectively participate in overall strategy development;
- Prepare budgets, reports and estimated monthly/quarterly management figures;
- Secure adequate development and application of an effective cost allocation system
- Supervise application of the investment strategy set up by the investment committee, monitor performance of asset managers;
- Manage cash flows of the Company on a weekly, monthly, quarterly and annual basis;
- Zakat/tax communications, draft investment policy and manage external providers of financial services; and
- Advise the Company's management on major financial issues.

In accordance with SAMA regulations, the Company can outsource the investment management function to any of the experienced CMA licensed investment management firms to manage the Company's investments. In addition to that, the investment guidelines provided by SAMA is very conservative and the investment manager cannot deviate there from.

Supervision tasks of the Company's Investments include:

- Setting investment policy: by identifying investment objectives in accordance with the investment rules and regulations published by SAMA, and the Company's stance towards the tradeoff between expected return and risks
- Performing security analysis: by re-evaluating securities in the current portfolio to identify those that have been undervalued
- Portfolio revision: by determining which securities in the current portfolio are to be sold and which securities are to be purchased
- Evaluating the performance of the portfolio: by determining the actual performance of the portfolio in terms of risk and return, and comparing the performance with that of an appropriate benchmark portfolio

5 - 12 - 3 Information Technology

This department undertakes responsibility for maintenance and improvement of IT systems. The department also takes care of archiving and management of the Company's operations information and set-up of internal controls using computer systems and networks. This department also coordinates printing of data for the Company's departments and branches and sets up the controls for using computer and software. It also oversees the service agreement planned to be implemented.

5 - 12 - 4 Human Resources and Administrative Affairs

This department handles personnel affairs, assignment and coordination of works, maintaining file for each employee including information, payroll, leaves etc. It is also responsible for recruiting and providing required stationery in addition to any other governmental-related works.

5 - 12 - 5 Internal Audit

Internal control and reporting structure of the Company are defined with sufficient accuracy to achieve effective control in the Company's performance. The internal audit unit undertakes all internal oversight functions. Internal Audit takes all necessary measures to ensure handling of all audit reports observations. The internal audit activity is directed to the high-risk jobs and activities in order to increase efficiency, effectiveness and profitability of the Company's operations. It provides substantive independent services in order to assist the Board of Directors, the Audit Committee and the executive management in carrying out their responsibilities to a high degree of efficiency and effectiveness and are not influenced by the executive management and have full powers for full access to any records and property as required. The internal audit responsibilities are as follows:

1. Preparation of the strategic plan for the work of the internal audit;
2. Implementation of the inspections, according to the annual plan;
3. Reporting results of their observations;
4. Determining the financial and operational risks and cooperation with the administration to provide appropriate supervisory and cost-effective tools for reduction and/or early detection of risks;
5. Coordination between the various departments of the Company and foreign regulators, including the external auditor;
6. Develop policies and procedures for the implementation of the audit in conformation with the professional practices and the utilize available resources in line with the budget; and
7. Approve internal audit.

5 - 12 - 6 Compliance Control

The function of the compliance control department is to ensure the protection of the Company's reputation in order to perform its operations in an integrated, professional and specialized manner. The department is headed by the compliance officer and its tasks can be summarized as follows:

1. Provide effective support to the Company's management in determining the risks of compliance and provide related internal reports;
2. Assist senior management in the daily effective and profitable operations in compliance with legal requirements;
3. Ensure compliance with the Company's principles and values as well as compliance with laws, rules and regulations prevailing in the Kingdom of Saudi Arabia; and
4. Propagate compliance attitude and strengthen relationships with regulators.

5 - 12 - 7 Sales and Marketing

This department is responsible for marketing and sales of the Company's products through the implementation of the set strategy based on variety of products, adopting a sound pricing policy as well as increasing of customer satisfaction to ensure retention. It relies on wide distribution network and market segmentation with special emphasis of the following segments:

- Public and semi-government Institutions;
- Corporate Clients;
- Small Enterprises;
- Personal Insurance Services (individuals); and
- Inwards Facultative Insurance.

The Company continuously strives to develop its products in order to meet customers' needs, taking into account the requirements of legality and cultural background of the local community. In addition to direct sales through branches deployed throughout the Kingdom, the Company uses other distribution channels as agents and insurance brokers

as well as other alternative channels. The Company also organizes intensive advertising and public relations campaigns that enable the Company to properly place itself in the insurance market and provide quality, safe and competitive products.

5 - 12 - 8 Risk Management Department

Ahlia took a strategic decision to establish a Risk Management Department in 2012, and adopted the best industry practice known as “Enterprise Risk Management”.

This approach is defined as “An approach to managing all of an organization’s key business risks and opportunities with the intent of maximizing shareholder value”. The following are the major differences in the approach:

- Enterprise Risk Management encompasses both hazard risk and business risk; traditional risk management focuses on hazard risk only.
- Enterprise Risk Management seeks to enable an organization to fulfill its greatest productive potential; traditional risk management seeks to restore an organization to its former pre-loss condition.
- Enterprise Risk Management focuses on the value of the organization; traditional risk management focuses on the value of the accidental losses.
- Enterprise Risk Management focuses on an organization as a whole; traditional risk management focuses on specific loss exposure.

5 - 12 - 9 Reinsurance Department

Reinsurance Department acts as the interface with reinsurance companies and is responsible for the following tasks:

- Manage Ahlia’s relations with reinsurance companies;
- Engage & terminate reinsurance agreements;
- Analyze reinsurance companies and prepare internal rating; and
- Assure transfer of risk efficiency at the best rates.

5 - 12 - 10 Employees and Saudization

As of 30 June 2013 the Company’s manpower had reached 223 employees comprising 96 Saudis and 127 non-Saudis with a Saudization percentage of 43% compared to 2012 where the number of employees was 174 comprising 77 Saudis and 97 non-Saudis with Saudization percentage of 44%. Ahlia works continuously to increase its Saudi employees based on a proper recruiting, training, development, grading and compensation plan, set to satisfactorily meet the Saudization requirements

Figure (5.4): List of the Company’s Staff by Department

Department	Total	Saudis	Non- Saudis	% of Saudis
Audit	2	0	2	0%
Collection	3	3	0	100%
Finance	21	7	14	33%
Human Resources	24	08	16	33%
Information Technology	10	3	7	30%
Risk Management	1	1	0	100%
Marine Insurance	0	0	0	0%
Medical Insurance	25	10	15	40%
Non Marine (Motors)	16	8	8	50%
Other (General Insurance)	11	4	7	36%

Department	Total	Saudis	Non- Saudis	% of Saudis
Sales and Marketing	99	45	54	45%
Compliance Department	2	2	0	100%
Reinsurance Department	4	2	2	50%
Legal Department	2	1	1	50%
CEO's Office	3	2	1	67%
Total	223	96	127	43%

Source: Company

6. Management Discussion & Analysis of the Company's Financial Position and Result of Operations

6 - 1 Introduction

The following discussion and analysis of the Company's financial position and results of operations is based upon, and should be read in conjunction with, the audited financial statements of the years ended 31 December 2010 which were audited by Deloitte and Touche Bakr Abulkair and Company and Ernst and Young, the audited financial statements of 31 December 2011 and 2012 audited by Deloitte and Touche Bakr Abulkair and Company and Al Bassam Auditors and Consultants.

6 - 2 Directors' declaration for financial statements

The Directors declare that the financial information presented in the Prospectus is extracted without material change from the Audited Financial Statements and that the Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards. Further, the Company declares that it has working capital sufficient for the next twelve months following the date of this Prospectus.

The Directors declare that there has been no material adverse change in the Company's financial or business position since three years ago and to the date of this Prospectus.

6 - 3 Legal structure and overview of activities and operations

Ahlia was established on 19 September 2007 as a Saudi joint stock company registered in the Kingdom of Saudi Arabia on the basis of Royal Decree No. M/60 dated 11 October 2006 and decision of the Council of Ministers No. 233 dated 9 October 2006 under the commercial registration number 1010238441 with a paid up capital of SR100m comprising of 10m shares (SR10 per share).

As per Management, the Company's capital was not subject to any option during the last three years. In addition, no specific commissions, discounts, brokerages or other non-cash compensation were granted (within the three years immediately preceding the application for registration and admission to listing) in connection with the issue or offer of any securities by the Company to any of the directors, proposed directors, senior executives, persons offering or placing the securities or any other experts.

Figure (6.1): Legal Structure as of 31 August 2012

Shareholder	Number of Shares	Share Price	Contributed Share Capital	Shareholding %
MLIC	1,800,000	10	18,000,000	18%
Public	8,200,000	10	82,000,000	82%
Total	10,000,000	10	100,000,000	100%

Source: Company

The Company's objective is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on Tadawul on 6 October 2007.

Ahlia underwrites a variety of insurance covers in all general insurance lines including medical, motor, engineering, medical malpractice, fire, and marine and general accident liability. The Company intends to enter into an asset purchase agreement for the insurance portfolio and related net assets of Bahrain-based Ahlia BSC's operations in the Kingdom of Saudi Arabia at a valuation to be approved by SAMA.

According to Management, Al Ahlia's financial condition is not generally affected by any major seasonal or business cycles. Furthermore, no information regarding any governmental, economic, fiscal, monetary, political policies or other factors was found to materially affect over the last three years, or could materially affect, directly or indirectly, the operations.

It is expected that SAMA is likely to approve the transfer of the Bahraini portfolio soon after the completion of the Rights Issue, as after the Rights Issue, the Company is likely to have sufficient solvency margin cover to absorb a negative impact of the transfer, if any, on the Company's solvency margin cover.

As per Management, the Company does not own any holdings in contractually based securities or other assets whose value may be subject to fluctuations or be difficult to ascertain with certainty or that might significantly affect the assessment of the Company's financial position.

6 - 4 Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The following is a summary of significant accounting policies applied by the Company:

6 - 4 - 1 Accounting convention

The financial statements are prepared under the historical cost convention.

6 - 4 - 2 Insurance contracts

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

6 - 4 - 3 Premiums earned and commission income

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis except for marine cargo insurance whereby it is calculated on the basis of last three month premiums. 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 recorded to the statement of insurance operations over the period to cover the insurance risks. Retained premiums and commission income of the current period which are related to unexpected risks relating to the subsequent financial period, are recorded based on actual number of days. Commission income is recognized based on the effective yield after taking into consideration the outstanding principal amount and average commission rate.

6 - 4 - 4 Premiums receivable

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

6 - 4 - 5 Provision for doubtful debts

In order to comply with the "Implementing Regulations" and requirements of SAMA, the Company has been applying the method of provisioning for doubtful debts based on the inception date of the insurance policy rather than due date of the premium receivable since November 2011.

6 - 4 - 6 Gross outstanding claims

Outstanding claims comprise the estimated claims incurred but not settled at the date of the financial position, and claims handling cost less the estimated salvage value and other recoveries whether reported or not by the insured. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at date of the statement of financial position including claims handling costs and the estimated salvage value and other recoveries as at the financial position date.

Any difference between the provisions at the date of the statement of financial position and settlements and provisions in the following year is included in the statement of insurance operation for that year. The outstanding claims are shown on gross basis and the related share of the reinsurance is shown separately.

6 - 4 - 7 Fair values

For traded investments in organized financial markets, the fair value is determined based on current price in the financial market. The fair value for items associated with interest is based on discounted cash flows using interest rates for those items which have same conditions and risk characteristics. For untraded investments, the fair value is determined based on the market value of similar investments or based on forecasted discounted cash flows.

6 - 4 - 8 Investments held at fair value through income statement

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

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

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are measured at fair value. Fair value adjustments and realized gains and losses are recognized in the statement of shareholders' operations.

6 - 4 - 9 De-recognition of financial instruments

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

6 - 4 - 10 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statements of operations and shareholders' operations unless required or permitted by any accounting standard or its interpretations.

6 - 4 - 11 Operating leases

Operating lease payments are recognized as expenses in the statement of insurance operations on a straight-line method basis over the lease contract period.

6 - 4 - 12 Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities after deduction of related deferred acquisition costs. In performing these tests, management uses current best estimates of future contractual cash flows and administration expenses and claim handling expenses. Any deficiency in the carrying amount is immediately charged to the statement of insurance operations by writing off first related deferred acquisition cost and by establishing a provision for losses arising from liability adequacy tests (Unexpected loss provision). And in cases requiring liability adequacy test for using best of new estimations, these estimations are used (without any margin for any reversal change) for measuring subsequently these liabilities.

6 - 4 - 13 Reinsurance

In the ordinary course of business, the Company cedes insurance premiums and risk. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of reinsurance transactions is performed under treaty, facultative and excess of loss reinsurance contracts. Assets or liabilities being recorded in the insurance operations' financial position represent premiums due to or payments due from reinsurers and the Company's share of losses being recoverable from reinsurers. Amounts receivable from reinsurers are estimated in a manner consistent with the claims liability associated with the insured parties.

6 - 4 - 14 Deferred policy acquisition costs

Those 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 expensed when incurred.

Subsequent to initial recognition, deferred costs are amortized on a pro-rata method over the expected future premium period except for marine cargo where the deferred portion is 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.

6 - 4 - 15 Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian Zakat and Tax Regulations. Zakat is charged to equity accounts of Saudi founding shareholders while income tax is charged to equity accounts of foreign shareholders.

6 - 4 - 16 Provisions and other liabilities

Provisions are recognized when the Company has an obligation (legal or constructive) arising from past events and the costs to settle the obligation are both probable and may be measured reliably.

6 - 4 - 17 Employees' end of service benefits

Employees' end of service benefits are provided in accordance with Saudi Labor Law. Dues are paid based on employees' last salary and service period subject to completion of the minimum service period. The estimated cost is due for these remunerations over the staff employment period.

6 - 4 - 18 Foreign currency translation

Transactions in foreign currencies are recorded in Saudi riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of insurance / shareholders' operations.

6 - 4 - 19 Impairment and un-collectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of insurance / shareholders' operations. Impairment in value 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 carrying book value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is determined based on the future cash flows that are discounted at the original effective interest (special commission) rate.

6 - 4 - 20 Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based on the estimated useful life using the straight line method. The estimated useful lives of property and equipment are as follows:

	Years
Computers and software	4
Furniture and fixtures	10
Motor vehicles	4
Leasehold improvement	over the contract's duration

6 - 4 - 21 Statutory deposit

Statutory deposit represents 10% of the paid up capital in accordance with the Cooperative Insurance Companies Control Law in the Kingdom of Saudi Arabia issued by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA. During year 2009, SAMA approved for investing the statutory deposit amounting to SR 10,000,000 in a local investment fund. The fair value for this investment was SR10,125,135 as at 31 December 2012 (31 December 2011: SR 10,065,172).

6 - 4 - 22 Segmental reporting

A segment is considered as a basic component of the Company that is engaged in selling / providing products or related services whereby its profit or loss is different than profit or loss of other segments. For management purposes, the Company is organized into business units based on their products and services and has the following segments:

- Engineering insurance: provides for contractors' risks, installations, building, electrical equipment and electronics risks and any other insurance classified under this segment.
- Motor insurance: provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Health insurance: covers medical costs, medicines and all other medical services and supplies.
- Professional malpractice: covers responsibilities of professional medical malpractice.
- Other insurance classes: cover any other classes of insurance not mentioned above.
- Shareholders' operations represent a non-operating segment.

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

6 - 5 Results of operations

6 - 5 - 1 Income statements

6 - 5 - 1 - 1 Policyholders' income statements

Figure (6.2): Policyholder's Income Statement

Policyholders' income statements			
SR in 000s	FY10 Audited	FY11 Audited	FY12 Audited
Revenue			
Gross written premiums	260,648	263,662	235,636
Reinsurance premiums ceded (including XoL premiums)	(97,075)	(85,628)	(73,616)
Net written premiums	163,573	178,034	162,021
Change in unearned premiums	(62,397)	9,231	10,592
Net earned premiums	101,176	187,265	172,613
Gross claims paid	(65,192)	(137,335)	(131,790)
Reinsurance share of gross claims paid	33,913	57,878	53,447
Net change in outstanding claims	(9,150)	(13,580)	(2,299)
Net claims incurred	(40,429)	(93,037)	(80,642)
Policy acquisition costs	(18,000)	(36,260)	(25,063)

Policyholders' income statements			
SR in 000s	FY10 Audited	FY11 Audited	FY12 Audited
Claims handling (expenses)/recovery	(7,510)	(16,894)	(9,126)
Reinsurance commission	6,428	6,244	13,200
Issuance income	1,540	-	-
Net underwriting surplus/(deficit)	43,205	47,318	70,982
G&A expenses	(49,877)	(50,796)	(49,927)
Bad debt (expense)/reversal	(4,896)	(1,856)	(6,774)
Special commission income	-	271	732
Other income	286	208	158
(Deficit)/Surplus from insurance operations	(11,283)	(4,855)	15,171
Shareholders' appropriation from deficit/(surplus)	11,283	4,855	(13,654)
Net surplus after shareholders' appropriations	-	-	1,517
Surplus distribution to policyholders	-	-	(1,517)
Accumulated surplus at the end of the year	-	-	-
Key ratios			
Retention ratio	62.8%	67.5%	68.8%
Net earned premiums as % of GWP	38.8%	71.0%	73.3%
Net loss ratio	(40.0%)	(49.7%)	(46.7%)
Commission expense as % of GWP	(6.9%)	(13.8%)	(10.6%)
Commission income as % of ceded premiums	6.6%	7.3%	17.9%
Underwriting surplus as % of GWP	16.6%	17.9%	30.1%
G&A expenses as % of GWP	(19.1%)	(19.3%)	(21.2%)
Deficit/surplus from insurance operations as % of GWP	(4.3%)	(1.8%)	6.4%
Net Underwriting surplus	43,205	47,318	70,982

Source: Audited financial statements, other Analysis

Ahlia has commenced its full operations at the beginning of April 2009, which resulted in nine month operational period in the fiscal year 2009 compared to a full operational years in 2010, 2011 and 2012. Net deficit from insurance operations of SR11.3m in FY10 improved to a surplus of SR15.2m in FY12.

In FY10, Gross Written Premium ("GWP") amounted to SR260.6m and net underwriting surplus to SR43.2m. GWP remained almost stable in FY11 compared to FY10 although there was a drop in motor written premiums, as the Company stopped renewing policies for the car rental and leasing industry in FY11 since it proved to be loss-making. GWP decreased in FY12 mainly due to a further decrease in motor GWP as motor products were properly priced based on the actuary report and this price was not competitive in the market in FY12 which lead to the loss

of a portion of the motor insurance market share to other competitors.

Issuance income of SR5.9m in FY11 and SR8.7m in FY12 were reclassified in FY12 audited financial statements to GWP based on the financial due diligence advisor's and auditors' recommendations and in order to better comply generally with SAMA requirements.

Net underwriting surplus did not undergo any major increase in FY11 (increase of only SR4.9m) as it was mainly affected by the increase in claims paid by SR72.1m and the increase in policy acquisition costs and claims handling expenses by a total of SR27.6m. However, net underwriting income grew significantly (by SR23.7m) from FY11 to FY12 recording a surplus of SR15.2m in FY12, primarily driven by a drop in policy acquisition costs (to meet SAMA requirements) and a decrease in claim handling expenses (as a result of a change in the agreement with the Third Party Administrator ("TPA")) coupled with an increase in reinsurance commissions (resulting from an increase in profit commissions) and a stabilization of the level of outstanding claims.

The policyholders' deficit as a percentage of GWP improved significantly from negative 4.3% in FY10 to negative 1.8% in FY11 and then became a surplus in FY12, constituting 6.4% of GWP. The higher policyholders' deficit in FY10 was mostly driven by general and administrative expenses, due to hiring 134 additional employees to support the growth in business, with staff costs contributing to 57.6% of total policy holders and shareholders' G&A expenses in FY10.

The SR4.9m deficit in FY11 was mainly driven by the loss ratio of the motor business that reached 93.4% coupled with high policy acquisition costs (commission expense) which amounted to 13.8% of GWP in FY11.

The policyholders' deficit reached SR15.2M in FY12 constituted 0.7% of GWP.

6 - 5 - 1 - 2 Shareholders' income statements

Figure (6.3): Shareholders' Income Statement

Shareholders' income statements			
SR in 000s	FY10 Audited	FY11 Audited	FY12 Audited
Appropriation of (deficit)/surplus from insurance operations	(11,283)	(4,855)	13,654
Unrealized gain on investments at fair value through profit & loss	275	-	-
Realized gain on investments at fair value through profit & loss	-	47	-
Special commission income	4	72	138
G&A expenses	(389)	(355)	(294)
Net loss/income before Zakat and income tax	(11,393)	(5,090)	13,497
Zakat and income tax	(1,248)	(677)	(1,671)
Net loss/income for the year	(12,642)	(5,768)	11,826
Key ratios			
Shareholders' G&A expenses as % of GWP	(0.1%)	(0.1%)	(0.1%)
Shareholders' net loss/income as % of GWP	(4.9%)	(2.2%)	5.0%

Source: Audited financial statements, other Analysis

The shareholders are bearing the policyholders' losses which decreased from SR11.3m in FY10 to SR4.9m in FY11 and turned into a profit of SR13.7m in FY12.

The shareholders' General and administrative ("G&A") expenses decreased from SR0.4m in FY10 to SR0.3m in FY12, due to the decrease in the board of directors' and executive committees' meeting expenses.

The overall shareholders' result for the year improved significantly from a net loss of SR12.6m in FY10 to net income of SR11.8m in FY12 driven mainly by the change in insurance operations results from a deficit in FY10 to a surplus in FY12, in addition to the decrease in shareholders' general and administrative expenses.

6 - 5 - 1 - 3 Technical income statements

Figure (6.4): Income Statement by Line of Business

Income statement by line of business - FY10						
SR in 000s	Medical	Motor	Engineering	Medical mal-practice	Other	Total
Gross written premiums	166,826	55,979	20,789	10,360	6,693	260,648
Reinsurance premiums ceded	(64,952)	(586)	(23,638)	(2,082)	(3,969)	(95,227)
Excess of loss premiums	-	(1,370)	(256)	-	(222)	(1,848)
Net written premiums	101,874	54,024	(3,105)	8,278	2,502	163,573
Change in unearned premiums	(37,438)	(22,588)	2,600	(4,022)	(948)	(62,397)
Net earned premiums	64,436	31,436	(505)	4,255	1,554	101,176
Reinsurance commission	-	1	5,133	127	1,167	6,428
Net claims incurred	(18,617)	(20,707)	(62)	(688)	(355)	(40,429)
Policy acquisition costs	(9,850)	(4,946)	(2,133)	(480)	(591)	(18,000)
Issuance Income	1,042	282	109	66	42	1,540
Claims handling expenses	(7,510)	-	-	-	-	(7,510)
Net underwriting surplus/(deficit)	29,501	6,066	2,542	3,280	1,816	43,205
Key ratios						
Retention ratio	61.1%	96.5%	(14.9%)	79.9%	37.4%	62.8%
Net earned premiums as a % of GWP	38.6%	56.2%	(2.4%)	41.1%	23.2%	38.8%
Net loss ratio	(28.9%)	(65.9%)	12.2%	(16.2%)	(22.9%)	(40.0%)
Commission incurred as a % of GWP	(5.9%)	(8.8%)	(10.3%)	(4.6%)	(8.8%)	(6.9%)
Commission received as a % of ceded premiums	0.0%	0.2%	21.7%	6.1%	29.4%	6.7%
Underwriting surplus/(deficit) as a % of GWP	17.7%	10.8%	12.2%	31.7%	27.1%	16.6%

Source: Audited financial statements, Management reports, other Analysis

Figure (6.5): Income statement by line of business - FY11

Income statement by line of business - FY11						
SR in 000s	Medical	Motor	Engineering	Medical mal-practice	Other	Total
Gross written premiums	202,209	37,546	14,746	6,010	3,151	263,662
Reinsurance premiums ceded	(67,509)	(639)	(13,458)	-	(1,825)	(83,430)
Excess of loss premiums	-	(1,294)	(422)	(275)	(208)	(2,199)
Net written premiums	134,700	35,614	867	5,736	1,118	178,034
Change in unearned premiums	(3,958)	11,905	144	618	523	9,231
Net earned premiums	130,742	47,518	1,011	6,353	1,641	187,265
Reinsurance commission	1,521	-	3,915	158	651	6,244
Net claims incurred	(46,586)	(44,391)	(107)	(1,919)	(34)	(93,037)
Policy acquisition costs	(21,775)	(10,188)	(2,681)	(844)	(771)	(36,260)
Claims handling expenses	(16,894)	-	-	-	-	(16,894)
Net underwriting surplus/(deficit)	47,007	(7,061)	2,138	3,748	1,486	47,318
Key ratios						
Retention ratio	66.6%	94.9%	5.9%	95.4%	35.5%	67.5%
Net earned premiums as a % of GWP	64.7%	126.6%	6.9%	105.7%	52.1%	71.0%
Net loss ratio	(35.6%)	(93.4%)	(10.5%)	(30.2%)	(2.1%)	(49.7%)
Commission incurred as a % of GWP	(10.8%)	(27.1%)	(18.2%)	(14.0%)	(24.5%)	(13.8%)
Commission received as a % of ceded premiums	2.3%	0.0%	29.1%	0.0%	35.7%	7.5%
Underwriting surplus/(deficit) as a % of GWP	23.2%	(18.8%)	14.5%	62.4%	47.2%	17.9%

Source: Audited financial statements, Management reports, other Analysis

Figure (6.6): Income statement by line of business - FY12

Income statement by line of business - FY12						
SR in 000s	Medical	Motor	Engineering	Medical mal-practice	Other	Total
Gross written premiums	194,161	21,117	9,595	7,327	3,437	235,636
Reinsurance premiums ceded	(58,536)	-	(8,931)	-	(2,280)	(69,748)
Excess of loss premiums	-	(2,912)	(433)	(368)	(155)	(3,867)
Net written premiums	135,625	18,204	231	6,959	1,001	162,021
Change in unearned premiums	351	9,195	31	618	397	10,592
Net earned premiums	135,976	27,400	262	7,577	1,399	172,613
Reinsurance commission	10,371	-	2,240	146	442	13,200
Net claims incurred	(55,455)	(22,146)	33	(3,123)	49	(80,642)
Policy acquisition costs	(17,977)	(4,262)	(1,480)	(1,010)	(334)	(25,063)
Claims handling expenses	(9,126)	-	-	-	-	(9,126)
Net underwriting surplus	63,789	992	1,055	3,590	1,556	70,982
Key ratios						
Retention ratio	69.9%	86.2%	2.4%	95.0%	29.1%	68.8%
Net earned premiums as a % of GWP	70.0%	129.8%	2.7%	103.4%	40.7%	73.3%
Net loss ratio	(40.8%)	(80.8%)	12.7%	(41.2%)	3.5%	(46.7%)
Commission incurred as a % of GWP	(9.3%)	(20.2%)	(15.4%)	(13.8%)	(9.7%)	(10.6%)
Commission received as a % of ceded premiums	17.7%	0.0%	25.1%	0.0%	19.4%	18.9%
Underwriting surplus as a % of GWP	32.9%	4.7%	11.0%	49.0%	45.3%	30.1%

Source: Audited financial statements, Management reports, other Analysis

Net underwriting surplus amounted to 16.6% of total GWP in FY10, mainly driven by medical and motor premiums.

Net underwriting surplus increased reaching 17.9% of total GWP in FY11 with medical still constituting the highest “premium-generating” line of business, followed by motor.

It increased to 30.1% of total GWP in FY12 primarily driven by the medical line of business which constituted 89.9% of total net underwriting surplus in FY12.

6 - 5 - 2 Gross written premiums

Figure (6.7) Gross Written Premiums

Gross written Premiums (GWP) vs. Net Earned Premiums (NEP)						
	GWP			NEP		
SR in 000s	FY10	FY11	FY12	FY10	FY11	FY12
Medical	166,826	202,209	194,161	64,436	130,741	135,975
Motor	55,979	37,546	21,116	31,435	47,519	27,400
Engineering	20,789	14,746	9,595	(506)	1,011	262
Property (Fire)	2,615	1,655	2,047	39	29	51
Marine	2,025	459	318	632	285	34
Accident and liability	12,414	7,047	8,399	5,140	7,679	8,891
Total	260,648	263,662	235,636	101,176	187,264	172,613

Source: SAMA forms

GWP amounted to SR260.6m in FY10 mainly driven by medical premiums. However GWP remained relatively stable in FY11 recording SR263.7m, mostly as a result of the non-renewal of policies for the car rental and leasing industry as it proved to be loss-making.

GWP decreased to SR235.6m in FY12 primarily driven by the decrease in motor premiums (by SR16.3m), medical premiums (by SR8.0m) and engineering premiums (by SR5.1m).

The major decrease in motor GWP over the period from FY10 to FY12 was due to pricing third party liability and comprehensive products above the market competitive price in order to comply with the actuary's pricing report. This temporarily drove Al Ahlia outside the market competition in motor insurance and led to loss of a portion of the motor insurance market share to competitors.

The decrease in medical GWP from FY11 to FY12 was also due to increased competition because of the higher pricing imposed by the compliance with the actuarial pricing reports while some of the competitors in the market did not completely comply with the prices fixed by their actuaries. As for the decrease in engineering GWP, it was mainly due to the reduction of commission granted to account managers and brokers from 22% to 15%, coupled with the treaty restrictions in 2011 and 2012 along with the market competition which had a significant impact on the engineering portfolio.

Medical and motor net earned premiums constituted together 94.8%, 95.2% and 94.6% of net earned premiums in FY10, FY11 and FY12 respectively.

Figure (6.8) Gross Written Premiums by Distribution Channels

GWP by distribution channel			
SR in 000s	FY10	FY11	FY12
Direct sales	59,633	10,414	154,461
Brokers/Agents	201,015	253,248	81,175
Total	260,648	263,662	235,636
As a % of total			
Direct sales	22.9%	3.9%	65.6%
Brokers	77.1%	96.1%	34.4%
Total	100.0%	100.0%	100.0%

Source: SAMA forms, other analysis

GWP by region			
SR in 000s	FY10	FY11	FY12
Western region	23,022	28,748	24,379
Eastern region	23,927	22,601	19,440
Central region	213,699	212,314	191,817
Total	260,648	263,662	235,636
As a % of total			
Western region	8.8%	10.9%	10.3%
Eastern region	9.2%	8.6%	8.3%
Central region	82.0%	80.5%	81.4%
Total	100.0%	100.0%	100.0%

Source: SAMA forms, other analysis

The Company's major distribution channel used to be through brokers/agents in FY10 and FY11 accounting for 77.1% and 96.1% of total GWP respectively. However in FY12, direct sales accounted for the majority of the business (65.6% of total GWP) due to the fact that business from account managers which used to be classified under the "brokers/agents" category in FY10 and FY11 was classified under direct sales in FY12. This is to abide by the auditors' recommendations and the SAMA regulations concerning the categorization of staff working under the Company's sponsorship.

Brokers/Agents category included account managers and various licensed brokers and agents in KSA in FY10 and FY11; however it included only licensed brokers and agents in FY12. Medical constituted the biggest portion of direct sales (74.7%) and broker/agent sales (97.6%) in FY12, followed by motor, representing 13.0% and 1.3% of direct sales and broker/agent sales respectively.

In Q1-FY12, 93.9% of sales came through brokers and agents and only 6.1% came through direct sales. However, direct sales comprised 80.1% of GWP in Q1-FY13 while brokers and agents comprised only 19.9%. The change in distribution channel concentration was due to the reclassification of GWP originating from account managers from brokers/agents to direct sales.

Approximately 80.5% to 82.0% of sales were concentrated in the central region throughout the period from FY10 to FY12.

6 - 5 - 3 Reinsurance

Figure (6.9): Premiums ceded by line of Business

Premiums ceded by line of business (including excess of loss premiums)						
SR in 000s	FY10	FY11	FY12	% FY10	% FY11	%FY12
Medical	64,952	67,509	58,537	66.9%	78.8%	79.5%
Motor	1,955	1,933	2,912	2.0%	2.3%	4.0%
Engineering	23,895	13,879	9,364	24.6%	16.2%	12.7%
Property (Fire)	2,625	1,642	2,022	2.7%	1.9%	2.7%
Marine	1,290	340	267	1.3%	0.4%	0.4%
Accident and liability	2,358	326	513	2.4%	0.4%	0.7%
Total	97,075	85,628	73,616	100.0%	100.0%	100.0%

Cession ratio by line of business (including excess of loss)						
	FY10	FY11	FY12			
Medical	38.9%	33.4%	30.1%			
Motor	3.5%	5.1%	13.8%			
Engineering	114.9%	94.1%	97.6%			
Property (Fire)	100.4%	99.2%	98.8%			
Marine	63.7%	74.1%	84.0%			
Accident and liability	19.0%	4.6%	6.1%			
Total	37.2%	32.5%	31.2%			
Retention rate	62.8%	67.5%	68.8%			

Source: SAMA forms, other analysis

The medical line of business, which is subject to a quota share treaty, witnessed a decrease in cession ratios from 38.9% in FY10 to 33.4% in FY11 and 30.1% in FY12 due to changes in the medical treaty terms in each year in addition to the fact that in FY10 Management agreed with the reinsurer to start applying the cession ratio on net risk premium instead of on GWP. The reinsurer's share as per the medical quota share treaty was at 65% in FY10, dropped to 50% in FY11 and then decreased further to 40% in FY12.

Cession ratios for the motor line of business are relatively lower ranging between 3.5% to 13.8% throughout the period under study, as motor is covered by an excess of loss treaty thus subject to Minimum Deposit Premiums (MDP). Motor cession ratio increased significantly in FY12 due to the fact that motor GWP decreased; however the MDP remained almost the same.

As for the engineering line of business, it is covered by a quota share and first surplus treaty in addition to the whole account excess of loss treaty. Engineering ceded premiums decreased from FY10 to FY12 driven by the decrease in engineering written premiums over the same period.

Reinsurers' Statement

Figure (6.10) Treaty List of Medical Reinsurers

Treaty list of medical reinsurers (QS treaty) – FY12		
Name of reinsurer	S&P rating	% Share
Mapfre Re	AA-	100.0%
Total		100.0%

Source: Management reports

Figure (6.11) Treaty List of Non-Medical Reinsurers

Treaty list of non-medical reinsurers (proportional treaties) – FY12						
Name of reinsurer	S&P rating	AM Best rating	% Share			
			Engineering	Fire	Marine cargo	General Accident
Hannover Re	-AA	A	25.0%	25%	25%	25%
Genarali	-AA		5.0%	5%	5%	5%
ACR	-A	-A	5.0%	5.0%	5.0%	5.0%
Sompo	-AA		5.0%	5.0%	5.0%	5.0%
Odyssey Re	-A		7.5%	7.5%	7.5%	7.5%
Mapfre Re	-AA	A	10.0%	10.0%	10.0%	10.0%
Korean Re	-A		10.0%	10.0%	10.0%	10.0%
Saudi Re	+BBB		7.5%	7.5%	7.5%	7.5%
ARIG		++B	5.0%	5.0%	5.0%	5.0%
Trust		-A	5.0%	5.0%	5.0%	5.0%
Kuwait Re		-A	2.5%	2.5%	2.5%	2.5%
GIC of India		-A	5.0%	5.0%	5.0%	5.0%
Africa Re	-A		5.0%	5.0%	5.0%	5.0%
Takaful Re	BBB		2.5%	2.5%	2.5%	2.5%
Total			100.0%	100.0%	100.0%	100%

Source: Management reports

Figure (6.12) Treaty list of non-medical reinsurers (excess of loss treaties) - FY12

Treaty list of non-medical reinsurers (excess of loss treaties) - FY12					
Name of reinsurer	S&P rating	AM Best rating	% Share		
			Motor	Medical malpractice	Whole account
ACR	-A		20.0%	0.0%	20.0%
MNRB Re Takaful		-A	15.0%	0.0%	0.0%
Genarali	-AA	-AA	5.0%	0.0%	0.0%
QBE	+A	+A	0.0%	0.0%	30.0%
Korean Re	-A		50.0%	0.0%	20.0%
Africa Re	-A		5.0%	0.0%	0.0%

Treaty list of non-medical reinsurers (excess of loss treaties) - FY12					
Name of reinsurer	S&P rating	AM Best rating	% Share		
			Motor	Medical malpractice	Whole account
Trust		-A	5.0%	20.0%	15.0%
IGI		-A	0.0%	50.0%	0.0%
GIC of India		-A	0.0%	30.0%	15.0%
Total			100.0%	100.0%	100.0%

Source: Management reports

Al Ahlia's risks are diversified over a number of reinsurers, all of which seem to have good credit ratings and stable outlooks with a minimum of BBB+ rating complying with SAMA regulations.

Proportional and non-proportional treaties along with facultative business are placed with this wide range of reinsurers.

6 - 5 - 4 Reinsurance commissions

Figure (6.13) Reinsurance Commission Earned

Reinsurance commission earned			
SR in 000s	FY10	FY11	FY12
Commission received	9,063	4,627	12,357
Change in unearned commission	(2,635)	1,617	843
Commission earned	6,428	6,244	13,200

Source: SAMA forms, other analysis

Reinsurance commission received by line of business						
SR in 000s	FY10	FY11	FY12	% FY10	% FY11	% FY12
Medical	-	1,521	10,371	0.0%	32.9%	83.9%
Motor	1	-	-	0.0%	0.0%	0.0%
Engineering	7,237	2,735	1,476	79.9%	59.1%	11.9%
Property (Fire)	597	259	409	6.6%	5.6%	3.3%
Marine	660	105	72	7.3%	2.3%	0.6%
Accident and liability	568	7	29	6.3%	0.2%	0.2%
Total	9,063	4,627	12,357	100.0%	100.0%	100.0%

Reinsurance commission received as a % of ceded premiums						
%	FY10	FY11	FY12			
Medical	0.0%	2.3%	17.7%			
Motor	0.1%	0.0%	0.0%			
Engineering	30.3%	19.7%	15.8%			
Property (Fire)	22.7%	15.8%	20.2%			
Marine	51.2%	30.9%	27.0%			
Accident and liability	24.1%	2.1%	5.7%			
Total	9.3%	5.4%	16.8%			

Source: SAMA forms, other analysis

Commission received includes both reinsurance commission and profit commission.

Reinsurance commission is received on business covered by proportional treaties including engineering, fire, marine cargo and general accident and excluding the medical line of business (no reinsurance commission is applicable for medical as per treaty terms). Commission income is also received from facultative business. Commission received as a percentage of ceded premiums is generally in line with treaty terms for each line of business in each year. Engineering commissions received as a percentage of ceded premiums decreased from 30.3% in FY10 to 15.8% in FY12 driven by the increase in facultative placements which are characterized by lower percentage commissions.

Profit commission is calculated for the medical line of business based on a sliding scale (percentage of profit) depending on the prevailing medical loss ratio in each year. This sliding scale ranged between 27.5% and 57.5% in FY10, between 30% and 60% of profit in FY11, FY12 and FY13 as per treaty terms. Medical profit commissions increased significantly from SR1.5m in FY11 to SR10.4m in FY12 as the amount in FY12 represents profit commission for 2 years (FY10 and FY11) given that FY11 profit commission was well estimable and probable at 31 December 2012.

As for engineering and marine, profit commission was calculated as 20% of combined quota share and surplus net results in FY10, however no profit commission was applicable for FY11 and FY12 as per treaty terms. The general accident line of business was subject to a profit commission of 22.5% of combined quota share and surplus net results in FY10, no profit commission was applicable in FY11 and FY12 as per treaty terms. As for motor (covered by an excess of loss treaty) and fire (covered by a quota share and surplus treaty) no profit commission was applicable as per the respective treaty terms.

6 - 5 - 5 Claims

Figure (6.14) Net Claims Incurred By Line of Business

Net claims incurred by line of business						
SR in 000s	FY10	FY11	FY12	Net loss ratio FY10	Net loss ratio FY11	Net loss ratio FY12
Medical	18,618	46,587	55,455	28.9%	35.6%	40.8%
Motor	20,708	44,391	22,145	65.9%	93.4%	80.8%
Engineering	61	107	(34)	(12.1%)	10.6%	(13.0%)
Property (Fire)	25	(148)	(3)	64.1%	(510.3%)	(5.9%)
Marine	222	64	(56)	35.1%	22.5%	(164.7%)

Net claims incurred by line of business						
SR in 000s	FY10	FY11	FY12	Net loss ratio FY10	Net loss ratio FY11	Net loss ratio FY12
Accident and liability	795	2,036	3,135	15.5%	26.5%	35.3%
Total	40,429	93,037	80,642	40.0%	49.7%	46.7%
As a % of total						
Medical	46.1%	50.1%	68.8%			
Motor	51.2%	47.7%	27.5%			
Engineering	0.2%	0.1%	(0.0%)			
Property (Fire)	0.1%	(0.2%)	(0.0%)			
Marine	0.5%	0.1%	(0.1%)			
Accident and liability	2.0%	2.2%	3.9%			
Total	100.0%	100.0%	100.0%			

Source: SAMA forms, other analysis

Gross claims paid by line of business						
SR in 000s	FY10	FY11	FY12	% FY10	% FY11	% FY12
Medical	49,018	91,654	100,842	75.2%	66.7%	76.5%
Motor	14,360	43,048	28,780	22.0%	31.3%	21.8%
Engineering	35	509	1,410	0.1%	0.4%	1.1%
Property (Fire)	1,679	1,740	238	2.6%	1.3%	0.2%
Marine	18	314	98	0.0%	0.2%	0.1%
Accident and liability	82	70	422	0.1%	0.1%	0.3%
Total	65,192	137,335	131,790	100.0%	100.0%	100.0%

Gross claims paid by geographical region						
SR in 000s	FY10	FY11	FY12	% FY10	% FY11	% FY12
Western region	4,478	5,710	18,827	6.9%	4.2%	14.3%
Eastern region	3,185	8,436	25,775	4.9%	6.1%	19.6%
Central region	57,529	123,189	87,188	88.2%	89.7%	66.2%
Total	65,192	137,335	131,790	100.0%	100.0%	100.0%

Gross claims paid by distribution channel						
SR in 000s	FY10	FY11	FY12	% FY10	% FY11	% FY12
Direct sales	12,321	25,501	94,612	18.9%	18.6%	71.8%
Brokers/Agents	52,871	111,834	37,178	81.1%	81.4%	28.2%
Total	65,192	137,335	131,790	100.0%	100.0%	100.0%

Source: SAMA forms, other analysis

Overall net loss ratio increased in FY11 reaching 49.7%, mostly driven by the increase in net loss ratio of the motor line of business (from 65.9% to 93.4%) as a result of non-profitable underwriting in FY10 (sale of underpriced policies to the car rental and leasing industry which turned out to be considerably loss-making and resulted in a larger volume of claims paid and incurred in FY11).

The overall net loss ratio decreased to 46.7% in FY12 driven primarily by the significant decrease in net loss ratio of the motor line of business (from 93.4% in FY11 to 80.8% in FY12) resulting from the fact that the motor portfolio had already been cleansed from major loss-making accounts and the remaining retained portfolio was relatively healthier given also that policies were appropriately priced (motor prices were higher than market in FY12) to match the corresponding risks based on the actuary pricing report.

The negative SR0.15m of fire incurred claims in FY11 was due to a decrease in the net outstanding claims provision primarily as a result of subsequent payment of a claim amounting to SR1.8m in FY11. Similarly, the negative SR0.03m in engineering and negative SR0.06m in marine net claims incurred was a result of the major decrease in net outstanding claims due to the payment in FY12 of two major claims in each of engineering and marine line of business amounting to SR0.6m and SR0.07m respectively which were outstanding since FY11.

The increase in total claims paid from SR65.2m in FY10 to SR137.3m in FY11 resulted primarily from the increase in medical and motor claims paid. Medical claims paid increased mainly due to the growth in medical gross premiums by 21.2% in addition to the increase in the volume and number of claims reported from FY10 to FY11.

Motor claims paid increased as a result of the sale of inappropriately priced policies in FY10 to the car rental and leasing industry which turned out to be considerably loss-making and resulted in a relatively considerable volume of claims paid in FY11.

The decrease in total claims paid from SR137.3m in FY11 to SR131.8m in FY12 was mostly driven by the decrease in gross motor claims paid from SR43.0m to SR28.8m over the same period mainly due to the decrease in motor business over the same period, coupled with the fact that the motor portfolio became healthier by getting rid of major loss-making accounts. The decrease in motor claims paid was slightly offset by the increase in medical claims paid due to the acceleration of the medical claims settlement process through i*Care 2 with Globe Med and the general increase in healthcare provider costs in KSA.

Gross claims paid were mostly originating from KSA's Central region in each of FY10, FY11 and FY12 reflecting the concentration of the Company's business in that region which accounted for 82.0%, 80.5% and 81.4% of total gross written premiums respectively.

Circa 81% of gross claims paid in FY10 and FY11 related to policies underwritten by brokers/agents as per SAMA forms. The shift in concentration of claims from brokers/agents in FY10 and FY11 to direct sales in FY12 was due to the fact that business from account managers which used to be classified under the "brokers/agents" category in FY10 and FY11 was classified under direct sales in FY12 to comply with SAMA regulations.

Figure (6.15) Claims Paid vs. Claims Recovered

Claims paid vs. claims recovered in FY12							
SR in 000s	Medical	Motor	Engineering	Property (Fire)	Marine	Accident & liability	Total
Gross claims paid	100,842	28,780	1,410	238	98	422	131,790
Gross claims recovered	48,120	3,642	1,346	214	70	55	53,447
Claims recovery ratio	47.7%	12.7%	95.5%	89.9%	71.4%	13.0%	40.6%

Source: SAMA forms, other analysis

Approximately 47.7% of medical claims paid were recovered from reinsurers in FY12, mainly driven by the reinsurance share 40% as per the medical quota share treaty for FY12 (50% reinsurance share as per the medical quota share treaty for FY11).

Gross claims paid for motor amounted to SR28.8m, of which only SR3.6m was recovered, representing 12.7% of total gross claims paid. This is due to the excess of loss treaty for motor policies, where a bigger portion of claims fell within the excess of loss priority (i.e. within the Company's retention limit).

Gross claims recovered (reinsurance share of claims paid) for the engineering line of business amounted to 95.5% whereas reinsurance share as per treaty terms was between 60% and 75% depending on the engineering sub-line of business. Also for property it amounted to 89.9% while reinsurance share was at 50% as per the property treaty for FY12. These variances are mainly due to facultative business in both lines of service characterized with relatively higher reinsurance shares (cession rates).

As for accident & liability, the gross claims paid were in the medical mal practice business and thus most of them fell within the Company's retention limit of SR100k per claim as per the medical mal practice excess of loss treaty.

6 - 5 - 6 Commission expense

Figure (6.16) Commission Incurred

Commission incurred						
SR in 000s	FY10	FY11	FY12			
Commission paid	30,812	33,210	19,109			
Change in deferred policy acquisition cost	(12,812)	3,050	5,954			
Commission incurred	18,000	36,260	25,063			
Key ratio						
Commission paid as a % of GWP	11.8%	12.6%	8.1%			
Commission paid						
SR in 000s	FY10	FY11	FY12	FY10 as a % of GWP	FY11 as a % of GWP	FY12 as a % of GWP
Medical	16,722	22,948	14,181	10.0%	11.3%	7.3%
Motor	9,821	7,060	2,440	17.5%	18.8%	11.6%
Engineering	2,476	2,037	1,158	11.9%	13.8%	12.1%
Property (Fire)	223	152	164	8.5%	9.2%	8.0%
Marine	297	63	43	14.7%	13.7%	13.5%
Accident and liability	1,273	950	1,123	10.3%	13.5%	13.4%
Total	30,812	33,210	19,109	11.8%	12.6%	8.1%
As % of total						
Medical	54.3%	69.1%	74.2%			
Motor	31.9%	21.3%	12.8%			
Engineering	8.0%	6.1%	6.1%			

Commission paid						
SR in 000s	FY10	FY11	FY12	FY10 as a % of GWP	FY11 as a % of GWP	FY12 as a % of GWP
Property (Fire)	0.7%	0.5%	0.9%			
Marine	1.0%	0.2%	0.2%			
Accident and liability	4.1%	2.9%	5.9%			

Source: SAMA forms, Management reports, other analysis

Commission rates for agents and brokers are agreed on a case by case basis. However starting November 2011, Al Ahlia began implementing the new SAMA regulation for commission paid, where commission rates should not exceed 15% of premiums for all lines of business except for compulsory motor, compulsory health insurance where commissions should not exceed 8% and comprehensive health insurance should not exceed 10% as per SAMA's requirements published in 2011.

Commission paid increased by SR2.4m from FY10 to FY11 primarily due to the increase in medical GWP over the same period.

Commissions paid to various channels decreased considerably from SR33.2m in FY11 to SR19.1m in FY12 (from 12.9% to 8.1% of GWP) driven by the decrease in premiums in most lines of business over the same period with total GWP decreasing by 10.6%, coupled with the full implementation of limitations on commission percentages to be paid as required by SAMA especially on the medical small group category (which constitutes the majority of the Company's business) where the maximum allowed commission as per SAMA was 8%.

The increase in commission incurred from FY10 to FY11 reaching SR36.3m was mostly driven by the growth in medical GWP. Commission incurred decreased from SR36.3m in FY11 to SR25.1m in FY12 driven by the decrease in commissions paid as mentioned above, slightly offset by the decrease in Deferred Acquisition Cost ("DAC").

6 - 5 - 7 Claim handling fees

Figure (6.17): Claim Handling Fees Incurred

Claim handling fees incurred			
SR in 000s	FY10	FY11	FY12
Claim handling fees paid	13,718	15,409	7,439
Change in prepaid claim handling fees	(6,208)	1,485	1,687
Claim handling fees incurred	7,510	16,894	9,126
Key ratio	(26,420)		
Claim handling fees paid as a % of medical GWP	8.2%	7.6%	3.8%

Source: Management reports, other analysis

Claim handling fees represent the TPA fees for the medical line of business. Al Ahlia's medical TPA in each of FY10, FY11 and FY12.

Claim handling fees incurred have been reclassified in FY10, FY11 and FY12 from policy acquisition costs based on the Company's auditors' recommendations.

As per Management, TPA fees are calculated against GWP, and changes in claim handling fees incurred over the period from FY10 to FY12 are driven by the changes in percentages agreed with Globe Med over the 3 years under analysis, which were as follows:

- FY10 and up to 31 March 2011: small group at 9.0% and corporate at 7.0%;
- From 1 April 2011 to 31 December 2011: 6.0% for both products; and
- From 1 January 2012 to 31 December 2015: 4% for both products.

6 - 5 - 8 General and administrative expenses

Figure (6.18): General & Administrative Expense

Breakdown of general and administrative expenses												
SR in 000s	PH	SH	FY10	% FY10	PH	SH	FY11	% FY11	PH	SH	FY12	% FY12
Salaries and benefits	28,942	-	28,942	57.6%	30,927	-	30,927	60.5%	31,183	-	31,183	62.1%
End of service benefit	1,476	-	1,476	2.9%	1,454	-	1,454	2.8%	1,518	-	1,518	3.0%
GOSI	666	-	666	1.3%	868	-	868	1.7%	1,217	-	1,217	2.4%
Travel and business transportation	738	-	738	1.5%	391	-	391	0.8%	696	-	696	1.4%
Marketing, advertising and promotion	2,017	-	2,017	4.0%	1,522	-	1,522	3.0%	798	-	798	1.6%
Stationary and printing	1,029	-	1,029	2.0%	741	-	741	1.4%	655	-	655	1.3%
Professional and license fees	5,104	-	5,104	10.2%	4,710	-	4,710	9.2%	2,168	-	2,168	4.3%
Occupancy cost (rent, lease of office space)	1,749	-	1,749	3.5%	2,192	-	2,192	4.3%	3,056	-	3,056	6.1%
Supervision and inspection costs	2,952	-	2,952	5.9%	3,166	-	3,166	6.2%	3,019	-	3,019	6.0%
Utilities and maintenance	3,111	-	3,111	6.2%	2,626	-	2,626	5.1%	2,588	-	2,588	5.2%
Depreciation	1,423	-	1,423	2.8%	1,620	-	1,620	3.2%	1,256	-	1,256	2.5%
Other expenses	670	389	1,059	2.1%	578	355	933	1.8%	1,772	294	2,066	4.1%
Total	49,877	389	50,266	100.0%	50,796	355	51,151	100.0%	49,927	294	50,221	100.0%
Key ratio												
Total G&A as a % of GWP	19.3%			19.4%			21.3%					

Source: Audited financial statements, other analysis

The G&A expense ratio as a percentage of GWP increased from 19.3% in FY10 to 21.3% in FY12 mainly due to the decrease in gross written premiums over the same period.

Employees' salaries and related expenses constituted the majority of the Company's G&A expenses in each of FY10, FY11, FY12 representing 57.6%, 60.5%, 62.1% respectively of total general and administrative expenses.

No major changes in staff costs took place from FY11 to FY12 as the restructuring of the business, the increase in the salaries scale and the major increase in the total number of employees (+134 employees) to support business growth were all already done in FY10.

Employees' salaries and benefits slightly increased from FY11 to FY12 driven by the increase in total number of employees from 215 to 218 coupled with the increase in wages following a salary review performed in FY12.

Professional fees, comprising 10.2%, 9.2%, 4.3% and 5.9% of total G&A in FY10, FY11 and FY12 respectively included fees for external auditors, outsourced internal auditors, financial and legal consultants and actuaries. Professional fees decreased from SR5.1m in FY10 to SR2.2m in FY12 mainly due to the capitalization of a portion of those fees corresponding to the due diligence, financial and legal advisors in regards of the support provided for the planned rights issue exercise.

Rent expenses (occupancy cost) increased from SR1.7m in FY10 to SR3.1m in FY12 due to the rental of new office space in Jeddah and new separate offices for motor claims in Riyadh and Khobar in FY11 and the rental of new medical insurance offices on King Abdullah Road in Riyadh in August 2012.

6 - 6 Balance sheets

Figure (6.19): Balance Sheet

SAR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited
Insurance operations' assets			
Cash and cash equivalents	96,524	125,132	101,348
Net accounts receivable	47,607	24,675	27,125
Reinsurers' share of unearned premiums	54,494	36,834	31,448
Reinsurers' share of outstanding claims	7,514	24,179	22,321
Deferred acquisition costs	17,240	14,188	8,235
Prepayments and other assets	10,533	9,840	10,304
Due from shareholders' operations	13,365	16,171	7,529
Property and equipment	3,584	2,677	4,550
Total insurance operations' assets	250,861	253,695	212,859
Shareholders' assets			
Cash and cash equivalents	715	41,332	41,438
Investments at fair value through income	53,340	-	-
Due from related parties	-	-	2,042
Statutory deposit	10,040	10,065	10,125
Other assets	-	2	1,110
Total shareholders' assets	64,096	51,399	54,715
Total assets	314,956	305,094	267,574
Insurance operations' liabilities			
Reinsurance balances payable	50,596	48,276	16,603
Gross unearned premiums	140,308	113,416	97,438
Unearned reinsurance commission	4,232	2,615	1,772
Gross outstanding claims	23,386	53,630	54,071
Accrued surplus distribution	-	-	1,517
Accounts payable, accrued expenses and other liabilities	32,339	35,758	41,458
Accumulated surplus	-	-	-
Total insurance operations' liabilities	250,861	253,695	212,859

SAR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited
Shareholders' liabilities			
Zakat and taxation payable	1,166	896	2,567
Due to related parties	11,096	1,599	-
Due to insurance operations	13,365	16,171	7,529
Other liabilities	40	72	132
Total shareholders' liabilities	25,667	18,738	10,228
Shareholders' equity			
Share capital	100,000	100,000	100,000
Accumulated losses	(61,572)	(67,339)	(55,513)
Total shareholders' equity	38,428	32,661	44,487
Total shareholders' equity and liabilities	64,096	51,399	54,715
Total insurance operations' liabilities and shareholders' equity and liabilities	314,956	305,094	267,574

Source: Audited financial statements

Policyholders' assets comprised 79.6% of total assets as at 31 December 2012 (83.2% in 2011) with policyholders' cash and cash equivalents amounting to 37.9% of total assets (41.0% in 2011), premium receivables amounting to 10.1% (8.1% in 2011), reinsurers' share of unearned premiums at 11.8% (12.1% in 2011) and reinsurers' share of outstanding claims amounting to 8.3% (7.9% in 2011).

Policyholders' cash and cash equivalents increased from SR96.5m in 2010 to SR125.1m as at 31 December 2011 as a result of the improvement in premium collection in 2011 and the transfer of SR12m from investments at fair value through income to policyholders' cash and cash equivalents. It decreased in 2012 to SR101.3m mainly due to the decrease in small group premiums in medical and motor which are typically cash based sales.

In 2011, the Company sold all its investments at fair value through income in order to enhance its solvency position. SR41.3m of the proceeds of the sale was transferred to shareholders' cash and cash equivalents and the remaining was transferred to policyholders' cash and cash equivalents.

Premium receivables decreased from SR47.6m as at 31 December 2010 to SR24.7m at 31 December 2011, mainly due to the Company's focus on retail business and the improvement in collection efforts. Premiums receivable slightly increased to SR27.1m at 31 December 2012 mainly because the Company gained 2 major corporate clients in FY12; Al Fayha in motor insurance (c. SR1.5m of premiums in FY12) and Al Rashed in medical insurance (c. SR3m of premiums in FY12) whose sales are on credit.

Gross outstanding claims and IBNR increased from SR23.4m as at 31 December 2010 to SR53.6m as at 31 December 2011 due to SR78.8m of additional declared claims in FY11, out of which only SR65.2m were paid in cash in FY11. Gross outstanding claims and IBNR remained relatively stable as at 31 December 2012 primarily driven by the general decrease in declared claims in FY12 resulting from the decrease in business.

Consequently, reinsurance share of outstanding claims and IBNR increased from SR7.5m as at 31 December 2010 to SR24.2m as at 31 December 2011 and slightly decreased to SR22.3m as at 31 December 2012.

Gross Unearned Premium Reserve ("UPR") decreased from SR140.3m as at 31 December 2010 to SR113.4m in 2011 then to SR97.4m as at 31 December 2012 mostly as a result of a decrease in motor UPR in line with the decrease in motor written premiums due to decrease in underwritten premiums of this business during the period from 2010 to 2012 and due to decrease in unearned premiums reserve during the period from 31 December 2012 to 31 December 2013 which is in consistent with the decrease in underwritten medical premiums.

Consequently reinsurers' share of unearned premiums dropped from SR54.5m as at 31 December 2010 to SR 36.8 m in 31 December 2011 then to SR31.4m as at 31 December 2012.

As per Management, the Company does not hold any debt instruments (whether issued or outstanding, authorized or otherwise created but unissued), or any other term loans. Thus Al Ahlia does not have any borrowings or debt as at 31 December 2010, 2011 and 2012. Moreover, the Company does not have any mortgages over the same period.

As per Management, the Company does not have any contingent liabilities or guarantees as at 31 December 2010, 2011 and 2012 other than what is disclosed in the Company's audited financial statements for the years ended 31 December 2010 , 2011 and 2012.

6 - 6 - 1 Cash and cash equivalents

Figure (6.20): Cash and Cash Equivalents Shareholders' Operations

Cash and cash equivalents shareholders' operations						
SR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited	2010	2011	2012
Cash at bank	715	1,327	341	100.00%	3.21%	0.82%
Short term deposits	-	40,004	41,097	0.00%	96.79%	99.18%
Total	715	41,332	41,438	100%	100%	100%

Cash and cash equivalents policyholders' operations						
SR in 000s	31-Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited	%		
				2010	2011	2012
Cash at bank	31,514	32,124	2,348	32.6%	25.7%	2.3%
Short term deposits	65,009	93,008	99,000	67.4%	74.3%	97.7%
Total	96,524	125,132	101,348	100%	100%	100%

Statutory deposits						
SR in 000s	31-Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited			
Statutory deposits	10,040	10,065	10,125			
Total	10,040	10,065	10,125			

Source: Audited financial statements

Total shareholders' cash increased from SR0.72m at 31 December 2010 to SR41.3m at 31 December 2011 and remained relatively stable at 31 December 2012 due to the sale of investments in FY11. During FY11, the Company sold all its investments at fair value through income in order to increase its solvency and admitted assets. SR40m of the proceeds of the sale were transferred to shareholders' short term deposits, SR1.3m were transferred to shareholders' cash at bank and the remaining SR12m were transferred to policyholders' short term deposits.

Short term deposits represented 96.8% and 99.2% of the total cash in banks for shareholders operations as at 31 December 2011 and 2012 respectively whereas short term deposits for shareholders' operations were nonexistent as at 31 December 2010.

Shareholders' cash and cash equivalents were 100% deposited in NCB for the years from 2010 to 2012.

Policyholders' cash and cash equivalents increased from SR96.5m in 2010 to SR125.1m as at 31 December 2011 as a result of the improvement in premium collection in 2011 and the transfer of SR12m from investments at fair value through income to policyholders' cash and cash equivalents. It decreased in 2012 to SR101.3m mainly due to the decrease in small group premiums in medical and motor which are typically cash based sales in addition to the accelerated medical claim payments resulting from the improvement of the medical claims settlement process.

Policyholders' cash at bank was deposited at Al Rajhi Bank for the years 2010 to 2012. Short term deposits were held at Al Rajhi Bank in 2010 and 2011 and were transferred to Saudi Fransi Bank in 2012 as they provided slightly better interest yields.

Statutory deposits are initially set at 10% of minimum capital. In FY09, SAMA authorized Al Ahlia to invest the deposit in a local mutual fund with NCB. The fair market value of the fund as at 31 December 2012 amounted to SR10.125m as compared to SR10.065m at 31 December 2011 and SR10.04m as of 31 December 2010.

6 - 6 - 2 Premiums and insurance balances receivable

Figure (6.21): Premiums and Insurance Balances Receivable

Premiums and insurance balances receivable						
SAR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited			
Gross premiums & insurance balances receivable	55,465	34,385	43,516			
Provision for doubtful debts	(7,858)	(9,710)	(16,391)			
Net premiums & insurance balances receivable	47,607	24,675	27,125			
Key ratios						
Gross written premiums	260,648	263,662	235,636			
Average gross receivables/GWP	19.5%	17.0%	16.5%			
Days premiums outstanding	71	62	60			
Collection period (in months)	2.3	2.0	2.0			
Calculation of provision for doubtful debts - 31 December 2012						
SAR in 000s	Not Due yet + Overdue for less than 90 days	Overdue for 90 to 180 days	Overdue for 180 to 360 days	Overdue for more than 360 days	Disputed and Uncollectible Receivables	Total
Gross premiums & insurance balances receivable	9,013	9,043	8,580	15,957	922	43,515
Provision for doubtful debts %	0%	15%	25%	75%	100%	
Provision for doubtful debts	-	1,356	2,145	11,968	922	16,391

Source: Audited financial statements, SAMA forms, other analysis

SAMA issued a new declaration effective 1 January 2011 stating that premiums receivable become fully due upon the policy inception date. In addition, the provision of doubtful receivables should be calculated on the balances that are due for more than 90 days based on the percentages stated in the Implementing Regulations.

Al Ahlia was already in compliance and had already started applying this new method of provisioning which is based on the inception date, since November 2010. As a result, the provision for doubtful debts did not witness any major increase (slight increase from SR7.8m as at 31 December 2010 to SR9.7m as at 31 December 2011). However, it increased to SR16.4m as at 31 December 2012 primarily due to the increase in balances overdue for more than 360 days which are 75% provided for, resulting from the decreased follow-up on collections as the collections department at Al Ahlia was not fully operational until January 2013, coupled with the increase in outstanding receivables from one of the major brokers who passed away, in addition to disputed balances of c. SR922k due from another major broker which are 100% provided for.

Gross premiums receivable reached SR34.4m at 31 December 2011 compared to SR55.5m at 31 December 2010 due to an increase in retail business (small groups) versus corporate accounts. Retail business involves mostly cash based sales, whereas corporate business/accounts are usually characterized by increased credit facilities and thus higher receivable balances. However, it increased to SR43.5m as at 31 December 2012 due to decreased collection efforts and gaining 2 major corporate clients in FY12; Al Fayha in motor insurance (c. SR1.5m of premiums in FY12) and Al Rashed in medical insurance (c. SR3m of premiums in FY12) whose sales are mostly on credit.

Another reason for the decrease in receivables from 2010 to 2011 was Management's increased efforts to improve collection in 2011 and to follow up with clients through various distribution channels. It is of note that a dedicated collections department was established in FY11 within the sales department for that purpose. These measures were taken to enhance collection and lessen the provision for doubtful receivables going forward; however the collections department did not become fully operational until January 2013 as mentioned above.

6 - 6 - 3 Deferred policy acquisition costs

Figure (6.22): Premiums and Insurance Balances Receivable

SR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited
Deferred acquisition costs at beginning of year	4,428	17,240	14,188
Commission paid during the year	30,812	33,209	19,110
Comission expense incurred during the year	(18,000)	(36,260)	(25,063)
Deferred acquisition costs at end of year	17,240	14,188	8,235
Key ratio			
DAC/Commission paid during the year	56.0%	42.7%	43.1%

Source: Audited financial statements, other analysis

Deferred acquisition costs				%		
SR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited	2010	2011	2012
Medical	8,156	9,089	5,293	47.3%	64.1%	64.3%
Motor	5,796	2,668	847	33.6%	18.8%	10.3%
Engineering	1,955	1,311	988	11.3%	9.2%	12.0%
Property	86	35	64	0.5%	0.2%	0.8%
Marine	89	5	41	0.5%	0.0%	0.5%
Accident and liability	1,158	1,080	1,002	6.7%	7.6%	12.2%
total	17,240	14,188	8,235	100%	100%	100%

DAC / commission paid by line of business						
%	31-Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited			
Medical	48.8%	39.6%	37.3%			
Motor	59.0%	37.8%	34.7%			
Engineering	79.0%	64.4%	85.3%			
Property	38.6%	23.0%	39.0%			
Marine	30.0%	7.9%	95.3%			
Accident and liability	91.0%	113.7%	89.2%			
Total	56.0%	42.7%	43.1%			

Source: SAMA forms, other analysis

Deferred Acquisition Costs (“DAC”) throughout the period under analysis were computed according to the pro-rata temporize method based on commissions paid for all lines of business except for marine where DAC is calculated by applying a fixed percentage of 25% to marine commissions. DAC was generally changing in line with the changes in gross written premiums and the unearned premiums revenue from 2010 to 2012.

Medical contributed to 64.3% of total DAC as at 31 December 2012, followed by motor insurance at 12.2%, and engineering at 12.0% (As of 31 December 2011 the medical was 61.4% followed by motors 18.8% and engineering 9.2%).

The ratio of DAC to commission paid decreased from 56.0% as at 31 December 2010 to c. 43% as at 31 December 2011 and 2012, in line with the decrease in the ratio of UPR to GWP for almost all lines of business. The significant increase in engineering and marine DAC to commission paid percentage at 31 December 2012 is primarily due to some new business gained in these two lines of business at year-end.

6 - 6 - 4 Outstanding claims, IBNR, and reinsurance share of outstanding claims and IBNR

Figure (6.23): Outstanding Claims, IBNR & Reinsurance Share of Outstanding Claims & IBNR

Net outstanding claims and IBNR			
SR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited
Gross Outstanding claims (excluding IBNR):			
At beginning of year	6,303	18,338	29,382
Change during the year	12,035	11,044	(2,786)
Gross outstanding claims at year-end (excluding IBNR)	18,338	29,382	26,596
Gross IBNR:			
At beginning of year	3,423	5,048	24,248
Change during the year	1,625	19,200	3,227
Gross IBNR at year-end	5,048	24,248	27,475
Gross outstanding claims and IBNR	23,386	53,630	54,071

Net outstanding claims and IBNR			
SR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited
RI share of outstanding claims (excluding IBNR):			
At beginning of year	3,005	7,514	13,859
Change during the year	4,509	6,345	(4,738)
RI share of OS claims at year-end (excluding IBNR)	7,514	13,859	9,121
RI share of IBNR:			
At beginning of year	-	-	10,320
Change during the year	-	10,320	2,880
RI share of IBNR at year-end	-	10,320	13,200
RI share of outstanding claims and IBNR	7,514	24,179	22,321
Net outstanding claims (excluding IBNR)	10,824	15,523	17,475
Net IBNR	5,048	13,928	14,275
Net outstanding claims and IBNR	15,872	29,451	31,750

Source: Audited financial statements, other analysis

Net outstanding claims and IBNR increased from SR15.9m as at 31 December 2010 to SR31.8m as at 31 December 2012, mainly driven by a SR30.7m increase in gross outstanding claims and IBNR over the same period.

Gross outstanding claims (excluding IBNR) increased from SR18.3m as at 31 December 2010 to SR26.6m at 31 December 2012 slightly offset by an increase in reinsurance share of outstanding claims excluding IBNR which reached a balance of SR9.1m as at 31 December 2012, resulting in an overall increase in net outstanding claims (excluding IBNR) by SR6.6m reaching a balance of SR17.5m as at 31 December 2012.

Figure (6.24): Outstanding Claims and Reinsurance Share by Line of Business (Excluding IBNR)

Outstanding claims and reinsurance share of OS claims by line of business (excluding IBNR)						
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12	2010	2011	2012
Medical	5,891	13,437	12,793	32.1%	45.7%	48.1%
Motor	8,221	9,038	6,447	44.8%	30.8%	24.2%
Engineering	538	3,186	1,895	2.9%	10.8%	7.1%
Property	2,221	286	31	12.1%	1.0%	0.1%
Marine	480	375	177	2.6%	1.3%	0.7%
Accident and liability	987	3,060	5,253	5.4%	10.4%	19.8%
Gross outstanding claims	18,338	29,382	26,596	100.0%	100.0%	100.0%
Medical	3,970	7,269	5,313	52.8%	52.4%	58.3%
Motor	608	2,428	1,328	8.1%	17.5%	14.6%
Engineering	501	3,060	1,850	6.7%	22.1%	20.3%
Property	1,968	261	30	26.2%	1.9%	0.3%
Marine	295	234	106	3.9%	1.7%	1.2%
Accident and liability	172	607	494	2.3%	4.4%	5.4%
RI share of outstanding claims	7,514	13,859	9,121	100%	100%	100%
Medical	67.4%	54.1%	41.5%			
Motor	7.4%	26.9%	20.6%			
Engineering	93.1%	96.0%	97.6%			
Property	88.6%	91.3%	96.8%			
Marine	61.5%	62.4%	59.9%			
Accident and liability	17.4%	19.8%	9.4%			
RI OS claims / gross OS claims	41.0%	47.2%	34.3%			

Source: SAMA forms, other analysis

Gross outstanding claims were the highest in medical and motor insurance, reaching SR 12.8m and SR6.5m as at 31 December 2012 (SR13.4m and SR9.0 m as at 31 December 2011), representing 48.1% and 24.2% of total outstanding claims (45.7% and 30.8% as at 31 December 2011) respectively, followed by accident and liability at 19.8% of total outstanding claims as at 31 December 2012 (followed by engineering 10.8% as at 31 December 2011).

Medical and engineering reinsurance share of outstanding claims constituted 78.6% as at 31 December 2012 (75% in 2011) of total reinsurance share of outstanding claims followed by motor at 14.6% (17.5% in 2011) as motor is covered by an excess of loss treaty.

Medical gross outstanding claims increased from SR5.9m at 31 December 2010 to SR13.4m at 31 December 2011 driven by the growth in medical business and thus the increase in number of medical claims reported over the same period. Medical outstanding claims slightly decreased to SR12.8m at 31 December 2012 mainly as a result of the

increase in medical claims paid versus outstanding due to the acceleration of the medical claims settlement process through i*Care 2 with Globe Med.

Despite the slight increase in motor outstanding claims from 2010 to 2011, motor reinsurance share of outstanding claims increased considerably from SR608k as at 31 December 2010 to SR2.4m as at 31 December 2011, which is mainly due to an increase in the number of claims reported which individually exceeds SR0.15m (the excess of loss limit).

Engineering outstanding claims increased from SR0.54m as at 31 December 2010 to SR3.2m as at 31 December 2011 as a result of one major claim to Construction Engineering and Industrial Progress Company amounting to SR1m (98% reinsured).

Motor and engineering outstanding claims decreased to SR6.4m as at 31 December 2011 and SR1.9m as at 31 December 2012 respectively primarily due to the decrease in business which lead for instance to a major decrease in number of motor claims from 9.0k in FY11 to 5.1k in FY12.

Property gross outstanding claims decreased from SR2.2m as at 31 December 2010 to SR0.3m as at 31 December 2011 and SR0.03 at 31 December 2012 primarily as a result of subsequent payment in 2011 of a major claim amounting to SR1.8m with no new major claims arising in 2012.

Accident & liability gross outstanding claims increased from SR1m as at 31 December 2010 to SR3.1m as at 31 December 2011 due to increase in claims frequency and severity in medical malpractice in FY11. It increased to SR5.3m as at 31 December 2012 mainly due to the medical mal-practice blood money compensation which was increased by the regulatory authorities from SR100k to SR300k at the end of 2011.

Figure (6.25): Net IBNR by Line of Business

Net IBNR by line of business						
				As % of total		
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12	2010	2011	2012
Medical	3,417	9,380	10,800	67.7%	67.3%	75.7%
Motor	1,386	4,000	2,500	27.5%	28.7%	17.5%
Engineering	7	25	9	0.1%	0.2%	0.1%
Property	38	4	-	0.8%	0.0%	0.0%
Marine	37	28	14	0.7%	0.2%	0.1%
Accident and liability	163	491	952	3.2%	3.5%	6.7%
Total IBNR by LoS	5,048	13,928	14,275	100.0%	100.0%	100.0%

Source: SAMA forms, other analysis

Net IBNR is calculated by the Company on the basis of net outstanding claims multiplied by a percentage specific to each line of business, as per Article 69 of SAMA's "Implementing Regulations" which states minimum IBNR reserves per line of business. Subsequent ad-hoc reserving is added based on Management's assessment and the actuary's recommendations.

Net IBNR increased significantly in 2011 due to compliance with SAMA regulations implemented by the Company's new management. As at 31 December 2011 and 2012, the Company was more conservative when estimating net IBNR and accounted for IBNR for all lines of business based on the actuary assessment which is in excess of SAMA minimum requirements.

The highest net IBNR was recorded for medical, with SR10.8m representing 75.7% of total net IBNR as at 31 December 2012 (2011: SR9.4m representing 67.3% of total net IBNR), followed by motor with SR2.5m representing 17.5% of total net IBNR (2011: SR4.0m representing 28.7%). Both businesses represented together the majority of recorded IBNR reserves (93.2% of total) as at 31 December 2012 (2011: 96.0%).

6 - 6 - 5 UPR and reinsurance share of UPR

Figure (6.26): Unearned Premiums and Reinsurance Share of UPR by Line of Business

Unearned premium and reinsurance share of UPR by line of business			
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12
Medical	82,031	75,526	72,723
Motor	30,279	13,622	7,264
Engineering	15,391	10,329	7,729
Property	906	465	603
Marine	547	32	280
Accident and liability	11,153	9,442	7,746
Total UPR (excluding PDR)	140,308	109,416	96,345
PDR	-	4,000	1,093
Total UPR (including PDR)	140,308	113,416	97,438
Medical	35,966	25,503	23,050
Motor	822	70	-
Engineering	14,771	9,853	7,283
Property	814	389	553
Marine	369	21	253
Accident and liability	1,752	998	309
Total RI share of UPR	54,494	36,834	31,448
UPR (excluding PDR)/GWP			
Medical	49.2%	37.4%	37.5%
Motor	54.1%	36.3%	34.4%
Engineering	74.0%	70.0%	80.6%
Property	34.6%	28.1%	29.5%
Marine	27.0%	7.0%	88.1%
Accident and liability	89.8%	134.0%	92.2%
total	53.8%	42.5%	40.9%
RI UPR/Ceded premiums			
Medical	55.4%	37.8%	39.4%
Motor	42.0%	3.6%	0.0%

Unearned premium and reinsurance share of UPR by line of business			
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12
Engineering	61.8%	71.0%	77.8%
Property	31.0%	23.7%	27.3%
Marine	28.6%	6.2%	94.8%
Accident and liability	74.3%	306.1%	60.2%
total	56.1%	43.0%	42.7%

Source: SAMA forms, other analysis

Gross UPR is computed according to the pro-rata temporis method based on GWP for all lines of business except for marine where UPR is calculated by applying a fixed percentage of 25% to GWP.

Gross UPR decreased from SR140.3m as at 31 December 2010 to SR109.4m as at 31 December 2011 mainly due to the decrease in unearned premiums in motor in line with the decrease in motor written premiums. Consistent with the decrease in overall gross UPR, reinsurance share of unearned premium reserves decreased from SR54.5m as at 31 December 2010 to SR36.8m as at 31 December 2011.

As at 31 December 2012, gross UPR further decreased to SR96.3m also mostly due to the decrease in unearned premiums in the motor line of business in line with the decrease in motor written premiums. Similarly, reinsurance share of UPR decreased to SR31.4m as at 31 December 2012 mostly driven by the decrease in medical and engineering GWP, as motor is not subject to a non-proportional treaty.

Based on the actuary's assessment of the pricing strategy for the motor line of business, a SR4.0m Premium Deficiency Reserve ("PDR") was estimated by the actuary as at 31 December 2011 and was recorded by the Company within UPR as at 31 December 2011. As per the actuary report at 31 December 2012, PDR for motor decreased to SR1.1m on both net and gross basis driven by smaller amounts of UPR in addition to lower commission rates.

Motor UPR/GWP and RI share of UPR/ceded premium ratios decreased from 54.1% as at 31 December 2010 to 34.4% as at 31 December 2012 and from 42.0% to 0% respectively following the decrease in both motor GWP and ceded premiums in FY12 as compared to FY10.

Engineering and marine UPR to GWP increased significantly in 2012 reaching 80.6% and 88.1% as at 31 December 2012 respectively as a result of major renewals/new business gained towards 2012 year end.

Increase in unearned premium reserve for property insurance from SR 0.6m as at 31 December 2012 to SR 1.4m as at 31 Dec. 2013 as result of Jeddah Hilton Policy.

6 - 6 - 6 Unearned reinsurance commission

Figure (6.27): Unearned Reinsurance Commission by Line of Business

Unearned reinsurance commission by line of business						
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12	As % of total		
				2010	2011	2012
Medical	-	-	-	0.0%	0.0%	0.0%
Motor	-	-	-	0.0%	0.0%	0.0%
Engineering	3,503	2,323	1,558	82.8%	88.8%	87.9%
Property	196	66	93	4.6%	2.5%	5.2%

Unearned reinsurance commission by line of business						
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12	As % of total		
				2010	2011	2012
Marine	124	5	56	2.9%	0.2%	3.2%
Accident and liability	409	221	65	9.7%	8.5%	3.7%
Total	4,232	2,615	1,772	100.0%	100.0%	100.0%

Source: SAMA forms, other analysis

The Company estimates unearned reinsurance commission for each line of business based on the pro-rata temporis method, except for marine where a fixed percentage of 25% applies instead.

Total unearned reinsurance commission to commission received ratio reached 56.5% as at 31 December 2011 higher than 2010 (46.7%) mainly driven by a higher engineering ratio due to the decrease in engineering commission received by SR4.5m.

The ratio of unearned RI commission to commission received (excluding profit commission) for most lines of service is generally in line with RI share of UPR to ceded premiums ratio as at 31 December 2010, 2011 and 2012.

6 - 6 - 7 Due to and due from related parties

Figure (6.28): Related Party Transactions and Balances

Related party transactions and balances			
SR in 000s	31- Dec-10 Audited	31-Dec-11 Audited	31-Dec-12 Audited
Al-Ahlia Insurance Cooperative B.S.C.			
Balance (payable)/receivable at beginning of year	(11,962)	(11,096)	(1,599)
Paid by Ahlia BSC on behalf of the company	(26,033)	(10,515)	(5,479)
Paid by the company on behalf of Ahlia BSC	26,899	20,012	9,120
Net paid on behalf of (by) the company during the year	866	9,497	3,641
(Due to)/due from related parties at end of year	(11,096)	(1,599)	2,042
Key Management personnel benefits			
Short term benefits	2,512	5,060	5,064
End of service indemnity	145	184	312

Source: Audited financial statements for 2010 and Management Information for the breakdown of related party transactions in 2011 and 2012

Due to related party balances amounted to SR11.1m as at 31 December 2010 decreased to SR1.6m as at 31 December 2011 and became a due from related party amounting to SR2.0m as at 31 December 2012, primarily as a result of settlement of claims on behalf of Ahlia BSC in 2011 (totaling SR14.2m), 2012.

These balances mainly represent suspense accounts of amounts received or paid on behalf of Al Ahlia BSC for KSA operations, such as claims paid, commissions paid, premiums collected, reinsurance transactions, head office rent, and end of service indemnity for key Management personnel, as well as short term benefits and salaries.

Amounts paid by Al Ahlia BSC on behalf of the Company represent in fact payable balances to BSC which mainly include purchases of some fixed assets for Al Ahlia offices, premiums collected by Al Ahlia on behalf of BSC and

reinsurance share of claims paid collected by Al Ahlia on behalf of BSC.

Amounts paid by the Company and charged to Ahlia BSC also include salaries and benefits for key Management personnel who are handling the transactions related to the Saudi operations of Al Ahlia BSC.

6 - 6 - 8 Statement of changes in shareholders' equity

Figure (6.29): Statement of Changes in Shareholders' Equity

Statement of changes in shareholders' equity			
SR in 000s	Share Capital	Accumulated Losses	Total
Balance at 1 January 2010	100,000	(48,930)	51,070
Net loss for the year	-	(11,393)	(11,393)
Zakat and income tax	-	(1,248)	(1,248)
Balance at 31 December 2010	100,000	(61,572)	38,428
Balance at 1 January 2011	100,000	(61,572)	38,428
Net loss for the year	-	(5,090)	(5,090)
Zakat and income tax	-	(677)	(677)
Balance at 31 December 2011	100,000	(67,339)	33,661
Balance at 1 January 2012	100,000	(67,339)	33,661
Net income for the year	-	13,497	13,497
Zakat and income tax	-	(1,671)	(1,671)
Balance at 31 December 2012	100,000	(55,513)	44,487

Source: Audited Financial Statements

The share capital of the Company is SR100m divided into 10 million shares of SR10 each.

At 31 December 2010, the Company's equity reached SR38.4m following a loss for the year FY10 of SR11.4m. At 31 December 2011 and 2012, the Company's equity reached SR32.7m and SR44.5m respectively following a loss for the year FY11 of SR5.1m and a profit of SR13.5m in FY12.

Although the Company's accumulated losses have reached a peak of SR67.3m as at 31 December 2011, the Company was able to record a net income for the year FY12, as a result of improved underwriting in terms of better pricing and healthier, more balanced portfolios in addition to decreased policy acquisition costs and claim handling expenses coupled with increased profit commissions and a stabilization of the level of outstanding claims.

The Company intends to raise its capital in FY14 for the following reasons:

- Cover its accumulated losses which amounted to SR55.5m at 31 December 2012;
- Enhance its solvency margin cover as required by SAMA Implementing Regulations;
- Increase its capacity to accept premiums mainly in the corporate business; and
- Diversify its cash into return generating investments.

6 - 7 Cash flows

Figure (6.30): Cash Flow Statement (Policyholders and Shareholders)

Cash Flow Statement (Policyholders and Shareholders)			
SR in 000s	FY10 Audited	FY11 Audited	FY12 Audited
Policyholders			
Net cash from (used in) operating activities	94,807	29,181	(20,768)
Net cash from (used in) investing activities	(1,423)	(572)	(3,016)
Net cash from (used in) financing activities	-	-	-
Cash and bank balance at beginning of the year	3,139	96,524	125,132
Cash and bank balance at end of the year	96,523	125,132	101,348
Shareholders			
Net cash from (used in) operating activities	(14,190)	(3,275)	106
Net cash from (used in) investing activities	-	53,388	-
Net cash from (used in) financing activities	(866)	(9,497)	-
Cash and bank balance at beginning of the year	15,771	715	41,331
Cash and bank balance at end of the year	715	41,331	41,437

Source: Audited Financial Statements

Policyholders' cash and banks increased reaching SR125.1m as at 31 December 2011 mainly driven by a decrease in accounts receivable by SR21.1m and an increase in net outstanding claims by SR13.6m. It further decreased to SR101.3m at 31 December 2012 mainly driven by the decrease in reinsurance balances payable from SR48.3m at 31 December 2011 to SR16.6m at 31 December 2012 (i.e. the settlement of a big portion of reinsurance payables in FY12).

Shareholders' cash and banks increased from SR0.7m as at 31 December 2010 to SR41.3m as at 31 December 2011 and remained relatively stable at 31 December 2012 mainly driven by cash generated from investing activities resulting from the proceeds of sale of investments at fair value through income of SR53.4m in FY11. No major investing or financing activities were performed by the shareholders in 2012.

6 - 8 Admitted assets and solvency

Figure (6.31): Admitted Assets – Total Policyholders and Shareholders

Admitted assets - total policyholders and shareholders			
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12
Cash at banks	97,239	166,464	142,786
Insurance balances receivable due within 90 days	24,488	24,675	9,014
Reinsurers' share of unearned premiums	54,494	36,834	31,448
Reinsurers' share of outstanding claims	7,514	24,179	22,321
Deferred acquisition costs	17,240	14,188	8,235

Admitted assets - total policyholders and shareholders			
SR in 000s	31-Dec-10	31-Dec-11	31-Dec-12
Prepayments and other assets	7,874	7,627	5,411
Property and equipment	3,584	2,677	4,550
Term deposits at banks	44,553	-	-
Financial institutions bonds	3,330	-	-
Saudi - Listed shares	2,210	-	-
Other shares	3,150	-	-
Statutory deposit	10,040	10,065	10,125
Total insurance operations' assets	275,716	286,709	233,890

Source: SAMA Forms

As per Article 65 (1) of SAMA Implementing Regulations, the market value of the assets shall not be exceeded in the valuation process for the purpose of calculating the solvency margin. If the percentage out of total assets is less than the admissibility factor, then 100% of the asset is considered admissible.

As per Article 65 (2) of SAMA Implementing Regulations, the maximum limit per asset category of total assets is 20%. Adjustments should be inserted manually, by SAMA, to reflect deductions representing non-compliance of asset concentration regulatory limits and exceeding maximum asset category limit.

Figure (6.32): Calculation of Solvency Margin

Calculation of solvency margin for the 12 months ending 31 December 2012					
Premium basis (SR in 000s)	GWP	NWP	Retention rate (Min NWP/ GWP = 50%)	Class risk factor	Required solvency
	(a)	(b)	(c)	(d)	(e)= a*c*d
Medical	194,161	135,625	71.0%	16.0%	21,700
Motor	21,117	18,204	91.7%	20.0%	3,641
Engineering	9,595	231	50.0%	30.0%	1,439
Property	2,047	25	50.0%	16.0%	164
Marine	318	50	50.0%	30.0%	48
Accident and liability	8398	7,886	93.4%	30.0%	2,366
Total	235,636	162,021			29,357

Source: SAMA Forms

As per SAMA Implementing Regulations, the Company should maintain a margin of solvency equivalent to the highest of the following three amounts: Minimum capital requirement (SR100m), premium solvency margin (which amounted to SR29.4m as at 31 December 2012) and claims solvency margin (which amounted to SR19.1m as at 31 December 2012). Therefore, the minimum required solvency margin as per SAMA is SR100m as at 31

December 2012.

Figure (6.33): Solvency Analysis

Solvency analysis	
SR in 000s	31-Dec-12
Admissible assets	
Policyholders' operations	182,327
Shareholders' operations	51,563
Total admissible assets	233,890
Liabilities	
Policyholders' operations	211,342
Shareholders' operations	10,228
Total liabilities	221,570
Net admissible assets	
Policyholders' operations	(29,015)
Shareholders' operations	41,335
Total net admissible assets (a)	12,320
Required minimum solvency margin (b)	100,000
Excess (deficiency) of net admissible assets over required minimum solvency margin	(87,680)
Solvency Margin Cover (a) / (b)	12.3%

Source: Audited Financial Statements, SAMA Forms, other Analysis

The Company has a deficit of SR87.7m of net admissible assets over the required minimum solvency margin as at 31 December 2012.

The margin cover (i.e. net admissible assets divided by required minimum margin) was 12.3% as at 31 December 2012. This is substantially less than 100% minimum requirement. The Company is in the process of taking action to rectify this situation. The specific action that should be followed is described in Article 68 of the Implementing Regulations (i.e. increase capital, adjust premiums, reduce costs, etc.).

The expected increase in capital is expected to enable the Company to enhance its solvency margin ratio and cover its accumulated losses.

7. Capitalisation

The Company's share capital is One Hundred Million Saudi Riyals (SAR 100,000,000) comprising ten Million (10,000,000) shares with a nominal value of SAR 10 per share and all shares are fully paid. The founding shareholders have subscribed to 60% of the total shares and the remaining 40% was subscribed to by the public through an IPO that took place towards the end of the first half of year 2007. No preferential rights have been granted to the founding or other shareholders.

Figure (7-1): Capitalization & Indebtedness

	2012
Insurance Operations Liabilities	
Due to Reinsurers	50,596
Gross Unearned Premiums	140,308
Unearned Reinsurance Commission	4,232
Gross Outstanding Claims	23,386
Due Surplus Distributions	-
Due Payments, Accrued Expenses and Other Liabilities	32,339
Accumulated Surplus	-
Total Insurance Operations Liabilities	250,861
Total Shareholders' Liabilities & Equity	
Shareholders' Liabilities	
Due Zakat and Payable Tax	1,166
Amounts Due to Related Parties	11,096
Amounts Due to Insurance Operations	13,365
Other Liabilities	40
Total Shareholders' Liabilities	25,667
Shareholders' Equity	
Share capital	100,000
Accumulated Losses	(61,572)
Total Shareholders' Equity	38,428
Total Shareholders' Equity & Liabilities	64,095
Total Insurance Operations Liabilities and Shareholders' Equity & Liabilities	314,956

Source: Audited Financial Statements

There is no issued or existing instrument, declared and not yet issued instrument, or any term loans which is covered or not covered by either a personal guarantee or a mortgage at the date of this Prospectus.

The Company has no loans or debts, including any overdrafts facilities, liabilities under acceptance, acceptance credit or lease purchase obligations, which is covered or not covered by either a personal guarantee or a mortgage as at the date of this Prospectus.

There are no mortgages, rights or encumbrances on the properties of the Company as at the date of this Prospectus. The Company has no contingent liabilities or guarantees as at the date of this Prospectus.

The Company's capital is not under option as of the date of this prospectus.

The Company's capital has not been changed since its incorporation and remains at SAR 100,000,000.

8. Dividend Policy

The Company's dividend policy is in compliance with the rules and regulations Cooperative Insurance Companies Control Law and the provisions of the Company's by-laws approved by the General Assembly. Article 50 of the Company's by-laws describes the Company's dividend policy as below:

20% of the net profits shall be withheld to form a statutory reserve. The Ordinary General Assembly may discontinue this withholding of the net profits when the said reserve reaches the entire paid-up capital.

The Ordinary General Assembly may, upon request of the Board of Directors, withhold an additional percentage of the annual net profits to form an additional reserve to be allocated for the purpose or specific purposes decided by the Ordinary General Assembly.

Part of the balance remains after withheld to the statutory reserve shall be distributed to the Shareholders as an initial payment which shall represent not less than 50% of the paid-up capital.

The remaining shall be distributed among the Shareholders as a share in the profits or transferred to retained earnings account.

By resolution of the Board of Directors, periodic profits to be deducted from the annual profits referred to herein above, may be distributed in accordance with applicable rules and regulations issued by competent authorities.

Without prejudice to Paragraph 5 of Article 49 of the Company's by-laws which stipulates that 10% of the surplus shall be directly distributed to the insured persons or be deducted from their premiums for the following year and the remaining 90% be carried-over to the Shareholders' Income Account.

The Company has not yet paid any dividends to the shareholder due to the incurred financial losses.

9. Capital Structure

The Company's share capital is One Hundred Million Saudi Riyals (SAR 100,000,000) comprising ten Million (10,000,000) shares with a nominal value of SAR 10 per share and all shares are fully paid. The founding shareholders have subscribed to 60% of the total shares and the remaining 40% was subscribed to by the public through an IPO that took place towards the end of the first half of year 2007. The Company did not give any privileges or preferential rights to the founding shareholders or to any other person.

The members of the Board of Directors represent that the Company's capital is not under any option and that the Company did not give any privileges or preferential rights to the founding shareholders or to any other person.

SAMA's approval, under letter No. 184/IS dated 18/01/1433H, to increase the Company's share capital by SAR 220,000,000 through a Rights Issue to SAR 320,000,000 comprising 32,000,000 shares with nominal value of SAR10 per share was recently received. The Company's Board of Directors has issued its resolution No. 23 dated 25/06/1433H (corresponding to 16/05/2012G) recommending the increase of the Company's share capital. The Extraordinary General Meeting held on 04/09/1435H (corresponding to 01/07/2014G) (the "**EGM**") approved the Company's recommendation to increase the share capital of the Company as indicated and the participation will be limited to the registered Shareholders as of the end of the day of the EGM (the "**Eligibility Date**").

10. Description of Shares

10 - 1 Share Capital

The share capital of the Company is SAR 100,000,000 consisting of SAR 10,000,000 shares, at a nominal value of SAR 10 per share, all of which are ordinary cash shares.

10 - 2 Subscription in Share Capital

Founding Shareholders subscribed in 6,000,000 shares representing 60% of the share capital and paid their value in full. The remaining 4,000,000 shares representing 40% were offered for public subscription through an IPO.

10 - 3 Increase of Share Capital

After obtaining the approval of the competent authorities, the General Assembly may, in an EGM, adopt a resolution to increase the Company's capital once or several times provided that the original shares have been paid in full. The said resolution shall specify the mode of increasing the capital.

10 - 4 Decrease of Capital

The Company may reduce its capital if it proves to be in excess of the Company's needs or if the Company sustains losses. This decision must be made through a resolution adopted by the General Assembly in an Extraordinary General Meeting (an "EGM"), and requires approval of the Minister of Commerce and Industry, CMA and SAMA. Such resolution shall be issued only after reading the auditor's report on the reasons calling for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations. The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents of such debt within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

10 - 5 Shares Trading

The company's shares are tradable in accordance with the rules and regulations issued by SAMA. As exception to this the shares subscribed for by the founding shareholders will not be tradable prior to release the financial statements of two fiscal years with not less than 12 calendar months each from the date of incorporation. This will also be applicable to any shares subscribed for by the shareholders for increase of capital before the end of the restriction period. However, these shares may be transferred to any other founding shareholder or the Company's director in order to be granted as qualification shares or transfer from the owner heirs to others in case of death.

The Company's by-laws are silent about any recovery or repurchase rights regarding the Company's shares.

10 - 6 Voting Rights

All Shareholders, regardless to their shareholdings have the right to attend the general constituent assembly or delegate another shareholder to attend on their behalf. Each Shareholder holding 20 shares or more will have the right to attend and vote at the General Assembly. A Shareholder may delegate in writing another shareholder, other than members of the Board of Directors or officials of the Company, to attend the General Assembly on his/her behalf.

Each share has only one vote in the general assembly meetings.

Resolutions of the Constituent General Assembly and Ordinary General Assembly shall be made only by an absolute majority vote of the shares represented therein.

Resolutions of an EGM shall be made by a majority vote of two thirds (2/3) of the shares represented at the meeting, except for resolutions pertaining to the increase or the reduction of the capital, the extension of the duration of the Company before its term or the merger into another company or establishment. In such cases, the resolution shall not be considered as valid unless issued by the majority vote of three quarters (3/4) of the shares represented at the meeting.

10 - 7 General Assembly Meetings

General Assembly Meetings of Shareholders duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located.

Except for matters reserved for an EGM, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year, within six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assembly meetings may be convened whenever needed.

An EGM shall have the power to amend the Company's Articles of Association, except for such provisions as may be impermissible to be amended under the Regulations. An EGM may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter.

The meeting of the Ordinary General Assembly shall not have a quorum unless attended by Shareholders representing at least 50% of the Company's Capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened within the following thirty (30) days of the previous meeting. Such notice for the meeting shall be published in the same manner described above. The second meeting shall be deemed valid irrespective of the number of shares represented.

As for an EGM, it shall not be deemed valid unless attended by Shareholders representing at least fifty per cent (50%) of the Company's Capital. If such quorum is not met in the first meeting, a second meeting shall be convened within the following thirty (30) days. The second meeting shall be considered as valid if attended by a number of Shareholders representing at least one-quarter ($\frac{1}{4}$) of the Company's capital.

11. Use of Proceeds

11 - 1 Net Proceeds

The total gross proceeds from the Offering are estimated at SAR 220 million, out of which SAR 10 million is expected to be the expenses relating to the Offering, including fees of each of the financial advisor, legal advisor and reporting accountants, in addition to the Receiving Banks, Lead Manager, Underwriter, the marketing expenses, printing and distribution expenses and other offering related expenses.

The net proceeds of the Offering are hence expected to be SAR 210 million, after deducting all the expenses related to the Offering. The Company intends to use these proceeds to cover the solvency requirements. The Company's Shareholders will not receive any proceeds resulting from the Offering.

11 - 2 Use of Net Proceeds

Insurance companies in the Kingdom of Saudi Arabia practice their business in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations as amended by SAMA from time to time.

The above Law and regulations stipulate that an insurance company shall maintain a Minimum Solvency Margin that is no less than the following three amounts:

- Minimum Capital Requirement
- Premium Solvency Margin
- Claims Solvency Margin

An insurance company needs to maintain Net Admissible Assets at a minimum of the above mentioned solvency margin. This requirement translates into a necessity to maintain a minimum Solvency Margin Cover (Net Admissible Assets divided by Minimum Solvency Margin) of 100%.

As of 30 June 2013, the Company's Solvency Margin Cover position was as follows:

Figure (11-1): The Company's Solvency Margin Cover Position

	SAR Millions
Minimum Capital Requirement	100.00
Premium Solvency Margin	25.64
Claims Solvency Margin	1.4
Minimum Solvency Margin	100.00
Net Admissible Assets	3.11
Solvency Margin Cover (%)	3.11%

The Company hence currently needs to inject additional share capital in order to maintain its minimum Solvency Margin Cover of 100% as per SAMA's implementing regulations.

In addition to the minimum Solvency Margin Cover required by SAMA's implementing regulations, the Company targets to maintain a higher Solvency Margin Cover of above 200% to provide for operational contingencies, as recommended by the Company's actuarial consultant.

The net proceeds of the Offering of SAR 210 million are proposed to be used to enhance the Net Admissible Assets and Solvency Margin Cover. The table below shows the expected contribution of the net proceeds in maintaining the Solvency Margin Cover at the targeted level of above 200% over the next few years:

Figure (11-2): Contribution of the Net Proceeds in Maintaining Solvency Margin

	SAR Millions				
As at 31 December (Estimated)	2013	2014	2015	2016	2017
Minimum Capital Requirement	100.00	100.00	100.00	100.00	100.00
Premium Solvency Margin	Less than SAR 100 million		103.26	118.75	136.56
Claims Solvency Margin	Less than SAR 100 million		45.32	68.37	69.43
Minimum Solvency Margin	100	100	103.26	118.75	136.56
Before Offering:					
Net Admissible Assets	32.77	43.12	64.34	120.22	180.5
Solvency Margin Cover (%)	33%	43%	62%	101%	132%
After Offering:					
Net Proceeds of Offering	210.00				
Net Admissible Assets	242.27	250.14	269.1	322.92	381.5
Solvency Margin Cover (%)	242%	250%	261%	272%	279%

In compliance with Paragraph C of Article 30 of the Listing Rules (the “**Listing Rules**”) the Company will submit quarterly report about usage of the proceeds of the Offering and the usage developments will be declared to public.

11 - 2 - 1 Proposed Investment Plan (2014)

In compliance with the Cooperative Insurance Companies Control Law the statutory deposit should represent 10% of the paid up capital and the Company will retain SAR 32 million as a statutory deposit after increase of the paid up capital.

The Company intends to use the net proceeds (after deducting the statutory deposit and offering expenses) for investments as allowed by the regulations. The investment amount is estimated to be SR188 Million and the investment portfolio will include cash, short-term investment (50%), Securities and Long Term Investments (35%) and Shares & Investment vessels (15%).

	SAR million
Statutory Deposit	22
Offering Expenses	10
Investments*	188
Total Offering Proceeds	220

*Please refer to the proposed investment plan

Figure (11-3): Investment Structure

	SAR million
Investment in short-term Portfolios (50%)	94.0
Investment in Securities and Long-term Investment (35%)	65.8
Investments in Equities and other Investments Vessels (20%)	28.2
Total Investments	188.0

12. Declarations of the Board of Directors, Senior Management Executives and the CFO

12 - 1 Declarations Related to Financial Information

The Directors of the Company declare that the financial information presented in the Prospectus is extracted from the Audited Financial Statements for period ended 31 December 2010, 2011 and 2012 without any material change. These Financial Statements have been prepared in accordance with IFRS.

The Directors of the Company declare that there has been no material adverse change in the financial or trading position of the Company up to the date of this Prospectus. The Company has reviewed the likely cash flow requirements of the business and is of the opinion that the Company will have sufficient working capital for the 12 months immediately following the date of the publication of the Prospectus.

The Directors, the CEO, the CFO, the Management and the Secretary of the Board declare that:

- They have not at any time been declared bankrupt or been subject to bankruptcy or insolvency proceedings;
- They do not themselves, nor do any relatives or affiliates, have any direct or indirect interest in the Company's shares or debt instruments;
- They do not themselves, nor do any relatives or affiliates, have any interest or shares in the Company;
- There was no any material negative change in the Company's financial or commercial status during the last three years preceding the date of listing application which ended in 31 December of 2011, 2010 and 2012 and up to the date of approval of this Prospectus;
- The Company does not grant any cash loan or collaterals to loan for any of its directors in compliance with Article 71 of the Companies Law;
- The financial information presented in this Prospectus is extracted from the Audited Financial Statements without any material change and these Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS);
- There is no intention to make any fundamental change in the nature of the activity of the Company;
- No commissions, discounts, brokerages or other non-cash compensation were granted by the Company in the last three years immediately preceding the date of submitting the listing application and the period covered by the Auditor's report up to the date of approval of this prospectus;
- There has been no interruption in the Company's business that may affect or have a significant impact on its financial situation during the twelve months preceding the date of this Prospectus;
- The Company strictly complies with Article 69 & Article 70 of the Companies Law and Article 18 of Corporate Governance Regulations;
- The Board has reviewed the expected cash flow requirements and believes the Company will have sufficient working capital for at least twelve months from the date of this Prospectus;
- There is no any debt instrument or term loan up to the date of this prospectus and neither the Company's nor its affiliates' assets are under option; and
- As of the date of this Prospectus, the Company has no any affiliate or a sister company inside or outside Saudi Arabia.

13. Legal Information

13 - 1 Incorporation Information

Ahlia was established based on Royal Decree No. M/60 dated 18/09/1427H (corresponding to 11/10/2006G).

The Company has obtained number of licenses and permits from respective authorities to facilitate its operations in KSA. The following table indicates its licenses and permits.

Figure (13.1) Key Licenses and Permits

License / Permit	Number	Date	Issuing Authority
Royal Decree	(M/60)	18/09/1427H	Royal Diwan
Commercial Registration	1010238411	07/09/1428H (Expiry: 07/09/1438H)	Ministry of Commerce and Industry ("MOCI")
Insurance License	TMN/20/20093	12/03/1430H	Saudi Arabian Monetary Agency
Ministerial Resolution for Establishment	194/R	18/06/1428H	Minister of Commerce & Industry
SAGIA License	1026260427349	18/05/1434H (Expiry: 14/03/1435H)	Saudi Arabian General Investment Authority

13 - 2 The Company's Branch Offices

Figure 13.2: The Company's Branch Offices

Sr.	Location	CR No.	CR Issue Date	CR Expiry Date
1.	Riyadh, Malaz, Al-Farazdaq St.	1010327823	13/03/1433H (08/02/2012G)	15/03/1438H (15/12/2016G)
2.	Jeddah, Prince Mohammed Ben Abdulaziz St.	4030224075	06/04/1433H (29/02/2012G)	06/04/1438H (05/01/2017G)
3.	Khobar Branch, Dhahran St.	2051048012	04/06/1433H (29/02/2012G)	06/04/1438H (05/01/2017G)
4.	Taif Branch, Post Office St.	4032032799	06/04/1433H (29/02/2012G)	06/04/1438H (05/01/2017G)
5.	Madinah Branch, Sultana St.	4650055102	06/04/1433H (29/02/2012G)	06/04/1438H (05/01/2017G)
6.	Buraidah Branch, Khobaib St.	1131040190	06/04/1433H (29/02/2012G)	06/04/1438H (05/01/2017G)

Source: The Company

13 - 3 Lease-holding Agreements

The Company operates from different premises rented from different lessors. The following table summarizes the rental agreements covering the rented premises:

Figure 13.3: Rental Agreements

Sr.	Date	Lessor	Term	Rental Amount (SAR)
1.	11/07/1433H (01/06/2011)	Salman Abdurrahman Al-Sihebani	One Year effective 11/07/1433H (01/06/2012) Automatically Renewed	400,000
2.	27/03/1432H (02/03/2011)	Abdullah Abdulaziz Al-Quraishi	One Year effective 13/05/1432H (17/04/2011) Automatically renewed	225,000
3.	01/02/1433H (26/01/2011)	Yousef Mohammed Al-Sheikh	One Year effective 30/01/1433H (26/01/2011) renewed for only one year effective 01/02/1434H (Expires on 30/01/1435H)	200,000 (210,000 for extension)
4.	01/04/1425H (02/05/2004)	Abdulaziz Al-Rashid Al-Hamid Co.	One Year, renewed form 01/01/1432H (31/08/2011) to 30/03/1433H (23/02/2012), Automatically renewed	60,000
5.	02/03/1431H (03/02/2010)	Mansoor Hamad Al-Khodair	One Year effective 15/103/1431H (26/11/2011) Automatically renewed	40,000
6.	01/01/1433H (26/11/2011)	Talib Essa Al-Mash'hody	One Year effective 01/01/1433H (26/11/2011)Automatically renewed	40,000
7.	19/12/1432H (16/11/2009)	Sultan Masoud Al-Qaisi	One Year effective 01/01/1433H (26/11/2011) extended for one year expires on 30/12/1434H	11,500
8.	14/11/1430H (02/11/2009)	Ali Hussein Bin Hammran	One year from 01/01/1433H (27/11/2011) to 30/12/1433H (15/11/2012) renewed for one year from 01/01/1434H to 30/12/1434H to be automatically renewed	275,000 (1st year) 303,800 (2nd year)
9	09/03/1431H (02/11/201)	Saad Ali Zahid Al-Drewesh	Five Years effective 08/04/1431H (24/03/2010)	27,000
10	01/07/1433H (22/05/2012)	Saad Ali Al-Sowaid	Five Years effective 01/07/1433H (22/05/2012)	70,000
11	07/01/1434H (21/11/2012)	Adil Abdulaziz Al-Ghryafi	Three Years effective 01/01/2013	27,000
12	29/03/1431H (15/03/2012)	Ali Abdullah Al-Khalifa	Renewed up to 15/02/1435H	15,000
13	01/01/1430H (29/12/2008)	Basham Contracting Co.	One Year effective 01/01/1430H (29/12/2008) Automatically renewed	33,000
14.	23/05/1433H 915/04/2012	Abdulqadir Abdullah Al-Salmi	Five Years effective 11/07/1433H (01/06/2012) Automatically renewed	90,000
15.	01/03/1430H (24/01/2012)	Omer Abdulaziz Al-Sadhan & Brothers	Five Years effective 05/08/1433H (Expires: 04/08/1438H)	3,500,000

Source: Company

13 - 4 The Company's Capital Structure

The Company's share capital is One Hundred Million Saudi Riyals (SAR 100,000,000) comprising ten Million (10,000,000) shares with a nominal value of SAR 10 per share and all shares are fully paid. The founding shareholders have subscribed to 60% of the total shares and the remaining 40% had been subscribed to by the public through an IPO.

13 - 5 Board Members

The Company's Board of Directors comprises 11 directors including the Chairman.

Figure (13-4) Board Members (Directors)

	Name	Position	Nationality	Age	Share-holding	Representing	Status
1	HRH Prince Mohamed Bin Bandar Bin Abdulaziz Al Saud	Chairman	Saudi	49	2000*	.	Independent, Non-executive
2	Mohamed Najeeb Naser	Director	American	61	-*	Al-Masaq Co.	Executive
3	Prince Abdullah Bin Naif Al Saud	Director	Saudi	35	21	Kayed Al-Enjaz Co.**	Independent Non-executive
4	Yasir Bin Mohamed Atiq Al-Harbi	Director	Saudi	44	4026	-	Independent Non-executive
5	Sami Bin Ezzat Al-Ali	Director	Saudi	56	1000	-	Executive
6	Omer Salih Babakr	Director	Saudi	53	-	Omer Bin Salih Babakr Co.**	Independent Non-executive
7	Abdulmohsen Al-Zakary	Director	Saudi	54	-	Al-Zakary Trading & Industry**	Independent Non-executive
8	Abdulaziz Bin Saud Al-Bilaid	Director	Saudi	57	-	Sedir Trading & Contracting**	Independent Non-executive
9	Ali Bin Haif Al-Qahtani	Director	Saudi	43	-	Haif Al-Qahtani Co.**	Independent Non-executive
10	Ashraf Abdulrazaq Al-Jundi	Director	Egyptian	47	-	MLIC**	Non-executive
11	Saeed Saeed Ahmed Bayomi	Director	Egyptian	50	-	MLIC**	Non-executive

Source: The Company

*1000 shares have been allocated from the portfolio of HRH Prince Mohamed Bin Bander as qualification shares for Mr. Mohamed Najeeb Naser.

** 1,000 shares of the companies represented shares have been allocated as qualified shares for the representative.

13 - 6 Major Shareholders

Figure (13.5) Major Shareholders who own 5% and above as of 31 Dec. 2012

Name	%	Number of Shares	Amount in SR
MLIC	18%	1,800,000	18,000,000

Source: The Company

13 - 7 Committees of the Board of Directors

The Board of Directors will form committees to enable it to perform its duties in a more effective manner. In this context the Board of Directors will ensure:

- All committees have approved basis identifying their roles and responsibilities;
- Minutes of all committee meetings are prepared, reviewed and signed by the Board of directors the minutes of all held meetings; and
- The Committees' authorities shall be clearly identified.

13 - 7 - 1 Audit Committee

The main function of the Audit Committee is to assist the Board to effectively carry out its tasks particularly the integrity and completeness of financial statements and internal audit policies and procedures with the external auditors. The Audit Committee shall consist of not less than three members, including a specialist in financial and accounting matters. The Board of Directors will review and consider the Audit Committee's recommendations and evaluate its charter annually. The Audit Committee will be responsible, among other things, for:

- Supervising the Company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors;
- Reviewing the efficiency of internal controls and procedures executed by the Company's internal audit department and issuing a written report setting out the results of such review and its related recommendations;
- Reviewing internal audit reports and ensuring implementation of corrective measures recommended therein;
- Advising the Board of Directors regarding the appointment, dismissal, and remuneration of external auditors;
- Supervising the activities of the external auditors and approving any activities beyond the scope of the audit work initially assigned to them during the performance of their duties;
- Working with the external auditors to review and evaluate the annual audit and the framework and methodology of the audit plan;
- Reviewing the external auditor's comments on the financial statements and following up on all recommendations concerning the same;
- Reviewing the interim and annual financial statements prior to presentation to the Board of Directors and issuing recommendations with respect thereto; and
- Reviewing accounting policies in place and advising the Board of Directors on recommended updates or amendments.

Members of the Audit Committee are:

1. Saeed Bayomi, Non-executive, Chairman
2. Naser Al-Oufi, Member, Non-director
3. To be appointed

Please refer section 5.4 titled "Corporate Governance" for the profiles of the above committee members.

13 - 7 - 2 Nomination and Remuneration Committee

This committee is to be appointed by the Board of Directors and will be responsible, among other things, for:

- Recommending to the Board of Directors, appointments to membership of the Board of Directors in accordance with the approved policies and standards while ensuring that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership;
- Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, inter alia, the time that a Board member should reserve for the activities of the Board;
- Review the structure of the Board of Directors and recommend changes;
- Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the Company's interest;
- Ensure on an annual basis, the independence of the independent members and the absence of any conflict of interest, in case a Board member also acts as a member of the Board of Directors of another company;
- Draw clear policies regarding the indemnities and remunerations of the Board members and top executives, in laying down such policies, the standards related to performance that shall be followed.

Nomination and Remuneration Committee members include:

1. HRH Prince Mohammed Bin Bandar Bin Abdulaziz Al-Saud, Chairman, Non-executive
2. Prince Abdulla Bin Naif Al-Saud (Member, Independent, Non-executive
3. Omer Bin Saleh Babakr, Member, Independent Non-executive

Please refer section 5.2 titled "Board of Directors" for the profiles of the above committee members.

13 - 7 - 3 Executive Committee

The Executive Committee is in charge of the daily management of the Company's operations and business including implementation of Board resolutions and also recommends and determines the targets and strategies of the Board and supervises operations and works progress. The Board of Directors delegates all required powers to the Executive Committee that are necessary to perform its function in accordance with the Company's By-Laws and applicable law, provided, however, that the Executive Committee's exercise of such delegated powers conforms to the Company's overall policies and procedures and the specific instructions and guidelines imposed

on the Executive Committee by the Board of Directors. The executive committee submits to the Board of Directors, periodic reports on its management function and exercise of such delegated powers. The Executive Committee comprises the following members:

- HRH Prince Mohammed Bin Bander Al-Saud, Chairman, Non-executive
- Mohammed Najib Nasr, Member, Executive
- Sami Al-Ali, Member, Executive

Please refer section 5.2 titled “Board of Directors” for the profiles of the above committee members.

13 - 7 - 4 Risk Management Committee

This committee is to be appointed by the Board of Directors and will be responsible, among other things, for:

- Working with the Company's Board of Directors to promote a culture of risk in the functioning of the Company considering strategies that obligate the Company in the future;
- Examine any of the matters entrusted to them in accordance with the powers and make recommendations to the Board of Directors;
- Provide the Board of Directors with periodic reports of the Company's senior management on the functioning of the Company;
- Identify weaknesses and strengths in the Company with regard to risk management, and propose processes in accordance with the Company's interest; and
- Carry out any other tasks as required by the Board of Directors.

The Risk Management Committee comprises the following members and a Chairman shall be selected there from:

1. Sami Ben Ezzat Al-Ali - Member (Executive)
2. Mohammed Najib Nasr – Member (Executive),
3. Ashraf Abdulrazaq Al-Jundi - Member (Non-executive)

Please refer section 5.2 titled “Board of Directors” for the profiles of the above committee members.

13 - 8 Summary of Material Contract Agreements

13 - 8 - 1 Reinsurance Agreements

The Company has entered into reinsurance agreements with various third parties to reinsure its businesses. The terms and conditions of these agreements vary depending on the products covered by each agreement. Following is a summary for the reinsurance agreements entered into by the Company.

- Reinsurance Agreement with Mapfre Re Compania de Reaseguros, S.A with respect to Medical Insurance Risks Coverage: It is an open contract that started on 1 January 2012 and is subject to termination upon 90-day notice prior to commencement of the new calendar year.
- Reinsurance Agreement with Korean Re for Motor Insurance (Third Party, Motor damages only and personal incidents for drivers), workmen compensations, Employers Liability and General Third Party Insurance: It is an annual contract that started on 1 January 2012 and ended on 31 December 2012. It has been renewed for the year 2013.
- Reinsurance Agreement with IGI for Medical Malpractices underwritten by the Company: It is an annual contract that started on 1 January 2012 and ended on 31 December 2012. It has been renewed for the year 2013.
- Reinsurance Agreement with Arabian Fund for War, Strikes, riots civil disorder and vandalism risks including war protection and compensation products underwritten by the Company: It is an open contract that started on 1 January 2012 and is subject to termination upon 90-day notice prior to commencement of the new calendar year.
- Reinsurance Agreement with Hanover, Bahrain with respect to Cargo Insurance Risks Coverage Products underwritten by the Company: It is an open contract that started on 1 January 2012 and it is subject to termination upon 90-day notice prior to commencement of the new calendar year.
- Reinsurance Agreement with Hanover, Bahrain with respect to Machinery Insurance Risks Coverage Products including boilers, pressure vessels, electronic devices, cold stores inventory, all contractor works risks, construction works and contractors' plants in addition to other third parties insurances underwritten by the Company: It is an open contract that started on 1 January 2012 and it is subject to termination upon 90-day notice prior to commencement of the new calendar year.
- Reinsurance Agreement with Hanover, Bahrain with respect to Fire Risks including inclusive policies for households, burglary, exploration, lightening, earthquake, storms, sandstorms, volcano, spring tide, tidal waves, flood and water damages, propriety not exceeding ABI & LM& as well as business interruption insurances underwritten by the Company: It is an open contract that started on 1 January 2012 and it is subject to termination upon 90-day notice prior to commencement of the new calendar year.
- Reinsurance Agreement with Hanover, Bahrain with respect to work incidents (personal incidents, money at treasury, money on transit, burglary, glass and fidelity insurances underwritten by the Company: It is an

open contract that started on 1 January 2012 and it is subject to termination upon 90-day notice prior to commencement of the new calendar year.

- Reinsurance Agreement with QBE via brokers (Nasco karoglan F) to cover company's retention of all underwritten risks related to fire, engineering, general incidents and marine cargo with respect to work incidents (personal incidents, money at treasury, money on transit, burglary, glass and fidelity insurances underwritten by the Company: It is an annual contract started on 1 January 2012 and expired on 31 December 2012 and has been renewed for 2013.

13 - 8 - 2 Insurance Policies provided by the Company

The Company complies with the cooperative insurance companies control law and it's implementing regulations with respect to launching of new products which require prior approval of SAMA. The Company has an initial approval on file and use basis. Its policy stipulates that the Company shall distribute 10% from the annual surplus of insurance operations, if any, to policyholders either directly in cash or by deducting from the annual premium for the following year. Exception, stipulations, amounts and cancelation vary depending on the product. The Company offers the following products to its customers:

1. **Property All Risks insurance Policy** - insurance under this policy aims to cover the insured property or any part thereof in the event of material damage or destruction by mistake. The property could include buildings (including fixtures and accessories of the owner), machinery and equipment, devices, tools and inventory (products, materials and spare parts), furniture, office equipment, and fixtures. The Company has obtained a temporary approval from SAMA on this policy for an additional period of 6 months effective 10/11/1434H.
2. **Household insurance Policy** - insurance under this policy aims to cover the insured against any loss or damage to the building/buildings insured. The buildings include outbuildings, garages, gates, fences, walls and internal fuel tanks, swimming pools, water pipes, gas pipelines and ground drainage pipes and electricity cables related to the main source of electrical feed. The Company has obtained temporary approval of this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
3. **Fire, Burglary and various threats Insurance Policy** - insurance under this policy covers damage to property if caused by fire, lightning or fire following the explosion. The property could include: buildings (including fixtures and accessories of the owner), machinery and equipment, devices, tools and inventory (Products, materials and spare parts), furniture, office equipment, and fixtures. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
4. **Business interruption Insurance Policy** – under this policy insurance covers business interruption. In the event of any damage or destruction, at any time during the period of insurance under this policy, in any building or any other property or any part of the insured property, such damage or destruction was caused by any risk insured, and provided that such damage was compensable, the Company will compensate the insured amount of the loss caused by business interruption or interference with respect to each of the items that have been covered. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
5. **Shipping Insurance Policy (Open)**-The goal of insurance under this policy is the coverage of goods transported by sea or by air. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
6. **The shipping Insurance Policy (One shipment)** - The purpose of insurance under this policy is to cover goods transported by sea or by air. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
7. **Land Transport Insurance Policy** - insurance under this policy covers all the risks arising from loss or damage that may occur during transportation of goods by trucks/trains except for the exceptions. The Company has obtained a temporary approval for this policy from SAMA for additional six months effective 10/11/1434H.
8. **On-Road Cargo insurance policy** - Insurance under this policy covers any material loss or damage to goods resulted from collision, fire or overturn. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
9. **Contractor's All Risks insurance** - Insurance under this policy covers the project works carried out by the Contractor. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
10. **Machinery insurance Policy** - Insurance under this policy covers all machineries. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
11. **Cold Storages Inventory** – Insurance under this policy covers the goods stored in cold storages. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
12. **Electronic Equipment insurance Policy** - insurance under this policy covers electronic equipment. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months

- effective 10/11/1434H.
13. **Erection All Risks Insurance Policy** - insurance under this policy covers all the risks related to the construction work. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
 14. **Plant and Machinery Insurance Policy** - Insurance under this policy covers factories and machinery. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
 15. **Group Medical Insurance Policy**- insurance under this policy provides coverage for employees and their dependents. The Company, under this policy, will cover the costs of providing medical services to the insured persons (beneficiaries) according to specific categories of network service providers appointed by the Company, and in accordance with the terms and conditions and restrictions contained in the policy. SAMA has approved this product under its letter dated 10/11/1434H
 16. **Mandatory Motor Insurance** - insurance under this policy covers motor liability towards third parties whereby the Company pays cash compensations on the occurrence of any damage covered under the policy during use or parking of the vehicle within the geographical boundaries of the Kingdom of Saudi Arabia. This will cover all amounts that the insured or driver is legally eligible for with respect to (a) personal injury that affects third parties while the insured is located inside or outside the vehicle and (b) physical damage to property of others while the insured is present in the car. The SAMA approved this product under its letter dated 19/05/1434H.
 17. **Comprehensive Car Insurance (Private/Commercial)** - under this policy the Company has to compensate the insured for loss or damage to any vehicle described in the table and its accessories are as a direct result of the risks referred to in the policy. The Company will also pay cash compensations on occurrence of any damage covered under the policy as a result of the use or parking the car within the geographical boundaries of the Kingdom of Saudi Arabia. This will cover all amounts that the insured or driver is legally eligible for with respect to (a) personal injury that affects third parties while the insured/driver exists inside or outside the vehicle and (b) physical damage to property of others while the insured/driver is present in the car. SAMA approved this product under its letter dated 19/05/1434H.
 18. **Medical Malpractice Policy** – Insurance under this policy covers medical malpractice cases and payment of all attorney costs incurred with the consent of the Company provided it does not exceed the sum of the amounts owed for damages (including costs and expenses of the plaintiff) and defense costs defined as the limits of compensation set forth in the Annex to the policy. However, the Company is not obliged to pay any claim or judgment or arbitral award or defense or pay costs or continue to take over the defense in the context of any suit or proceeding after the exhaustion of the set limit of compensation. The Company has obtained temporary approval of this document from SAMA for an additional period of 6 months starting from 10/11/1434H.
 19. **Workmen Compensation Policy** - The insurance under this policy is to cover the liability of the insured, in accordance with the terms of the policy, for the payment of compensation and/or expenses specified in the labor law in Saudi Arabia. This policy excludes any responsibility for the payment of compensation and/or expenses included in the program of the General Organization for Social Insurance (“GOSI”), or that it can be accepted by the social insurance if the insured committed to provide and collect the related claims. The Company has obtained a temporary approval for this document from SAMA for an additional period of 6 months effective 10/11/1434H.
 20. **Money Insurance Policy** – insurance under this policy covers loss of money for any reason not excluded under the policy (a) during the transfer of money in the custody of the insured or his designated staff to and from the bank or the post office and the insured location; and (b) during the transfer of money as specified in the Annex to the policy. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
 21. **General Liability Insurance Policy** - Taking into account the terms, conditions, exceptions and limitations of liability set forth in the Annex to the insurance policy; the Company compensates the insured for all amounts which the insured is legally eligible for as compensation to him under the rules with respect to (a) death or bodily injury resulting from an incident which affects any person who is not covered by an employment or vocational training contract with the insured if the death or injury happened outside the work territory or affects any of his family members; and (b) damage to property owned, leased or rented by the insured under installment program or other property in the custody of the insured or under his control excluding the buildings temporarily occupied by the insured for business purpose or visiting employee property. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434 H.
 22. **Individual Accident Insurance Policy** – Insurance under this policy covers compensation for death and full & partial disability from an accident. The Company has obtained a temporary approval of this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
 23. **Group Accident Insurance Policy** – Insurance under this policy covers compensation for death and permanent total or partial disability. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
 24. **Fidelity Insurance Policy** - The Company has received temporary approval on this policy from SAMA for an additional period of 6 months effective 10/11/1434H.

25. **Glass Insurance Policy** - In the case of breaking any glass in the building during the period of insurance and if this breakage runs through the entire thickness of the glass as a result of any accident or non-excluded reason, the Company will replace the broken glass of comparable quality or, in its sole discretion, pay the value of the broken glass of the insured in accordance with the rates applicable at the date of breakage minus the salvage value. The Company must also pay the reasonable costs of any necessary panels installed temporarily until the replacement of broken glass. The Company has obtained a temporary approval for this policy from SAMA for an additional period of 6 months effective 10/11/1434H.
26. **Traveler Care Insurance Policy** - This policy covers incidental costs incurred outside the Kingdom of Saudi Arabia, subject to the maximum limit mentioned in the schedule of benefits annexed to the policy, including medical treatment and surgical emergency costs, additional reasonable and necessary travel expenses, and medical vacation. The Company has obtained a temporary approval for this policy from SAMA in force for a period of 6 months effective 10/11/1434H.

13 - 8 - 3 Agreement for Provision of Electronic Services with Najm Insurance Services Company ("Najm")

Parties: The Company entered into an agreement for provision of electronic services with Najm dated 29/01/2011G (corresponding to 25/02/1432H).

Term: The term of this Agreement is one calendar year beginning from the date of operation of the first service and renewed automatically unless one of the parties notifies the other of its intention to not renew before thirty (30) days from the expiration of the original agreement or any renewal term.

Services provided: The Company has contracted with the service provider for the services of data transfer and insurance policies for traffic systems, which will enable the Company to process and delete motor insurance data and documents issued by it to the traffic regulations, as well as enabling them to review the data of its customers vehicles and the identity of their respective owners.

Charges: The Company pays to the service provider an amount of One Hundred Thousand Saudi Riyals (SAR 100,000) for one time as subscription fees while the services provided to the Company will be charged for as per Annex (1) to the agreement (Fees for Main Services under the Agreement). The Company is committed to pay the value of the services under the monthly bills issued by the service provider for services rendered to it at the end of each calendar month. Payment should be within (30) days from the date of receipt of the invoice as maximum.

The agreement also includes other terms governing the relationship between the two parties, including the following:

- The parties undertake to maintain the confidentiality of the data and information relating to the agreement or the other party or its business or its customers and not disclose to any third party except for the cases allowed by the agreement.
- The Company is not entitled to a waiver of the agreement or any part thereof without the prior written consent of the service provider.
- The parties have the right to terminate the agreement at any time after the approval of the Saudi Arabian Monetary Agency, by sending a written notice explaining the reasons for termination within a period not less than ninety (90) days.

Law and settlement of disputes: This agreement shall be construed in accordance with the laws of Saudi Arabia and it will be subject to the jurisdiction of the courts in the city of Riyadh.

13 - 8 - 4 Murabaha investment agreement

On 16/11/2011G the Company entered into an investment agreement Murabaha with Banque Saudi Fransi ("BSF") for an indefinite period and either party is entitled to terminate the agreement by a notice to the other party, 30 days' prior to the date of termination. Under this agreement BSF may take all actions relating to the trading in commodities presented by BSF through buy or sell agreements. It may also conduct negotiations with institutions or industrial manufacturers of these goods and their suppliers and customers with the dealing traders or brokers. BSF may also arrange the payments of the costs relating to commodity trading on behalf of the Company and will be authorized to sign on behalf of the Company if necessary for the purpose of performing its obligations regarding the trading operations of goods according to the terms and provisions of the agreement. This agreement will be subject to the applicable laws and regulations in Saudi Arabia.

13 - 8 - 5 Agreement for purchase of assets and transfer of the insurance portfolio

The Company intends to conclude an agreement for the purchase of the insurance portfolio and net assets attributable to the operations of the Al-Ahlia for Cooperative Insurance Company in the Kingdom of Saudi Arabia. Accordingly a financial study (which includes a valuation of operations) has been provided to SAMA in accordance with the instructions issued there from by an independent auditor in 2007. The result of the evaluation by SAMA has been included in its letter to Ahlia on 28 Rajab 1430 (corresponding to 21 July 2009G), which stated that according to the standards of the valuation program there will be no value for goodwill, and the value that can be transferred is the value of net assets only.

The Company convened a general assembly meeting on 18 Shawwal 1430H (corresponding to 7 October 2009) to inform the shareholders on the outcome of the valuation. During the meeting, the shareholders also approved the transfer of insurance portfolio and net assets attributable to the operations of the in the Kingdom of Saudi Arabia to the Company. Assets and liabilities to be transferred will be agreed to in detail and the value will be assessed according to the standards issued by SAMA in May 2007. The Company plans to transfer the assets and liabilities retroactively as of 1 January 2009 after completion of the statutory procedures. As at 31 December 2011 the statutory procedures for transfer of the portfolio were not yet completed.

Figure (13.6) Financial Statements 2009 to 2012 Reflecting Insurance Portfolio Acquisition

All Figures in SAR million	2009	2010	2011	2012
Balance Sheets				
Insurance Operations' Assets				
Cash and cash equivalent	17.86	99.32	125.32	101.69
Account receivable, net	53.58	58.52	32.76	34.10
Reinsurance share of unearned premiums	34.36	55.02	37.06	31.50
Reinsurance share of outstanding claims	26.95	25.07	35.85	30.21
Differed Acquisition costs	5.66	23.70	14.24	8.25
Prepaid Expenses and other assets	8.58	18.10	28.70	28.79
Due from shareholders	19.32	16.34	1.19	-
Property and equipment, net	10.43	9.96	8.47	9.83
Due from Bahraini Co.	2.94	2.94	2.94	2.94
Total insurance operations' assets	179.68	308.96	286.51	247.30
Shareholders' Assets				
Cash and cash equivalent	15.77	0.72	41.33	41.44
Investments	53.07	53.34	-	-
Investments available for sale, Najm	2.45	2.45	2.45	2.45
Statutory deposit	10.01	10.04	10.07	10.13
Due from a related party	-	-	-	2.04
Due from insurance operations	-	-	-	9.61
other assets	-	-	0.00	1.11

All Figures in SAR million	2009	2010	2011	2012
Total shareholders' assets	81.30	66.55	53.85	66.77
Total Assets	260.98	375.51	340.36	314.08
Insurance Operations' Liabilities				
Reinsurance payable	25.56	50.60	49.50	17.39
Unearned premiums	59.29	141.97	113.74	97.53
Unearned reinsurance commission	1.60	4.23	2.61	1.77
Outstanding claims	64.69	64.66	71.64	66.81
Accrued surplus distribution	-	-	1.46	3.21
Due to shareholders	-	-	-	9.61
Account Payable, accrued expenses and other liabilities	28.55	47.50	47.57	50.98
Total Insurance operations' liabilities	179.68	308.96	286.51	247.30
Shareholders' liabilities and equity				
Shareholders' liabilities				
Accrues Zakat and income tax	0.98	1.17	0.90	2.57
Due to related party	11.96	11.10	1.60	-
Due to insurance operations	19.32	16.34	1.19	-
Other liabilities	0.01	0.04	0.07	0.13
Total shareholders' liabilities	32.27	28.64	3.75	2.70
Shareholders' equity				
Share capital	100.00	100.00	100.00	100.00
Statutory Reserve	-	-	-	-
Accumulated (losses) profits	(50.97)	(62.09)	(49.90)	(35.93)
Total shareholders' equity	49.03	37.91	50.10	64.07
Total shareholders' liabilities and equity	81.30	66.55	53.85	66.77
Total liabilities and equity	260.98	375.51	340.36	314.08
Income Statements				
Insurance Operations' Income Statements				
Gross Written premium	96.40	260.65	263.66	235.64

All Figures in SAR million	2009	2010	2011	2012
Less: Reinsurance premiums ceded	(53.63)	(95.12)	(83.43)	(69.75)
Less: Excess of loss expenses	(2.24)	(1.96)	(3.36)	(2.77)
Net written premiums	40.53	163.57	176.87	163.12
Change in unearned premiums, net	44.87	(62.03)	10.26	10.66
Net earned premium	85.39	101.55	187.13	173.77
Gross claims paid	(77.57)	(83.45)	(152.05)	(134.49)
Reinsurers' share of gross claims paid	28.18	39.59	67.32	54.39
Change in outstanding claims, net	10.06	(1.86)	3.19	(0.82)
Net claims incurred	(39.33)	(45.72)	(81.53)	(80.92)
Policy acquisition costs	(12.66)	(27.22)	(36.55)	(25.10)
Recovery of (expenses) claims management, net	-	-	(16.89)	(9.13)
Commission income	1.39	10.46	6.28	13.73
Net underwriting results	34.80	39.07	58.44	72.35
General and administrative Expense	(49.13)	(53.90)	(53.89)	(51.90)
Reversal (provision for) doubtful debts	(19.68)	(4.90)	(0.58)	(6.68)
commission income	-	-	0.27	0.73
Other income	3.57	12.06	1.10	(0.03)
Income from reevaluation of fixed assets	1.72	(2.10)	9.22	3.07
Surplus/(deficit) from insurance operations	(28.73)	(9.76)	14.56	17.56
Shareholders' appropriation from(surplus) deficit	28.73	9.76	(13.10)	(15.80)
Surplus of the period after shareholders' appropriations	-	-	1.46	1.76
Shareholders' income statement				
Surplus(deficit)transferred from insurance operations	(28.73)	(9.76)	13.10	15.80
Unearned profits from investments at fair value	0.07	0.28	-	-
Earned profits from investment at fair value	-	-	0.05	-
commission income	0.19	-	0.07	0.14
Other income	-	0.00	-	-
General and administrative expenses	(4.56)	(0.39)	(0.35)	(0.29)

All Figures in SAR million	2009	2010	2011	2012
Income/(loss) before Zakat & Income Tax	(33.03)	(9.87)	12.87	15.65
Zakat and income tax	(0.98)	(1.25)	(0.68)	(1.67)
Net income/(loss) for the period	(34.01)	(11.12)	12.19	13.98
Cash Flow Statements				
Insurance Operations' Cash Flow Statements				
Accumulated (deficit) surplus at year end after shareholders' appropriations	-	-	1.46	1.76
Adjustments for:				
Depreciation	1.84	2.05	2.20	1.76
(Reversal) provision for doubtful debts	46.26	4.90	1.86	6.77
Gain from sale of property and equipment	(0.38)	(0.16)	(0.41)	(0.14)
Provision of end of service benefits	5.38	1.45	1.45	1.52
Surplus(deficit) from insurance operation for the year	-	(11.28)	13.10	15.80
Operating income before change in operation assets and liabilities	53.11	(3.05)	19.66	27.47
Change in operating assets and liabilities:				
Account receivable	(99.85)	(9.83)	23.90	(8.12)
Reinsurance share of unearned premiums	(34.36)	(20.66)	17.97	5.55
Reinsurance shares' of outstanding claims	(26.95)	1.89	(10.79)	5.65
Differed acquisition costs	(5.66)	(11.83)	3.26	5.99
Prepaid Expenses & other assets	(8.58)	(15.73)	(4.39)	(0.09)
Due from shareholders	(21.55)	14.27	2.05	(5.01)
Due from a related party	(2.94)	-	-	-
Reinsurance payable	25.56	25.03	(1.10)	(32.11)
Unearned premiums	59.29	82.69	(28.23)	(16.21)
Unearned reinsurance commission	1.60	2.64	(1.62)	(0.84)
Outstanding claims	64.69	(0.03)	6.98	(4.83)
Account payable, Accrued expenses and other liabilities	23.47	17.85	0.02	2.51
End of service benefits paid	(0.30)	(0.34)	(1.41)	(0.61)
Net cash used in operating activities	27.53	82.88	26.29	(20.64)

All Figures in SAR million	2009	2010	2011	2012
Purchase of property and equipment	(8.62)	(1.88)	(0.75)	(3.13)
Proceeds from sale of property and equipment	1.40	0.46	0.46	0.15
Investments	(2.45)	-	-	-
Net cash used in investing activities	(9.67)	(1.42)	(0.30)	(2.98)
Increase/(Decrease) in cash and cash equivalent	17.86	81.46	26.00	(23.62)
Cash and cash equivalent at the beginning of the period	-	17.86	99.32	125.32
Cash and cash equivalent at the end of the period	17.86	99.32	125.32	101.69
Shareholders' Cash Flow Statements				
Net income /(loss) for the period	(33.03)	(9.87)	12.87	15.65
Adjustments for:	-	-	-	-
Depreciation	0.38	-	-	-
Unearned profits from investments at fair value	(0.07)	(0.28)	(0.05)	-
Deficit from insurance operation	-	11.28	(13.10)	(15.80)
Gain from sale of property and equipment	-	-	-	-
Operating profits(loss) before changes in assets and liabilities	(32.72)	1.14	(0.28)	(0.16)
Changes in operating assets and liabilities:	-	-	-	-
Other assets	-	-	(0.00)	(1.11)
Prepaid expenses and other receivable	1.38	-	-	-
Statutory deposit	(10.01)	(0.03)	(0.03)	(0.06)
payables	(0.24)	0.03	0.03	0.06
Due to insurance operations	21.55	(14.27)	(2.05)	5.01
Due to a related party	-	-	(9.50)	(3.64)
Paid Zakat	(1.65)	(1.06)	(0.95)	-
Net cash from operating activities	(21.69)	(14.19)	(12.77)	0.11
Purchase in property and equipment	(0.73)	-	-	-
Investment at fair value	(53.00)	-	53.39	-
Proceeds from sale property and equipments	-	-	-	-
Restricted cash at banks	101.19	-	-	-
Net cash from investing activities	47.47	-	53.39	-

All Figures in SAR million	2009	2010	2011	2012
Due to a related party	(10.01)	(0.87)	-	-
Net cash used in financing activities	(10.01)	(0.87)	-	-
Increase/(Decrease) in cash and cash equivalent	15.77	(15.06)	40.62	0.11
Cash and cash equivalent at the beginning of the period	-	15.77	0.72	41.33
Cash and cash equivalent at the end of the period	15.77	0.72	.33	41.44

The Company, in consultation with the auditors, prepared these restated financial statements from the actual data and information. The following basis has been used for preparation:

1. External Auditor's report on the assets and liabilities to be transferred to the Company prepared on 28/04/2010 and submitted to SAMA for approval, advising that the net assets are estimated to be a negative amount of SAR 2.94 Million.
2. The financial statements of Ahlia BSC.

The implications of the transfer of the portfolio are as follows:

1. In accordance with the valuation program standards and SAMA's outcome, there will be no value for goodwill and the value that can be transferred is the value of the net assets only. The value that has been transferred to the statements is the negative value of the net assets according to the external auditor's report.
2. According to SAMA's regulations, all the gains and losses after the date of 31/12/2008 are due to the Saudi listed insurance company.

In case the Company could not complete the insurance portfolio transfer there will not be any financial impact and the Company will cancel the disclosure that it states on the financial statements with regard to insurance portfolio transfer and may announce the run off (if required).

The above financial statements were not subject, until now, to any review procedure as the Company is still awaiting the final approval of the transfer of the insurance portfolio from the respective regulatory authorities. Therefore, the review process may result in differences in these statements.

13 - 9 Transfer of Chairman's Shares in Najm to Ahlia

Najm was founded on 02/12/2006G as a limited liability company. The 13 founding shareholders of Najm were representing the insurance companies existing at that time and the Company has been represented by the Chairman of the Board of Directors of the Company as the Company was at that time waiting for the operation license from SAMA which came after the date of establishment of Najm (09/03/2009G).

Najm has been established with a capital of SAR 25,000,014 (Twenty Five Million and Fourteen Saudi Riyals) evenly divided between the founders, and hence the Chairman's 1,923,078 shares represents 7.69% of Najm's share capital.

Immediately after obtaining the licenses from SAMA, Najm's Board of Directors held a meeting and decided to amend the article of association to transfer the shares of the individual partners in the company to the represented insurance companies and also to convert Najm to a closed joint stock company.

SAMA has requested the Company under its letter No. 9005 / MT / 260 dated 18/02/1431H to take the necessary measures to transfer the Chairman's share to the Company.

The following actions were taken in order to transfer the Chairman's shares to the Company:

- Approval of the Ordinary General Assembly on the transfer of property pursuant to the provisions of Article 69 of the Companies law. The matter has been presented to the Third Ordinary General Assembly of the Company held on 06/12/1431H (corresponding to 26/5/2010G) and was approved unanimously.
- The Chairman had to execute a proxy to sell his shares. The Chairman had duly executed the proxy and had accordingly been accepted.
- The Company had to execute a proxy to purchase the Chairman's shares. The Company had duly executed the proxy and had accordingly been accepted.
- Some formalities are still to be taken by Najm to introduce the necessary amendments to the Memorandum of Association and the transfer the shares which currently Najm is processing under SAMA's supervision.

The Company has obtained a letter from Najm dated 01/09/2013 whereby it confirmed that it has received from Ahlia all the required documents necessary to complete the transfer process. Najm also confirmed under this letter that the remaining shareholders have recently submitted all the documents required for the transfer of shares and it is currently in the process of submitting them to SAMA, then to MOCI and finally to the Notary Public to prove the transfer of ownership after the approval of SAMA. MOCI approval on the shareholders' resolution form has already been obtained and Najm has to take the remaining formalities need to complete the transfer. According to Najm the above process will take at least three months to complete if things run smoothly. The Company's management believes that the delay in the transfer process is unlikely to have a material negative impact on the Company's business or its financial position.

13 - 10 Disputes and Litigations

With the exception of some disputes and claims related to labor affairs and claims for paying insurance premiums, the members of the Board of Directors and senior management of the Company as at the date of this Prospectus, confirm that the Company is not a party to any judicial, arbitral or administrative procedures or that may individually or collectively entail a material negative impact on the Company's financial situation and results of operations. Aside from what is mentioned above and to the extent of their knowledge, the Company's Board of Directors and executive officers confirm that there is no any existing or potential threat of a judicial, arbitral or administrative lawsuit.

13 - 10 - 1 Claim of Legal Fees

One of the law firms that were previously dealing with the Company has filed a suit against the Company dated 10/12/2011G claiming legal fees of SAR 2,140,000 for attorney services provided by the firm to the Company although the Company and the plaintiff signed the final clearance between them dated 05/10/2011G. A session took place on 11/24/1433H and the plaintiff did not show-up. Therefore the lawsuit has been written off. However, the Prosecutor requested to reconsider the case. A hearing has already taken place in the General Court in Riyadh on 11/10/1434H and the judge asked for delivery of the final clearance form and the session was accordingly adjourned with a new date of 24/04/1435H being set for the next hearing.

13 - 11 Related Parties Transactions

13 - 11 - 1 Contract for Providing Maintenance and Cleaning Services with Massa

The Company entered into a contract dated 07/19/1432H (01/10/2011G) with Massa to provide maintenance and light cleaning including provision of workers and qualified technicians, equipment and tools, maintenance and cleaning consumables. This does not include the provision of spare parts and wages repair and maintenance contracts for air-conditioning units and elevator phone system, and pest control. The contract has a value of SAR 316,800 and a duration of one year and is renewed automatically.

Massa also has ongoing dealings with the Company which is a related party and the dealings associated with payment of expenses and purchase of property and equipment in addition to insurance policies with directors or with entities they have interests therein in total amount of SAR 1,386,735. Aside from the above, the Company does not have any transaction with related parties.

13 - 11 - 2 Insurance Policies

The Company provides insurance coverage to its employees using three types of policies as detailed hereunder.

Figure (13-7) Insurance Policies

No.	Policy	Insurer	Coverage Period	Annual Premium (SAR)
1	Management Liability	Arabian Insurance Co.	From 1/1/2013 To 31/12/2013	127,500
2	Medical Insurance	Ahli Cooperative Insurance Co.	From 1/2/2013 To 31/1/2014	1,776,430
3	Group Life Insurance	Arabian Cooperative Insurance Co.	From 15/1/2013 To 14/1/2014	126,842

Source: Company


The Company renews these documents immediately upon expiry.

13 - 12 Trademarks and Trademark License Agreement

The Company has to protect its trade name and brand by registering at the trademark office at MOCI.

The Company's competitive position depends, among other factors, on its ability to protect and use its intangible assets. Thus, the inability to protect these assets, or in some cases, the need to take legal action to protect them may negatively impact the Company's business and make its business more expensive which may adversely affect the results of the Company's operations.

It shall also be noted, that the certificate of registration of the Company's brand Al-Ahlia Insurance Company dated 07/19/1430 with registration number 27/1085 is valid for ten (10) years starting from 02/30/1430H and ends on 02/29/1440H and it is renewable at the Company's request.

Trade Mark	Trade Name
 <p data-bbox="252 913 443 985"> AL AHLIA للتأمين التعاوني for cooperative insurance </p>	<p data-bbox="667 622 1034 645">Al-Ahlia for Cooperative Insurance Co.</p>

14. Summary of the Company's By-laws

The Company's by-laws include the following items and the complete version of the by-laws will be available for inspection at the Company's Head office. There are many procedures that require SAMA's approval including but not limited to increase or decrease of capital, dividends distribution and transfer of founding shareholders shares, merger with other company, company liquidation and appointment of directors.

14 - 1 Name of Company

Al-Ahlia for Cooperative Insurance Company

14 - 2 Objectives of the Company

The objective of the Company is to engage in cooperative insurance operations and all related activities, such as reinsurance, agencies, representations, correspondence and brokerage, all in accordance with the provisions of the Law on the Supervision of Cooperative Insurance Companies, its Implementing Regulations and the rules and regulations in force in the Kingdom. The Company may undertake all activities as may be required for achieving its objectives whether in respect of insurance or investing its funds or to own, dispose of, transfer, lease or replace moveable and fixed assets whether directly or indirectly through companies to be established by the Company or acquired by it or in participating in other entities. The Company may practice such activities inside or outside the Kingdom of Saudi Arabia.

14 - 3 The Company's Head Office

The Company's head office is located in the city of Riyadh and may be relocated to any other city in Saudi Arabia under an EGM's resolution and after obtaining SAMA's approval. The Board of Directors may also, after obtaining SAMA's approval, open branch or agency offices inside or outside the Kingdom of Saudi Arabia.

14 - 4 Duration of the Company

The term of the Company shall be ninety nine (99) Gregorian years, commencing on the date of issuance of the Ministerial resolution of MOCI declaring its incorporation. The term of the Company may be extended by a resolution adopted by an EGM at least one (1) year prior to the expiration of the term of the Company.

14 - 5 Share Capital

The share capital of the Company is SAR 100,000,000 (One Hundred Million Saudi Riyals); divided into 10,000,000 (Ten Million) equal Shares, each with a nominal value of SAR 10 (Ten Saudi Riyals).

14 - 6 Subscription in Share Capital

The founding shareholders subscribed for 6,000,000 shares representing 60% of the share capital and paid their value in full. The remaining 4,000,000 shares representing 40% were offered for public subscription through an IPO.

14 - 7 Increase of Share Capital

After obtaining the approval of the competent authorities, the shareholders may, in an EGM, adopt a resolution to increase the Company's capital once or several times provided that the original shares have been paid in full. The said resolution shall specify the mode of increasing the capital.

14 - 8 Decrease of Capital

The Company may reduce its capital if it proves to be in excess of the Company's needs or if the Company sustains losses. This decision must be made through a resolution adopted by the shareholders in an EGM, and requires approval of the Minister of Commerce and Industry, CMA and SAMA. Such resolution shall be issued only after reading the auditor's report on the reasons calling for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations. The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents of such debt within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

14 - 9 Issue of Instruments

The Company may, after obtaining the approval of the involved authorities, issue equal negotiable non-dividable debt instruments.

14 - 10 Transfer of Shares

The shares shall be transferable in accordance with the rules, regulations and directives issued by CMA. As an exception to the foregoing, the cash shares subscribed to by the founding shareholders shall not be transferable before publishing the balance sheet and the profit and loss statement for two full fiscal years, each consisting of 12 months from the date of incorporation of the Company. Such provisions shall apply to any shares subscribed for by the founding shareholders in case of increasing the Company's capital before the lapse of the prohibition period. However, cash share may be transferred during the prohibition period in compliance with the rights selling provisions from one founder to another or to any Board member to serve as qualification shares or from the heirs of any founders to any third party in case of death.

14 - 11 Withholding of Directors Shares

Each Director shall provide the Company (upon his election) with a guaranty equivalent to no less than 5,000 (Five Thousand) Shares against any contracts arising between him and the Company, which have been approved at an Ordinary General Assembly. Such right of attachment shall include dividends due on the attached Shares.

14 - 12 Disposal of Directors Shares

The Board of Directors may, after obtaining the involved authorities, sell the shares provided by the Company's directors as guarantee against contracts may arise between them and the Company provided the debt is already due. This action will be taken after the second written notice to the involved director requesting payment of debt within two weeks. In case of involved director failure to settle the debt the Board of Director then may sell the director's shares through Tadawul. Any remaining balance after settlement of the debt will be paid to the shareholder or its custodian or heirs.

14 - 13 Board of Directors

The Company shall be managed by a Board of Directors consisting of eleven (11) members appointed by the Ordinary General Assembly for a term not exceeding three (3) years. This appointment will prejudice the entities right to replace their representative in the Board.

14 - 14 The Board's Authorities

Without prejudice to the powers reserved for the general assembly, the Board shall have the widest powers to manage the Company's affairs and businesses. The Board may, within limits of its authorities, deputize one or more of its members or others to carry out specific assignments.

14 - 15 Chairman and Managing Director

The Board of Directors shall appoint one of its members as Chairman and the Board shall appoint a Managing Director for the Company from the members of the Board. The Chairman and the Managing Director shall severally or jointly have the power to represent the Company before judicial bodies and with third parties. The Chairman and the Managing Director individually, shall have the authority to sign on behalf of the Company, implement the Board resolutions and delegate their duties to others. The Managing Director shall be responsible for the executive management of the Company.

14 - 16 The Board's Remuneration

The Board of Directors will determine the salaries, allowances and remunerations for the chairman and directors in accordance with the stipulations of article 20 of the Company's by-laws.

The remuneration of the Chairman of the Board for performing his duties shall be SAR 180,000 (One Hundred Eighty Thousand Saudi Riyals) per annum. The remuneration for each Director for performing their respective duties shall be SAR 120,000 (One Hundred Twenty Thousand Saudi Riyals) per annum.

The Chairman and each Director shall be paid SAR 3,000 (Three Thousand Saudi Riyals) for attending each Board meeting and an amount of SAR 1,500 (One Thousand Five Hundred Saudi Riyals) for attending each meeting of

the Board's sub committees. In any event, the remuneration of the Chairman and the Directors may not exceed 5% of the net profits.

14 - 17 Board Meetings

The Board shall be called to convene in the head office of the Company by its Chairman and when requested to convene such meeting by two members of the Board. The call shall be documented in the manner specified by the Board. The Board of Directors can meet outside the Company's premises provided that it shall meet at least four (4) times a year provided that the interval between the meetings shall not exceed four months.

The meeting of the Board shall not have a quorum unless attended by at least 80% of the members in person or by proxy, provided that the members attending in person shall not be less than at least 60% of the members. Board member may delegate any other member to attend the meetings and vote on his behalf. This will be documented in writing provided that the delegated member is not allowed to vote to the resolutions that he is prohibited to vote therein.

The Board's resolutions shall be issued unanimously by 2/3 majority vote of the represented members. Board resolutions may be issued by members voting by circulation unless one of the members requests, in writing, to hold a meeting to discuss the resolution. In this case, resolutions shall be presented at the Board of Directors at the next meeting. Any member of the Board of Directors who has a direct or indirect interest in any matter or suggestion presented to the Board or the Executive Committee, as applicable, shall inform the Board or the Executive Committee of his interest in the presented matter. Such member, without being excluded from the quorum required for the validity of the meeting, shall abstain from participating in discussions and voting at the Board of Directors or the Executive Committee, as applicable, with regard to the matter or the suggestion.

14 - 18 Committees of the Board

The Audit Committee shall consist of no less than three (3) members and no more than five (5), who are not Executive Directors of the Company and the majority of whom shall not be members of the Board of Directors, including a specialist in financial and accounting and as approved by SAMA, MOCI and CMA.

The Board of Directors shall form an Executive Committee consisting of not less than three (3) members and not more than five (5) members. The Executive Committee's meetings shall be chaired by the chairman who will be appointed by the members of the Executive Committee among them. If the chairman is not present at a meeting, the Committee shall appoint a temporary chairman among the present members. A member of the Executive Committee may give proxy to another member who shall have the voting power for only three meetings. The period of membership of the Executive Committee shall be the same as of the Board and the Board shall fill the vacancy in the Executive Committee.

With respect to any instructions stipulated by SAMA or by the Board of Directors of the Company, the Executive Committee shall carry out all the authorities stipulated by SAMA or the Board. The Executive Committee, within its designated authorities, shall assist the Managing Director or the General Manager.

The Executive Committee meeting shall be valid only if attended by at least two (2) of its members in person or by proxy provided that at least two (2) of the members shall be present in person. The decisions of the Executive Committee shall be adopted unanimously and in the case of dispute, the decisions shall be adopted by a two third majority vote of the members present.

14 - 19 General Assembly Meetings

General Meetings of Shareholders in a General Assembly duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located.

Except for matters reserved for an EGM, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year, within six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assembly meetings may be convened whenever needed.

An EGM shall have the power to amend the Company's Articles of Association, except for such provisions as may be impermissible to be amended under the regulations. The Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter.

The meeting of the Ordinary General Assembly shall not have a quorum unless attended by Shareholders representing at least 50% of the Company's capital. If such quorum cannot be attained at the first meeting, a second

meeting shall be convened within the following thirty (30) days of the previous meeting. Such notice for the meeting shall be published in the same manner described above. The second meeting shall be deemed valid irrespective of the number of shares represented.

As for an EGM, it shall not be deemed valid unless attended by Shareholders representing at least fifty per cent (50%) of the Company's capital. If such quorum is not attained in the first meeting, a second meeting shall be convened within the following thirty (30) days. The second meeting shall be considered as valid if attended by a number of Shareholders representing at least one-quarter (1/4) of the Company's capital.

14 - 20 Shareholders' Assemblies' Resolutions

Resolutions of the constituent assembly and Ordinary General Assembly shall be adopted by an absolute majority vote of the Shares represented thereat. Resolutions of an EGM shall be adopted by a majority vote of two thirds of the Shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's term, dissolving the Company prior to the expiry of the period specified therefore in its By-laws or merging the Company with another company or institution, then such resolution shall be valid only if adopted by a majority of three-quarters of the Shares represented at the meeting.

14 - 21 Auditor

At a general assembly, shareholders shall appoint 2 (two) auditors annually from among the auditors licensed to work in the Kingdom. The auditors' remuneration shall be fixed by the shareholders at a general assembly. Shareholders may, at a general assembly, further reappoint the same auditors.

14 - 22 Annual Accounts

The fiscal year of the Company shall start on January 1 and end on December 31 of the same year. However, the first fiscal year of the Company shall commence on the date of the ministerial resolution declaring its incorporation and shall end on December 31 of the following year.

The Board shall prepare, at the end of each fiscal year, an inventory of the value of the Company's assets and liabilities at that date. The Board shall also prepare the Company's financial statements and a report on the Company's activities and financial position for the preceding year. The report shall include the method proposed by the Board for the distribution of net profits within a period not exceeding 40 (forty) days after the end of the annual financial period to which they relate. The Board of Directors shall place such documents at the disposition of the auditor at least 55 (fifty-five) days prior to the date set for convening the Ordinary General Assembly. The Chairman of the Board shall sign the said documents and they shall be placed at the disposition of the Shareholders in the Company's head office at least 25 (twenty-five) days prior to the date set for the Ordinary General Assembly. The Chairman of the Board of Directors shall publish in a daily newspaper circulated in the city where the head office of the Company is located, the financial statements and a comprehensive summary of the Board of Directors' report and the full text of the auditors' Report and shall send a copy of such documents to the Companies Department and the CMA at least 25 (twenty-five) days prior to the date set for convening the Ordinary General Assembly.

The insurance operations accounts shall be kept separate from the Shareholders' income statement, according to the following details:

1. Insurance Operations Accounts:

- a. An independent account shall be dedicated to earn Premiums, reinsurance commissions and other commissions;
- b. An independent account shall be dedicated to compensation incurred by the Company;
- c. At the end of every year, the total surplus which represents the difference between total Premiums and compensation minus the marketing, administrative and operational expenses and the necessary technical provisions in accordance with the directives in this regard shall be determined;
- d. Net surplus shall be determined by adding to, or subtracting from, the total surplus in paragraph (c) above, the policyholders' investment return share after calculating the policyholders' earnings and deducting what they owe in expenses realized; and
- e. Net surplus shall be distributed as follows: 10%, either directly to the policyholders or reducing their Premiums for the following year and carrying over the balance to the Shareholders' income statement.

2. Shareholders' Income Statement:

- a. The Shareholders' profits from their funds investment shall be in accordance with the rules set by the Board of Directors.
- b. The share of the Shareholders in the net surplus shall be as set forth in paragraphs (d) & (e) above.

14 - 23 Distribution of Profits

The Shareholder's profits shall be distributed as follows:

1. Zakat and income tax allocations are to be held.
2. 20% of the net profits shall be withheld to form a statutory reserve. The Ordinary General Assembly may discontinue this withholding of the net profits when the said reserve reaches the entire paid-up capital.
3. The Ordinary General Assembly may, upon request of the Board of Directors, withhold an additional percentage of the annual net profits to form an additional reserve to be allocated for the purpose or specific purposes decided by the Ordinary General Assembly.
4. The balance shall be paid to the Shareholders as an initial payment of not less than 5% of the paid-up capital.
5. The balance shall be distributed among the Shareholders as a share in the profits or transferred to retained earnings account.
6. By resolution of the Board of Directors, periodic profits, deducted from the annual profits specified in subsection 4 above, may be distributed in accordance with applicable rules and regulations issued by competent authorities.

The Company shall notify the Capital Market Authority without delay of any decisions to distribute profits or any recommendation to do so. The dividends will be paid in the time and at the place to be determined by the Board of Directors in compliance with the instruction issued by MOCI, provided that the prior written approval of SAMA is obtained.

14 - 24 The Company's Losses

If the total of the Company's losses amount to three-quarters of its capital, the Directors shall call an EGM to consider whether the Company shall continue to exist or dissolve prior to the expiry of its period. In all cases, the assembly's resolution shall be published in the Official Gazette.

14 - 25 Dissolution and Winding up of the Company

If the Company's term expires or a resolution is issued on its dissolution prior to the time set for the expiry of such duration, shareholders shall, at an EGM, based on a proposal by the Board of Directors, decide the method of liquidation, appoint one or more liquidator(s) and specify their powers and remuneration. The powers of the Board of Directors shall cease upon the expiration of the Company. However, the Board shall continue the management of the Company until the liquidators is appointed. The Company's administrative departments shall retain their respective powers to the extent that they do not conflict with the powers of the liquidators. Upon liquidation, shareholders' rights in insurance operation surplus and reserves shall be considered as per article 49 and 50 of the Company's by-laws.

15. Underwriting

15 - 1 The Underwriter

Saudi Hollandi Capital will be the sole underwriter (the “**Underwriter**”) for the Offering.

The Underwriter:

السعودي الهولندي المالية
Saudi Hollandi Capital



Saudi Hollandi Capital
P.O.Box: 1467, Riyadh 11431
Prince Abdulaziz bin Musa'ed bin Jalawy Street
Tel: +966 1 416 3133
Fax: +966 1 416 3133 Ext 5308
www.shc.com.sa
info@shc.com.sa

The Company has entered into the Underwriting Agreement (the “**Underwriting Agreement**”) with the Underwriter in connection with the Offering. The principal terms of the Underwriting Agreement are set forth below under the Sale and Underwriting of the Offer Shares.

15 - 2 Summary of the Underwriting Agreement

Under the terms of the Underwriting Agreement:

Number of RI shares: 22,000,000 Shares

Offer Price (the “**Offer Price**”): SAR 10

- (a) The Company undertakes to the Underwriter that, on the allocation Date, it will allocate and issue to the Underwriter all shares that have not been subscribed to by the eligible shareholders as additional shares at the Offer Price.
- (b) The Underwriter undertakes to the Company that it will, on the allocation date, purchase the number of Offer Shares not subscribed for, at the Offer Price.

15 - 3 Fees

SAR 10,000,000 (Ten Million Saudi Riyals) of the offering proceeds will be used to cover the offering expenses which include the fees of the Legal Advisor, Financial Advisors, Reporting Accountant and Public Relations Advisor in addition to underwriting fees, Receiving Agents fees, marketing fees and printing and distribution fees and any other related fees. These estimations are subject to final confirmation. The offering expenses will be deducted from the Company's account after completion of the Offering.

16. Subscription Terms and Conditions

All registered shareholders of the Company at the end of trading on the day of the EGM ("Registered Shareholders" or "Qualifying Shareholders") and investors who purchased the Rights during the Trading Period (the "Trading Period") (such Registered Shareholders and investors hereinafter referred to as "Eligible Persons") must carefully read the Subscription Terms and Conditions (the "Subscription Terms and Conditions") prior to completing the Subscription Application Form (such form in physical or electronic form hereinafter referred to as the "Subscription Application Form"), since the completion, execution and submission of the Subscription Application Form to a Receiving Agent ("Receiving Agent") constitutes acceptance and agreement to the Subscription Terms and Conditions. Signing the Subscription Application Form and submitting it to the Receiving Agent is considered a binding agreement between the Company and the Eligible Person. Eligible Persons may obtain this Prospectus and Subscription Application Form from the following Receiving Agents:



Saudi Hollandi Bank
Prince Abdulaziz bin Musa'ed bin Jilawy Street
P.O. Box 1467, Riyadh 11431
Kingdom of Saudi Arabia
Tel: +966 11 406 7888, Fax: +966 11 403 1104
www.shb.com.sa
info@shb.com



The National Commercial Bank
King Abdulaziz Road
P.O. Box 3555, Jeddah 21481
Kingdom of Saudi Arabia
Tel: +966 (12) 649 3333, Fax: +966 (12) 7426 643
www.alahli.com.sa
info@alahli.com.sa



Riyadh Bank
King Faisal Road, Main Branch
P.O. Box 22622, Riyadh 11614
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Tel: +966 (11) 401 3030, Fax: +966 (11) 404 2618
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P.O. Box 6277, Jeddah 21442
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Arab National Bank
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Tel: +966 11 402 9000, Fax: +966 11 402 7747
Website: www.anb.com.sa
info@anb.com.sa

16 - 1 Subscription to the New Shares

In accordance with this Prospectus, 22,000,000 Shares will be offered for subscription through the New Shares representing 220% of the Company's pre-offering share capital, at an Offer Price of SAR 10 per share, with a nominal amount of SAR 10 and a total Offering value of SAR 220,000,000. The New Shares will be issued as one (1) New Share for each Right from the Rights Issue (2.2 Rights for every 1 existing Share). Subscription to the New Shares are offered to the Registered Shareholders, as at the close of trading on the date of the EGM held on 04/09/1435H (corresponding to 01/07/2014G) (the "Eligibility Date") and to the Eligible Persons who purchased the Rights during the Trading Period, including Registered Shareholders who bought new Rights in addition to the Rights that they were previously entitled to.

If Eligible Persons do not exercise their Rights and subscribe for the New Shares by the end of the Second Offering Period (the "Second Offering Period"), the Rump Shares (the "Rump Shares") resulting from non exercise or sale of the Rights by Eligible Persons will be made available to Institutional Investors ("Institutional Investors") during the Rump Offering (the "Rump Offering"). Registered Shareholders may trade their Rights deposited in their accounts through Tadawul. These Rights will be considered acquired by all Registered Shareholders in the Company's Shareholders Register as of the Eligibility Date. Each Right grants its holder eligibility to subscribe in one (1) New Share at the Offer Price. The Rights shall be deposited, within, two working days after the date of the EGM. Rights will appear in the Registered Shareholders' accounts under a new symbol assigned to the Rights Issue. The schedule and details of the Offering are as follows:

- **Eligibility Date:** The end of trading on the day of the EGM on 04/09/1435H (corresponding to 01/07/2014G).
- **First Offering Period (the "First Offering Period"):** Starts on Tuesday 11/09/1435H (Corresponding to 08/07/2014) until the end of the day on Thursday 20/09/1435H (Corresponding to 17/07/2014) during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The first Offering period coincides with the Trading Period during which Registered Shareholders and the public may trade in the Rights. Subscription in New Shares will occur by submitting a Subscription Application Form to any branch of the Receiving Agents by submitting a filled subscription form or through an Automated Teller Machine ("ATM") or through the telephone or through subscribing electronically with the Receiving Agents that offer such services to subscribers. It should be noted that at the end of the Trading Period, if a Registered Shareholder owns a number of Rights lower than the number of Rights that were subscribed for during the same phase, his subscription application will be rejected in whole or in part. He will be informed of this rejection and a refund of the subscription amount will be issued by the Registered Shareholder's Receiving Agent.
- **Trading Period:** Starts on Tuesday 11/09/1435H (Corresponding to 08/07/2014) until the end of the day on Thursday 20/09/1435H (Corresponding to 17/07/2014), in keeping with the First Offering Period. Tadawul is preparing mechanisms to regulate the trading of Rights and assigned a new symbol for Ahlia's Rights Issue (separate from Ahlia's trading symbol). The trading system will cancel Ahlia's Rights Issue symbol once the Trading Period expires. This period includes the following options:
 - a. Registered Shareholders have the following options in the First Offering Period and Trading Period:
 1. Retain the acquired Rights as of the Eligibility Date and exercise their Rights to subscribe for the New Shares through the Receiving Agents;
 2. Sell all their Rights or a part thereof through Tadawul;
 3. Purchase additional Rights and trade them (Subscription to additional New Shares is only possible during the Second Offering Period, by filling a Subscription Application Form or through an ATM machine or through the telephone or subscribing electronically with one of the Receiving Agents that provide such services to their customers); or
 4. Refrain from taking any action relation to the Rights Issue, whether selling the Rights or exercising the right

to subscribe for New Shares (The Rump Shares resulting from not exercising the Rights or selling the same

will be offered on the Exchange during the Rump Offering).
 - b. Those who purchased Rights during this period, may trade these Rights either by selling them or buying part or all of these Rights. If they purchased and held on to their Rights during this period, they may exercise these Rights and subscribe for New Shares only in the Second Offering Period, by filling a Subscription Form or through an ATM machine or through the telephone or through subscribing electronically with one of the Receiving Agents that provide such services to their customers. If they don't subscribe for the Rights by the end of the Second Offering Period, then the Rump Shares resulting from not exercising the Rights or selling the same will be offered on the Exchange during the Rump Offering.

- **Second Offering Period:** Starts on From Sunday 23/09/1435H (Corresponding to 20/07/2014) until the end of the day on 25/09/1435H (22/07/2014). No Shares can be traded during this period, which includes the following steps:
 - a. Registered Shareholders who own Shares in the Company as of the Eligibility Date and who did not subscribe for New Shares in the Company either in whole or in part during the First Offering Period, may exercise their Right during this phase and in the same way as defined for the First Offering Period. If they purchase additional Rights during the Trading Period, they may exercise their Rights and subscribe in the New Shares during the Second Offering Period, by filling a Subscription Application Form or through an ATM machine or through the telephone or through subscribing electronically with one of the Receiving Agents that provide such services to their customers. If they don't subscribe for these Shares by the end of this phase, then these Shares will be placed on the market for the Rump Offering.
 - b. Those who purchased Rights during the Trading Period and held on to them until the end of such period, may exercise their Rights and subscribe in the New Shares in this phase through the same procedures outlined in the First Offering Period. If they don't subscribe for the New Shares by the end of this phase, then the Rump Shares resulting from not exercising the Rights or selling the same will be placed on the market for the Rump Offering.
- **Rump Offering:** Starts on Sunday at 10:00 AM on 07/10/1435H (corresponding to 03/08/2014G) until the following day at 10:00 AM on 08/10/1435H (corresponding to 04/08/2014G). During this period, the Rump Shares will be offered to a number of Institutional Investors, procured by the Lead Manager following discussions with the Company. These institutions would thereafter present offers to purchase the Rump Shares, and the Rump Shares will be allocated to Institutional Investors in order of the value of the offers with the highest first until all of the Rump Shares have been allocated, with the Rump Shares being proportionally divided among Institutional Investors that tendered offers at the same price. Fractional Shares will be added to the Rump Shares and treated in the same manner.
- **Final Allocation of Shares:** Shares will be allocated to each investor based on the number of Rights fully and properly exercised by it. As for the persons entitled to fractional Shares, these fractions will be combined and offered to Institutional Investors during the Rump Offering. All proceeds resulting from the sale of Rump Shares and fractional Shares up to the paid Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed to the Eligible Persons no later than 23/10/1435H (corresponding to 19/08/2014G).
- **Trading of the New Shares on the Market:** Trading in the New Shares on the Exchange is expected to commence once all related formalities pertaining to their registration and allocation have been completed.

The Company has filed a request with the CMA for registration of the New Shares and their inclusion in the Exchange. The Company will be submitting a request to the CMA to allow trading of the New Shares after the completion of the Offering.

16 - 2 Eligible Persons who do not subscribe for the New Shares

Tadawul will modify the Company's share price at the close of the trading day on the date which the EGM was held on 05/09/1435H (corresponding to 02/07/2014G), based on the value of the subscription and the number of New Shares issued under this Prospectus, in addition to the market value of listed shares at closing time. Registered Shareholders who do not participate in whole or in part in the New Shares subscription will be subject to a decrease in their percentage of ownership in the Company and the value of the Shares they currently hold. Eligible Persons who did not subscribe to and did not sell their Rights will be vulnerable to losses. Eligible Persons who do not subscribe for New Shares will not get any compensation for not subscribing for the New Shares, except to receive proportional cash compensation from the proceeds of the sale price in excess of the Offer Price of the Rump Shares (if any). Registered Shareholders will retain the same number of Shares that they owned before the capital increase.

If Institutional Investors wish to buy the Rump Shares at the Offer Price only, or if they do not wish to subscribe and the Underwriter therefore covers the Rump Shares at the Offer Price, then the non-participating Eligible Persons will not receive any compensation as a result of them not subscribing for the New Shares by exercising their Rights.

Compensation amounts (if any) will be paid to the Eligible Persons who did not subscribe wholly or partially for the New Shares and Shareholders entitled to fractional shares by dividing the compensation amount by the total number of Shares not subscribed for by Eligible Persons and Shareholders entitled to fractional Shares. The compensation per share will thus be determined and paid to the Eligible Persons who did not subscribe for all or part of the Shares they were entitled to, as well as those entitled in fractional Shares.

16 - 3 Filling the Subscription Application Form

Eligible Persons wishing to exercise their full right and subscribe for all the Rights to which they are entitled, must fill and submit a completed Subscription Application Form, together with the subscription monies for their full entitlement and the required accompanying documents, to one of the Receiving Agents.

The number of Shares that the Eligible Person is entitled to will be calculated based on the existing Rights owned prior to the closing of the Second Offering Period. The subscription monies that the Subscriber must pay are calculated by multiplying the number of existing Rights owned prior to closing of the Second Offering Period by ten Riyals.

By completing and presenting the Subscription Application form, the Subscriber:

- Agrees to subscribe for the number of New Shares as stated in the Subscription Application Form;
- Warrants that he/she has carefully read the Prospectus and understood all its contents;
- Accepts the By-Laws of the Company and the terms and conditions mentioned in the Prospectus;
- Does not waive his/her right to claim any damages directly arising from any incorrect or inadequate significant information in the Prospectus, or for any material information missing there from, which would directly impact the Subscriber's acceptance to subscribe had it been contained in the Prospectus;
- Declares that he/she has not previously subscribed for this Right Issue, in which case the Company has the right to reject all applications;
- Accepts the number of shares allocated to him/her and all other subscription instructions and terms mentioned in the Prospectus and the Subscription Application Form; and
- Warrants not cancelling or amending the Subscription Application Form after submitting it to the Receiving Agent.

16 - 4 Documents Required to be submitted with the Subscription Application Forms

The Subscription Application Form must be submitted together with the following documents, as applicable to each case, and the Receiving Agents shall match the copy of each document with the original document and then return the original documents to the Subscriber:

- Original and copy of the personal identification card (in case of an individual subscriber)
- Original and copy of the family identification card (for family members)
- Original and copy of the power of attorney (in case of authorizing another person for the subscription)
- Original and copy of the custody deed (for orphans) (for individual subscribers)
- Original and copy of the residence permit (Iqama) for non-Saudis, whenever applicable (for individual subscribers)
- Original and copy of the commercial registration (in case of entities)

The subscription amount shall be paid in full, upon submission of the Subscription Application Form to a branch of one of the Receiving Agents, by authorizing the Receiving Agent to debit the account of the Subscriber at the Receiving Agent with the required amount, or through a certified check drawn at one of the local banks and in favour of "Al Ahlia For Cooperative Insurance Company - Rights Issue".

Power of attorney will be restricted to first class relatives (children, parents, wife, husband). In case of applying on behalf of another person, the attorney shall write his name and sign the Subscription Application Form. He shall attach the original and a copy of a valid power of attorney issued by a notary public for those who are living in Saudi Arabia or legalized through a Saudi embassy or consulate in the relevant country for those residing outside Saudi Arabia.

16 - 5 Submission of the Subscription Application Form

Receiving Agents shall start receiving Subscription Application Forms in their branches in the KSA during the First Offering Period and the Second Offering Period. Subscription Application Forms can be submitted by Institutional Investors for any Rump Shares only during the Rump Offering. Subscription Application Forms can be delivered during either of the offering periods either through a branch of the Receiving Agents or the tele-banking services section or ATMs or internet banking of any of the Receiving Agents providing such services. The Subscription Application Form includes further information which is to be strictly followed.

Upon completing, signing and submitting the Subscription Application Form, the Receiving Agent shall stamp it and provide the Subscriber with a copy thereof. If the information filled in the form turns out to be incomplete or incorrect or the form is not stamped by the Receiving Agent, the Subscription Application Form will be considered void. The Eligible Person shall accept the subscription terms and conditions and fill all sections of the Subscription Application Form. In case the form completed by an applicant does not meet any of the subscription terms and conditions, the Company shall have the right to reject that application in part or whole. Any application providing incomplete or incorrect information or not stamped by a Receiving Agent will be considered void. The application form may not

be amended or withdrawn after submission to the Receiving Agents, and shall be considered a binding contract between the Subscriber and the Company, once approved by the Company.

The Subscriber from among Eligible Persons is deemed to have bought the number of New Shares allocated to him when the following terms are fulfilled:

- Delivery by the Eligible Persons of the Subscription Application Form to any of the Receiving Agents' branches;
- Payment in full by the Eligible Person to the Receiving Agents of the total Offer Price (as specified above) of the Shares subscribed for; and
- Delivery to the Eligible Person by the Receiving Agents of the allocation letter specifying the number of Shares allocated to him/her.

Eligible Persons will not be allocated New Shares exceeding the number of New Shares that they subscribed for.

16 - 6 Allocation

The Company and Lead Manager shall open an escrow account called "Al Ahlia For Cooperative Insurance Company - Rights Issue", in which the subscription proceeds shall be deposited. The New Shares shall be allocated to each investor based upon the number of Rights that he/she properly exercised. As for Shareholders entitled to fractional Shares, these shall be accumulated and offered to Institutional Investors during the Rump Offering. All proceeds resulting from the sale of Rump Shares and fractional Shares up to the paid Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed on pro rata to the Eligible Persons no later than 23/10/1435H (corresponding to 19/08/2014G). Excess unsubscribed for Shares shall be purchased by and allocated to the Underwriter.

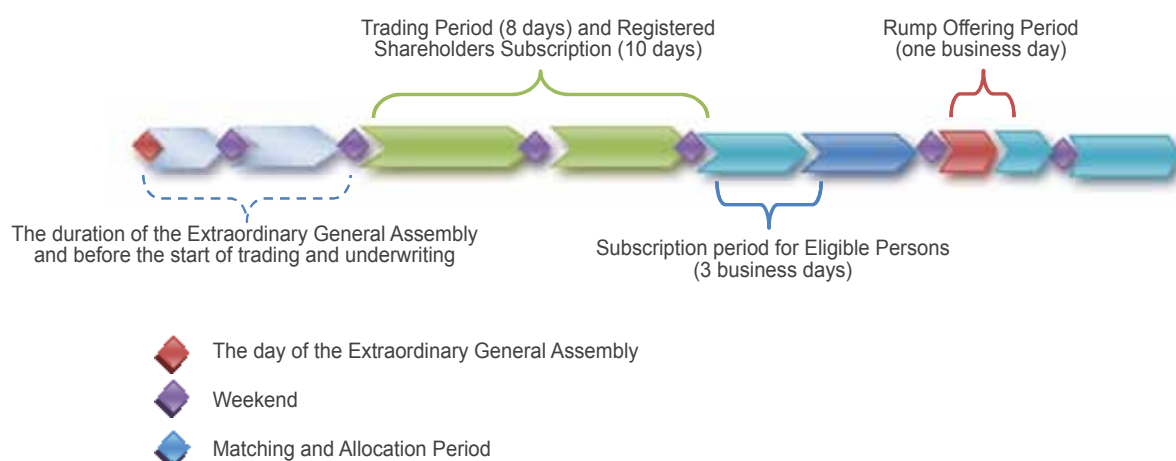
Fraction shares will be accumulated and offered to the institutional investors during the Rump Offering Period. The proceeds of these shares will be paid to the involved shareholders no later than 23/10/1435H (corresponding to 19/08/2014G).

Final notice for the number of Shares allocated to each Eligible Person without any charges or withholdings by the Lead Manager or Receiving Agents is expected to take place by deposited the shares into the accounts of Subscribers. Eligible Persons shall contact the branch of the Receiving Agent where they have submitted the Subscription Application Form to obtain any further information. The announcement regarding the allocation shall be made no later than 14/10/1435H (corresponding to 10/08/2014G).

16 - 7 Compensation Payment

The compensation to Eligible Persons who do not subscribe for all or part of the Rights Issue, if any, shall be paid no later than 23/10/1435 H (corresponding to 19/08/2014G).

16 - 8 Illustration of the new Rights mechanism



16 - 9 FAQs about the Rights Issue Mechanism

What is a Rights Issue?

A Rights Issue is an offering of tradable securities that give their holders the priority to subscribe for New Shares upon approval of the capital increase of the Company. They are acquired rights for all Registered Shareholders in the Company's Register as at the close of trading on the date of the EGM. Each Right grants its holder eligibility to subscribe in one New Share at the Offer Price.

Who is granted the Rights?

The Rights are granted to all Registered Shareholders in the Company's Register as at the close of trading on the date of the EGM.

When are the Rights deposited?

The Rights are deposited within two days after the EGM. The Shares will appear in the accounts of Registered Shareholders under a new symbol that designates these Rights. These Rights cannot be traded or exercised by the Registered Shareholders until the beginning of the First Offering Period.

How are Registered Shareholders notified of the Rights being deposited in their accounts?

The Registered Shareholders are notified through an announcement on the Tadawul website.

How many Rights can be acquired by a Registered Shareholder?

The number of Rights to be acquired by a Registered Shareholder is subject to the Rights Issue ratio and the number of Shares held by the Registered Shareholder as at the close of trading on the date of the EGM.

What is the Rights Issue ratio?

It is the ratio that permits the Registered Shareholder to know how many Rights he/she is entitled to in relation to the Shares that he/she already owned on the date of the EGM. If a company, for example, has issued 1,000 shares and increases its capital by offering 200 new shares, its number of shares becomes 1,200. Then, the eligibility ratio is 1 to 5 (one new share for every five existing shares).

Are these Rights tradable and will they be added to the Shareholders accounts under the same name/symbol as the Company's shares; or will they be assigned a new name?

The Rights will be deposited in Shareholders' accounts under a new symbol specially assigned to the Rights Issue.

What is the Right value upon the trading commencement?

The Right opening price is the difference between the share closing price on the day preceding such Right listing, and the Offer Price. For example, if the closing price of a share on the preceding day is SAR 35 (thirty-five Saudi Riyals) and the Offer Price is SAR 10 (ten Saudi Riyals), the opening price of the Rights will be 35 minus 10, i.e. SAR 25 (twenty-five Saudi Riyals).

Can Registered Shareholders subscribe for additional shares?

Registered Shareholders can subscribe for additional shares by purchasing new Rights during the Trading Period. These Rights can be exercised to subscribe for the new additional shares only during the Second Offering Period.

How does the Offering take place?

The Offering will take place as it currently does by submitting Subscription Application Forms at any of the Receiving Agents' branches (mentioned in this Prospectus) and only during the First Offering Period and/or the Second Offering Period.

Are share certificate holders allowed to subscribe and trade?

Yes, they are allowed to subscribe. However, they will only be able to trade after depositing their certificates in investment accounts through the Receiving Agents or the Tadawul's depository center and submitting the requisite documents.

What happens if New Shares are subscribed for, and then the Rights have been sold after that?

If a Registered Shareholder subscribes, then sells the Rights without purchasing a number of Rights equal to the number of exercised Rights prior to the end of the Offering period, then the Subscription Application will be rejected entirely, if all Rights have been sold, or partly in an amount equal to the number of sold Rights. In this case, the Registered Shareholder will be notified by its Receiving Agent and the rejected Offering amount will be refunded.

Are additional Rights purchasers entitled to trade them once again?

Yes, purchasers of additional Rights may sell them and purchase other Rights only during the Trading Period.

Is it possible to sell a part of these Rights?

Yes, the investor may sell a part of these Rights and subscribe for the remaining part.

Is it possible to subscribe during the weekend between the First and Second Offering Periods?

No, that is not possible.

Can the Eligible Person sell the Right after expiry of the Trading Period?

That is not possible. After the expiry of the Trading Period, the Eligible Person may only exercise the right to subscribe for the capital increase. In case the Right is not exercised, the investor may be subject to loss or decrease in the value of his investment portfolio.

What happens to Rights that are unsold or unsubscribed for during the Trading Period as well as the First and Second Offering Periods?

The Rump Shares resulting from a failure to exercise or sell these Rights will be offered during the Rump Offering, organized by the Lead Manager according to the standards set forth in this Prospectus.

Will there be any additional fees for the trading in Rights?

The same commissions applying to the shares will also apply on sale and purchase operations, without a minimum commission being imposed.

16 - 10 Trading of New Shares

Trading of the New Shares will take place upon completion of all relevant procedures. This is expected to take place after the allocation of New Shares, in coordination with the CMA, and will be announced at a later date.

16 - 11 Miscellaneous Notices

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; provided that, except as specifically contemplated herein, neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned or delegated by any of the parties to the subscription without the prior written consent of the other party.

The terms and conditions set here and any receipt of the Subscription Application Forms or any related Agreements are subject to the regulations of the Kingdom, and shall be interpreted and executed according to such regulations. This Prospectus may be distributed in Arabic and English. The Arabic text shall take precedence in the event of any conflict between the Arabic and English versions of this Prospectus.

Although the CMA has approved this Prospectus, it may suspend this subscription offer if the Company, at any time after the adoption of this Prospectus by the CMA and before approving the listing of Shares in the market, becomes aware of (1) a significant change that has occurred in any of the key information contained in this Prospectus, or any of the documents required to be included under the Listing Rules, or (2) any additional issues that should have been included in this Prospectus. In these cases it is incumbent on the Company to submit to the CMA a supplementary prospectus, according to the requirements of the Listing Rules. The supplementary Prospectus will therefore be published and an announcement made about applicable subscription dates. It is also possible that this subscription be suspended in the event of non-approval of the EGM on any of its details.

16 - 12 The Saudi Arabian Stock Exchange (“Tadawul”)

Tadawul was founded in 2001 as the successor to the Electronic Securities Information System. Electronic trading in securities commenced in the Kingdom in 1989G.

Trading on Tadawul occurs through a fully integrated trading system covering the entire process from trade order through settlement. Trading occurs each business day between 11:00 a.m. and 3:30 p.m., from Sunday until Thursday of each week. After close of exchange trading, orders can be entered, amended or deleted from 10:00 a.m. until 11:00 a.m. New entries and inquiries can be made from 10:00 a.m. of the opening session (starting at 11:00 a.m.). These times are subject to change during the Holy month of Ramadan, and are announced by Tadawul’s management.

Tadawul’s system works on matching orders by price and orders are received and prioritized based on price. In general, market orders are executed first, and if several instructions are entered at the same price level, they are executed at a first come first serve basis according to their entry time.

Tadawul distributes a comprehensive range of information through various channels, including in particular the Tadawul website and Tadawul Information Link. The Tadawul Information Link supplies trading data in real time to information providers such as Reuters.

Transactions are settled automatically on a T+0 bases, meaning that ownership transfer takes place immediately after the trade is executed.

Issuers are required to report all material announcements via Tadawul for onward dissemination to the public. Surveillance and monitoring is the responsibility of Tadawul as the operator of the market. The aim of supervision is to ensure fair trading and an orderly market.

16 - 13 Registration on the Official List

An application has been made to the CMA to register and include the New Shares in the official Saudi stock market listing. The registration is expected to be approved and trading to commence on the Exchange once the final allocation of the New Shares has been concluded. An announcement will be made on the Tadawul website in due course. The dates and times stated in this prospectus are only provisional and may be changed or extended at any time subject to approval of the CMA.

Although the Existing Shares are registered on the Official List, it will only be possible to trade in the New Shares once the allocation of the New Shares to successful Subscribers and Rump Offering Participants has been approved and these have been placed in their Tadawul accounts. It is absolutely forbidden to trade in the New Shares until the allocation has been approved. Subscribers who engage in any forward trading activity shall be acting at their own risk. The Company shall have no legal responsibility in such an event.

16 - 14 Resolutions and Approvals under which shares are offered

Ahlia has recently obtained SAMA’s approval under letter No. 184/IS dated 18/01/1433H to increase its share capital by SAR 220 million through the Offering. Upon completion of the Offering the Company’s share capital will be SAR 320 million comprising 32 million shares with nominal value of SR10 per share. The Company’s Board has issued its resolution dated 25/06/1433H (corresponding to 16/05/2012G) recommending increase of the Company’s capital to meet its solvency requirements. The EGM held on 04/09/1435H (corresponding to 01/07/2014G) has approved the recommendation of the Board of Directors to increase the capital as mentioned and the subscription therein will be limited to shareholders registered at the end of the trading day of the EGM.

This Prospectus and all the supporting documents requested by the CMA have been approved by publishing this Prospectus on CMA’s website on 05/09/1435H (corresponding to 02/07/2014G).

16 - 15 Change in the share price as a result of the capital increase

The closing price of the Company’s share on the day of the EGM was 55.28 and will be reset to 24.15 in the opening session the next day. The change represents a decrease of 56.3%.

The method of calculating the share price as a result of the capital increase is as follows:

- First: Calculate the market value of the Company at the close of trading on the day of the EGM:

Number of shares issued by the Company at the end of the day of the EGM multiplied by the closing price for the Company's share on the day of the EGM = market value of the Company at the close of trade on the day of the EGM.

- Second: Calculate the price of share in the opening session on the day following the day the EGM:

$$\frac{(\text{The market value of the Company at the close on the day of the EGM} + \text{the value of the offered shares})}{(\text{Number of shares issued by the Company at the end of the day the EGM} + \text{the number of New Shares offered in this Offering})} = \text{share price reset for the opening session on the day following the day the EGM.}$$

17. Documents Available for Inspection

The following documents will be available for inspection at the Head Office of the Company in Riyadh city during official working hours, from 8:30 a.m. to 5:00 p.m., three weeks before the Offering Period and throughout the Offering Period:

- The Company's Commercial Registration Certificate
- The Company's By-laws
- Recommendation of the Board of Directors regarding capital increase
- CMA approval for the Offering
- Resolution of the EGM approving the increase in the Company's Capital
- SAMA's Approval
- Reporting Accountant's written consent to the publication in the Prospectus of their Accountant's Report.
- Legal Advisor's written consent for the inclusion of their name as legal advisors to the Offering in the Prospectus
- Market advisors' written consent for inclusion of their names and using their reports in the prospectus
- Company's Audited Financial Statements for the financial years ended 31 December 2010G, 2011G and 2012G
- Material Contracts
- Real Estate Agreements
- Contracts required to be declared under clause 5-E of Annex 4 of the Listing Rules (if any)
- Reports/Valuations/Market Studies etc. referred to in prospectus to be made subject to inspection as per the requirements of the Listing Rules unless requirement is waived by CMA.

18. Accountants' Report

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

**Auditors' Report
Issued in Arabic
2013G**

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2013

	Notes	31December2013	31 December 2012
		SR	SR
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	7	87,952,757	101,348,118
Account receivable, net	8	37,225,050	28,345,220
Reinsurers› share of unearned premiums	9	24,779,656	31,447,632
Reinsurers› share of outstanding claims	10	13,995,508	22,320,866
Deferred acquisition costs	11	11,545,383	8,234,895
Prepaid expenses and other assets	12	14,058,276	9,083,262
Due from shareholders		31,569,273	7,528,603
Property and equipment, net	13	6,577,415	4,550,408
TOTAL INSURANCE OPERATIONS' ASSETS		227,703,318	212,859,004
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	7	41,746,694	41,437,777
Due from a related party	22	3,701,574	2,041,839
Investment available for sale	14	1,923,078	-
Statutory deposit	15	10,196,407	10,125,135
Other assets	12	2,335,823	1,110,202
TOTAL SHAREHOLDERS' ASSETS		59,903,576	54,714,953
TOTAL ASSETS		287,606,894	267,573,957

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 December 2013

	Notes	31December2013	31December 2012
		SR	SR
INSURANCEOPERATIONS’LIABILITIES			
Reinsurance payable		6,761,569	16,602,572
Unearned premiums	9	128,632,634	97,438,134
Unearned reinsurance commission	16	5,561,036	1,772,085
Outstanding claims	10	50,530,774	54,071,265
Accrued surplus distribution		1,517,116	1,517,116
Accounts payable, accrued expenses and other liabilities	17	34,700,189	41,457,832
TOTALINSURANCEOPERATIONS’ LIABILITIES		227,703,318	212,859,004
SHAREHOLDERS’LIABILITIESANDEQUITY			
SHAREHOLDERS’LIABILITIES			
Accrued zakat and income tax	21	2,031,511	2,566,938
Due to insurance operations		31,569,273	7,528,603
Other liabilities	17	269,107	132,353
TOTALSHAREHOLDERS’LIABILITIES		33,869,891	10,227,894
SHAREHOLDERS’ EQUITY			
Share capital	18	100,000,000	100,000,000
Accumulated losses		(73,966,315)	(55,512,941)
TOTALSHAREHOLDERS’ EQUITY		26,033,685	44,487,059
TOTAL SHAREHOLDERS’ LIABILITIES AND EQUITY		59,903,576	54,714,953
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		287,606,894	267,573,957

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS
For the Year Ended 31 December

	Note	2013	2012
		SR	SR
Gross premiums written		219,469,184	235,636,378
Less: Reinsurance premiums ceded		(40,439,627)	(69,748,151)
Less: Excess of loss expenses		(3,435,162)	(3,867,374)
Net premiums written	9	175,594,395	162,020,853
Change in unearned premiums	9	(37,862,476)	10,591,968
Net premiums earned	9	137,731,919	172,612,821
Gross claims paid	10	(124,500,538)	(131,790,138)
Reinsurers' share of gross claims paid	10	35,517,314	53,447,353
Change in outstanding claims, net		(4,199,867)	(2,298,833)
Net claims incurred	10	(93,183,091)	(80,641,618)
Policy acquisition costs	11	(15,636,265)	(25,063,146)
reversal /(Expenses) of claims management, net		738,138	(9,125,566)
Reinsurance commission	16	7,236,605	13,199,515
Net underwriting results		36,887,306	70,982,006
General and administrative expenses	19	(55,199,774)	(49,926,735)
Reversal / (Provision) for doubtful debts		131,491	(6,774,063)
Commission income		517,643	732,240
Other income	20	2,676,704	157,709
(Deficit) / surplus from insurance operations		(14,986,630)	15,171,157
Shareholders' appropriation from Deficit / (Surplus)		14,986,630	(13,654,041)
surplus after shareholders appropriation of the year		-	1,517,116
surplus distribution		-	(1,517,116)
Accumulated surplus at the end of the year		-	-

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' OPERATIONS
For the Year Ended 31 December

	Note	2013	2012
		SR	SR
Revenue			
(Deficit) / surplus transferred from insurance operations		(14,986,630)	13,654,041
Commission income		289,653	137,660
		(14,696,977)	13,791,701
Expenses			
General and administrative	19	(3,177,793)	(294,473)
Net (loss) / income for the year		(17,874,770)	13,497,228
Basic and diluted (loss) / earnings per share for the year	23	(1,79)	1,35
Average number of outstanding share during the year		10,000,000	10,000,000

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS
For the Year Ended 31 December

	Note	2013	2012
		SR	SR
Net (loss) income for the year		(17,874,770)	13,497,228
Other comprehensive loss:			
Zakat and income tax	21	(578,604)	(1,671,001)
Total comprehensive(loss) / income for the year		(18,453,374)	11,826,227

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended 31 December 2013 and 2012

	Share capital	Accumulated losses	Total
	SR	SR	SR
Balance at 1 January 2012	100,000,000	(67,339,168)	32,660,832
Net income for the year	-	13,497,228	13,497,228
Zakat and income tax	-	(1,671,001)	(1,671,001)
Balance at 31 December 2012	100,000,000	(55,512,941)	44,487,059
Balance at 1 January 2013	100,000,000	(55,512,941)	44,487,059
Net income for the year	-	(17,874,770)	(17,874,770)
Zakat and income tax	-	(578,604)	(578,604)
Balance at 31 December 2013	100,000,000	(73,966,315)	26,033,685

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For the Year Ended 31 December

	2013	2012
	SR	SR
OPERATING ACTIVITIES		
Accumulated surplus at the end of the year	-	1,517,116
Adjustments for:		
Depreciation	1,813,597	1,250,453
Provision for doubtful debts	131,491	6,774,063
Loss (gain) from sale of property and equipment	1,146	(107,836)
Insurance operations (loss) surplus transferred to shareholders	(14,986,630)	13,654,041
Provision of end of service benefits	642,873	1,518,206
Operating (loss) income before changes in operating assets and liabilities	(12,397,523)	24,606,043
Changes in operating assets and liabilities:		
Accounts receivable	(9,011,321)	(9,224,136)
Reinsurers' share of unearned premiums	6,667,976	5,386,192
Reinsurers' share of outstanding claims	8,325,358	1,857,711
Deferred acquisition costs	(3,310,488)	5,953,377
Prepaid expenses and other assets	(4,975,014)	(463,735)
Due from shareholders	(9,054,040)	(5,011,926)
Reinsurance payable	(9,841,003)	(31,673,514)
Unearned premiums	31,194,500	(15,978,160)
Unearned reinsurance commission	3,788,951	(842,485)
Outstanding claims	(3,540,491)	441,122
Accounts payable, accrued expenses and other liabilities	(7,321,066)	4,793,852
End of service benefits paid	(79,450)	(612,282)
Net cash used in operating activities	(9,553,611)	(20,767,941)

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For the Year Ended 31 December

	2013	2012
	SR	SR
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,849,632)	(3,129,454)
Proceeds from sale of property and equipment	7,882	113,252
Net cash used in investing activities	(3,841,750)	(3,016,202)
Decrease in cash and cash equivalents	(13,395,361)	(23,784,143)
Cash and cash equivalents at the beginning of the year	101,348,118	125,132,261
Cash and cash equivalents at the end of the year	87,952,757	101,348,118

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' CASH FLOWS
For the Year Ended 31 December

	2013	2012
	SR	SR
OPERATING ACTIVITIES		
Net (loss) income for the year	(17,874,770)	13,497,228
Adjustments for:		
Deficit (surplus) share from insurance of operations	14,986,630	(13,654,041)
Operating loss before changes in operating assets and liabilities	(2,888,140)	(156,813)
Changes in operating assets and liabilities:		
Statutory deposit	(71,272)	(59,963)
Other assets	(1,225,621)	(1,107,818)
Other liabilities	136,754	59,963
Due from a related party	(3,582,813)	(3,641,155)
Due from insurance operations	9,054,040	5,011,926
Zakat and income tax paid	(1,114,031)	-
Net cash from operating activities	308,917	106,140
Increase in cash and cash equivalents	308,917	106,140
Cash and cash equivalent, at the beginning of the year	41,437,777	41,331,637
CASH AND CASH EQUIVALENT, AT THE END OF THE YEAR	41,746,694	41,437,777
Non cash operations:		
Transfer investment from related party (note 22)	1,923,078	-

The accompanying notes 1 to 29 form an integral part of these financial statements

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

1. GENERAL

Al Ahlia Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No.1010238441 dated 7 Ramadan 1428H (corresponding to 19 September 2007). The registered office address of the Company is P.O Box 939, Riyadh 11312, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed at the Saudi Arabian Stock Market (Tadawul) on 24 Ramadan 1428H (corresponding to 6 October 2007). The Company started its insurance operations on 5 Rabi' Al Thani 1430H (corresponding to 1 April 2009).

2. ASSET PURCHASE AGREEMENT AND TRANSFER OF INSURANCE PORTFOLIO

The Company was licensed to conduct cooperative insurance business in the Kingdom of Saudi Arabia in accordance with Royal Decree numbered 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to Council of Ministers resolution numbered 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering transaction on 19 ThulQedah 1427H (corresponding to 10 December 2006), the Ministry of Commerce and Industry (MOCI) issued a resolution declaring the incorporation of the Company on 18 Jumada Al Thani 1428H (corresponding to 3 July 2007).

The Company is willing to enter into an insurance portfolio and net asset purchase agreement related to the operation of Al Ahlia Insurance Company B.S.C. (closed) in the Kingdom of Saudi Arabia. Accordance to that, a financial due diligence was submitted (which consisted a valuation of the operations) in line with instructions issued by Saudi Arabian Monetary Agency, by an independent external auditor to Saudi Arabian Monetary Agency during the year 2007. The valuation result was issued by Saudi Arabian Monetary Agency (the Agency) in accordance with its letter addressed to Al Ahlia Cooperative Insurance Company dated 28 Rajab 1430H (corresponding to 21 July 2009) which stated that in accordance with the valuation program standards, there is no goodwill amount and the amount that can be transferred is only the net assets value.

The Company has convened for an ordinary general assembly meeting on 18 Shawal 1430H (corresponding to 7 October 2009) whereas the shareholders were notified about the above mentioned valuation result and the approval was obtained with regards to the insurance portfolio transfer and related net assets of Al Ahlia Insurance Company B.S.C. (closed) in the Kingdom of Saudi Arabia to the Company on the fact that it is to be agreed on the assets and liabilities that will be specifically transferred and estimated its value in accordance with the valuation program standards issued by Saudi Arabian Monetary Agency in May 2007 and transferring it on that basis. The Company is willing to transfer the assets and liabilities with retroactive effect as at 1 January 2009 following the finalization of the statutory procedures. As at 31 December 2013, the statutory procedures regarding the portfolio transfer have not yet been finalized.

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3. BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The financial statements are prepared under the historical cost basis amendment to include the measurement at fair value of investments held at fair value through income statement.

Functional and presentational currency

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

4. NEW STANDARDS AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2012, except for the adoption of amendments to existing standards as mentioned below which had no significant financial impact on the financial statements of the Company.

- IAS 1– Presentation of items of other comprehensive income
- IFRS 12 – Financial instruments- disclosure of interests in other entities
- IFRS 13 – Fair value measurement
- IAS 19 – Employee benefits
- IFRS 7 – Financial Instruments : Disclosures for offsetting financial assets and liabilities
- Amendment to the basis for conclusions on IAS (1, 16, 32, 34) - Annual improvements 2011

In addition to the above, the Company has chosen not to early adopt IFRS 9– Financial instruments and amendment to IAS 32 – Presentation for offsetting financial assets and liabilities, which have been published, but will not be effective until now.

The Company's management is currently assessing the implication of the above standards and amendments and the timing of adoption IFRS 9.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reinsurance

In the ordinary course of business, the Company cedes insurance premiums 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 reinsurance transactions is effected under treaty, facultative and excess of loss reinsurance contracts. Assets or liabilities being recorded in the insurance operations' financial position represent premiums due to or payments due from reinsurers and the company's share of losses being recoverable from reinsurers. Amounts receivable from reinsurers are estimated in a manner consistent with the claims liability associated with the insured parties.

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Deferred policy acquisition costs

Those 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 expensed when incurred.

Subsequent to initial recognition, deferred costs are amortized on a pro-rata method over the expected future premium period except for marine cargo whereas the deferred portion is 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.

Impairment and uncollectibility of financial assets

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

- a) For assets carried at fair value, impairment is the difference between the cost and fair value.
- b) For assets carried at cost, impairment is the difference between the carrying book value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- c) For assets carried at amortized cost, impairment is determined based on the future cash flows that are discounted at the original effective special commission rate.

Trade date accounting

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

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based on the estimated useful life using the straight line method.

The estimated useful lives of property and equipment are as follows:

	Years
Computers and software	4
Furniture and fixtures	10
Motor vehicles	4
Leasehold improvement	5

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Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of insurance / shareholders' operations.

Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the insurance contracts liabilities after deduction of related deferred acquisition costs. In performing these tests, management uses current best estimates of future contractual cash flows and administration expenses and claims handling. Any deficiency in the carrying amount immediately charged to the statements of insurance operations by writing off first related deferred acquisition cost and by establishing a provision for losses arising from liability adequacy tests (Unexpected loss provision). And in cases requiring liability adequacy test for using best of new estimations, these estimations are used (without any margin for any reversal change) for measuring subsequently these liabilities.

Employees' end of service benefits

Employees' end of service benefits are provided in accordance with Saudi Labor Law. Dues are paid based on employees' last salary and service period subject to completion of the minimum service period. The estimated cost is due for these remunerations over the staff employment period.

Insurance contracts

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

Accounts receivable

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

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Premiums earned

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis except for marine cargo insurance whereby it is calculated on the basis of last three month premiums. 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 recorded to the statement of insurance operations over the period to cover the insurance risks. Retained premiums and commission income of the current period which are related are to unexpected risks relating to the subsequent financial period, are recorded based on actual number of days. Commission income is recognized based on the effective yield after taking into consideration the outstanding principal amount and average commission rate.

Outstanding claims

Outstanding claims comprise the estimated claims incurred but not settled at the date of the financial position, and claims handling cost less the estimated salvage value and other recoveries whether reported or not by the insured's. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at date of the statement of financial position including claims handling costs and the estimated salvage value and other recoveries as at the financial position date.

Any difference between the provisions at the date of the statement of financial position and settlements and provisions in the following year is included in the statement of insurance operation for that year.

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

Fair values

For traded investments in organised financial markets, the fair value is determined based on current price in the financial market. The fair value for items associated with interest based on discounted cash flows using interest rates for those items which have same conditions and risk characteristics. For untraded investments, the fair value is determined based on the market value of similar investments or based on forecasted discounted cash flows.

Derecognition of financial instruments

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statements of operations and shareholders' operations unless required or permitted by any accounting standard or its interpretations.

Operating leases

Operating lease payments are recognized as expenses in the statement of insurance operations on a straight-line method basis over the lease contract period.

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Segmental reporting

A segment is considered as a basic component of the company that is engaged in selling / providing products or related services whereby its profit or loss is different than profit or loss of other segments. For management purposes, the Company is organized into business units based on their products and services have the following segments:

- Engineering insurance: provides for contractors' risks, installations and building and electrical equipments and electronics risks and any other insurance classified under this segment.
- Motor Insurance: provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Health insurance: covers medical costs, medicines, and all other medical services and supplies.
- Professional malpractice: covers responsibilities of professional medical malpractice.
- Other insurance classes: cover any other classes of insurance not mentioned above.
- Shareholders' operations: and it is a non-operating segment.

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

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian Zakat and Tax Regulations. Zakat is charged to equity accounts of Saudi founding shareholders while income tax is charged to equity accounts of foreign shareholders.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the 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 assets or liabilities affected in the future.

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

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

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

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6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impairment losses of premiums receivable

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.

Deferred acquisition costs

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

If the contract has been classified as "insurance contract" it remains so through the remaining of its period even if the insurance risk heavily decrease during the period.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

	2013		2012	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Cash and balances at banks	6,952,757	341,028	2,348,118	341,027
Short term Islamic deposits	81,000,000	41,405,666	99,000,000	41,096,750
	87,952,757	41,746,694	101,348,118	41,437,777

Short term Islamic deposits represent deposits being placed with local banks with a maturity period of less than three months from the date of its original acquisition. Such deposits earn special commission at an average rate of 0.82% per annum (31 December 2012: 0.20%).

Short term Islamic deposits and balances at banks are placed with counterparties that have good credit ratings.

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

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8. ACCOUNTS RECEIVABLE, NET

	2013	2012
	SR	SR
Premiums and insurance balances receivable	43,860,881	43,516,367
Reinsurances balances receivables	8,298,493	1,220,296
Less: Provision for doubtful debts	(14,934,324)	(16,391,443)
	37,225,050	28,345,220

Terms and conditions of the Company's require premiums to be settled in 90 days.

The following represents the ageing of premiums and reinsurance balances receivable as at December 31:

			Past due but not impaired			Past due and impaired
	Total	Not past due and not impaired	From 31 to 60 days	From 61 to 90 days	More than 90 days	
	SR	SR	SR	SR	SR	SR
2013	52,159,374	11,221,894	5,910,320	3,939,605	-	31,087,555
2012	44,736,663	3,326,905	3,004,475	2,795,601	-	35,609,682

9. CHANGE IN UNEARNED PREMIUMS

	2013	2012
	SR	SR
At the beginning of the year	65,990,502	76,582,470
Netwritten premiums	175,594,395	162,020,853
Net earned premiums	(137,731,919)	(172,612,821)
At the end of the year	103,852,978	65,990,502
Reinsurers' share of unearned premiums	24,779,656	31,447,632
	128,632,634	97,438,134

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10. OUTSTANDING CLAIMS

	2013 SR			2012 SR		
Movement in outstanding claims	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
Outstanding claims at beginning of the year	26,596,191	(9,120,866)	17,475,325	29,382,336	(13,858,577)	15,523,759
IBNR	27,475,074	(13,200,000)	14,275,074	24,247,807	(10,320,000)	13,927,807
Total at the beginning of the year	54,071,265	(22,320,866)	31,750,399	53,630,143	(24,178,577)	29,451,566
Paid claims	(124,500,538)	35,517,314	(88,983,224)	(131,790,138)	53,447,353	(78,342,785)
Incurred claims	120,960,047	(27,191,956)	93,768,091	132,231,260	(51,589,642)	80,641,618
Total at the end of the year	50,530,774	(13,995,508)	36,535,266	54,071,265	(22,320,866)	31,750,399
Details of outstanding claims						
Outstanding claims	23,782,774	(7,449,508)	16,333,266	26,596,191	(9,120,866)	17,475,325
IBNR	26,748,000	(6,546,000)	20,202,000	27,475,074	(13,200,000)	14,275,074
Total at the end of the year	50,530,774	(13,995,508)	36,535,266	54,071,265	(22,320,866)	31,750,399

11. DEFERRED ACQUISITION COSTS

	2013	2012
	SR	SR
At 1 January	8,234,895	14,188,272
Costs incurred during the year	18,946,753	19,109,769
Costs charged for the year	(15,636,265)	(25,063,146)
At 31 December	11,545,383	8,234,895

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12. PREPAID EXPENSES AND OTHER ASSETS

	2013		2012	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Prepayments of intermediaries and service suppliers	4,640,288	2,265,697	2,877,098	1,076,298
Deferred claims management	2,136,132	-	3,036,188	-
Prepaid rent	1,387,738	-	1,272,633	-
Employees	3,089,576	-	1,201,086	-
Prepaid subscriptions	50,000	-	28,533	-
Other receivables	2,754,542	70,126	667,724	33,904
	14,058,276	2,335,823	9,083,262	1,110,202

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13. PROPERTY AND EQUIPMENT, NET

Cost	Office equipment and furniture and fixtures	Computers and software	Motor vehicles	Leaseholder improvement	Project under process	Total
	SR	SR	SR	SR	SR	SR
As at 1 January 2012	1,605,287	4,916,745	540,735	-	-	7,062,767
Additions during the year	1,581,497	463,481	148,049	936,427	-	3,129,454
Disposals during the year	(2,000)	-	(220,465)	-	-	(222,465)
As at 31 December 2012	3,184,784	5,380,226	468,319	936,427	-	9,969,756
Additions during the year	1,067,590	491,766	-	649,276	1,641,000	3,849,632
Disposals during the year	(9,234)	(19,200)	-	-	-	(28,434)
As at 31 December 2013	4,243,140	5,852,792	468,319	1,585,703	1,641,000	13,790,954
Accumulated depreciation						
As at 1 January 2012	374,171	3,501,000	510,773	-	-	4,385,944
Charge for the year	313,138	877,676	28,549	31,090	-	1,250,453
Disposals during the year	(1,134)	-	(215,915)	-	-	(217,049)
As at 31 December 2012	686,175	4,378,676	323,407	31,090	-	5,419,348
Charge for the year	795,636	592,093	37,012	388,856	-	1,813,597
Disposals during the year	(5,215)	(14,191)	-	-	-	(19,406)
As at 31 December 2013	1,476,596	4,956,578	360,419	419,946	-	7,213,539
Net book value						
As at 31 December 2013	2,766,544	896,214	107,900	1,165,757	1,641,000	6,577,415
As at 31 December 2012	2,498,609	1,001,550	144,912	905,337	-	4,550,408

14. INVESTMENT AVAILABLE FOR SALE

The available for sale investment represents the amount of 1,923,078 SR with respect to the company's share in Najm Insurance Services "najm" capital which represents 3.85% of Najm Company capital. As the fair value is not available. This investment has been valued at cost. Management is of the opinion that the fair market value of this investment is not materially different from its carrying value.

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15. STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital in accordance with the Cooperative Insurance Companies Control Law in the Kingdom of Saudi Arabia issued by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA. During year 2009, SAMA approved for investing the statutory deposit amounting to SR 10,000,000 in a local investment fund. The fair value for this investment was SR 10,196,407 as at 31 December 2013 (31 December 2012: SR 10,125,135).

16. UNEARNED REINSURANCE COMMISSION

	2013	2012
	SR	SR
At 1 January	1,772,085	2,614,570
Commission received during the year	11,025,556	12,357,030
Commission earned during the year	(7,236,605)	(13,199,515)
At 31 December	5,561,036	1,772,085

17. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

	2013		2012	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Accounts payable – broker	5,053,350	-	9,317,203	-
Advances from customers	7,502,017	-	4,409,694	-
Accrued withholding tax	11,863,901	-	10,404,230	-
Accounts payable - suppliers	4,245,025	-	8,298,561	-
End of service benefits	3,884,515	-	3,162,192	-
CCHI	616,249	-	1,572,307	-
Accrued expenses	1,234,126	-	4,030,550	-
Others	301,006	269,107	263,095	132,353
	34,700,189	269,107	41,457,832	132,353

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18. SHARE CAPITAL

The authorized and paid up share capital of the Company is SR 100 million divided into 10 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 6 million shares with a nominal value of SR 10 each, which represent 60% of the shares of the Company and the remaining 4 million shares with a nominal value of SR 10 each have been subscribed for by the public.

On 18 Muharam 1433H (corresponding to December 13, 2011) The Company obtained the approval from SAMA and CMA on 5 Rabi ALthani 1435H (corresponding to February 5, 2014) for the capital increase for an amount of SR 220 million through offering rights issue, and a recommendation was issued to the Extraordinary General Assembly to resolve the capital increase and determine the price of rights issue and number of shares whereby this capital increase is limited to shareholders being registered at tadawul closing date of the Extraordinary General Assembly date that has not yet been scheduled as at the financial position date.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2013		2012	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Employees' salaries and expenses	36,315,906	-	31,183,212	-
Board of directors' and executive committees meeting expenses	-	3,177,793	-	294,473
Professional and license fees	1,835,414	-	2,168,179	-
Promotion and advertising	1,870,602	-	798,041	-
Depreciation	1,813,597	-	1,256,492	-
End of service benefit	642,873	-	1,518,206	-
Rent	2,740,030	-	3,056,257	-
Travelling and business transportation	823,242	-	695,678	-
Utilities and maintenance	2,783,227	-	2,587,524	-
Stationery and printing	603,972	-	655,352	-
Supervision and inspection costs	2,108,180	-	3,018,666	-
GOSI	1,458,396	-	1,217,355	-
Others	2,204,335	-	1,771,773	-
	55,199,774	3,177,793	49,926,735	294,473

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20. OTHER INCOME, NET

	2013	2012
	SR	SR
Various income	2,677,850	49,873
(loss) / gain capital , net	(1,146)	107,836
	2,676,704	157,709

21. ZAKAT AND INCOME TAX

a) Zakat charge for the year

Zakat and income tax charges for the current year consist of provision for the current year amounting to SR 578,804 (2012: SR 1,671,001).

The movement of zakat and income tax provision is as follows:

	2013	2012
	SR	SR
Balance at the beginning of the year	2,566,938	895,937
Provision for the year	578,604	1,671,001
Paid during the year	(1,114,031)	-
Balance at the end of the year	2,031,511	2,566,939

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b) Zakat provision

The Zakat base is calculated based on the following:

	2013	2012
	SR	SR
Shareholders' equity	36,479,388	26,781,882
Provisions	15,965,378	9,742,201
Book value for long term assets	(5,393,480)	(3,731,335)
Statutory deposit	(8,200,000)	(8,200,000)
Investment available for sale	(1,576,923)	-
Adjusted (loss) / profit	(14,130,156)	18,233,058
Zakat base	23,144,207	42,825,806

Some of the amounts were adjusted to reach zakat base.

The movement of zakat provision is as follows:

	2013	2012
	SR	SR
Balance at the beginning of the year	1,966,581	895,937
Provision for the year	578,604	1,070,644
Paid during the year	(513,675)	-
Balance at the end of the year	2,031,511	1,966,581

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c) Income tax

The movement of income tax provision is as follows:

	2013	2012
	SR	SR
Balance at the beginning of the year	600,357	-
Provision for the year	-	600,357
Paid during the year	(600,357)	-
Balance at the end of the year	-	600,357

The provision of income tax is calculated based on 20% of non Saudi shareholders (18%) from adjusted net income at 25% after calculating the accumulated losses.

d) Status of assessments

The Company has filed its zakat and income tax returns for the years from 2009 to 2012 to the Department of Zakat and Income Tax (DZIT) not is received final zakat finalization for prior years. Were to obtain a certificate restricted for the year ended December 31, 2012, whereby the returns are still under the review thereof.

22. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year ended:

Related party	Nature of transaction	31 December 2013	31 December 2012
		SR	SR
Al Ahlia Cooperative Insurance Company B.S.C. (closed)– Shareholder	- Expenses paid on behalf of Al Ahlia Cooperative insurance Company	(4,237,676)	(5,478,931)
	- Expenses paid by the Company on behalf of Al Ahlia Insurance Company (B.S.C)	7,820,489	9,132,086
	- Investment transfer (note 14)	(1,923,078)	-
Companies represented by Board of Directors	- Premium	1,137,025	1,190,327
	- Claim	(43,087)	(162,766)

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31 December 2013

The Balance due from a related party as follows:

	31 December 2013	31 December 2012
	SR	SR
Al Ahlia Insurance Company B.S.C. (closed) - Shareholder	3,701,574	2,041,839

The assets and liabilities included follows balances for the Companies represented by Board of Directors

	31 December 2013	31 December 2012
	SR	SR
Account Receivable	150,713	212,263
Account payable, accrued expenses and other liabilities	(423,447)	(331,113)

Compensation of key management personnel

The remunerations of directors and other key management personnel during the year ended were as follows:

	2013	2012
	SR	SR
Short-term benefits	5,681,628	5,063,734
End of service benefit	353,988	311,790

23. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE FOR THE YEAR

Basic and diluted (loss) earnings per share have been calculated by dividing the net (loss) income for the year by the outstanding shares at the year.

24. FAIR VALUES 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. Special financial assets of the company include cash and cash equivalents, premium receivables, investments and accrued revenue while its financial liabilities include payables and accrued expenses.

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

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

Determination of fair value and fair values hierarchy

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

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

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

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

During the year ended December 31, 2013, there were no transfers between the level 1 and the level 2 of the hierarchy of fair value has not been any transfers to or from the level 3 of the hierarchy of fair value.

The following table shows an analysis of financial instruments recorded at fair value as of December 31, 2013 according to the levels of the hierarchy of fair value:

Financial assets	Level 1	Level 2	Level 3	Total
Investment available for sale	-	-	1,923,078	1,923,078
Total	-	-	1,923,078	1,923,078

25. SEGMENTAL INFORMATION

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

General and administrative expenses for insurance operations are not allocated to different segments.

Cash and cash equivalents, accounts receivable, net, prepaid expenses and other assets, property and equipment, net, due from shareholders, are not allocated to different segments.

Reinsurance balances payable, unearned reinsurance commission, accrued expenses and other liabilities, end of service benefits, zakat and due to a related party are not allocated to different segments.

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Others SR	TOTAL SR
For the year ended 31 December 2013						
Insurance operations						
Gross premiums written	12,301,047	86,193,284	105,415,725	10,819,340	4,739,788	219,469,184
Reinsurance premiums ceded	(10,821,843)	-	(26,802,530)	-	(2,815,254)	(40,439,627)
Excess of loss expenses	(573,030)	(2,173,435)	-	(441,942)	(246,755)	(3,435,162)
Net premiums written	906,174	84,019,849	78,613,195	10,377,398	1,677,779	175,594,395
Change in unearned premiums	(815,808)	(54,229,904)	17,483,041	(316,776)	16,971	(37,862,476)
Net premiums earned	90,366	29,789,945	96,096,236	10,060,622	1,694,750	137,731,919
Reinsurance commission	1,854,771	-	4,650,300	38,187	693,347	7,236,605
Net claims incurred	(128,211)	(42,749,535)	(47,409,604)	(2,762,587)	(133,154)	(93,183,091)
Policy acquisition costs	(950,612)	(4,321,287)	(8,428,058)	(1,291,494)	(644,814)	(15,636,265)
Claims management fees	(82,490)	(318,871)	1,323,138	(158,653)	(24,986)	738,138
Net underwriting results	783,824	(17,599,748)	46,232,012	5,886,075	1,585,143	36,887,306
Commission income						517,643
Other income						2,676,704
Provision for doubtful debts						131,491
General and administrative expenses						(55,199,774)
Deficit from insurance operations						(14,986,630)

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Others SR	TOTAL SR
For the year ended 31 December 2012						
Insurance operations						
Gross premiums written	9,595,158	21,116,631	194,161,333	7,326,599	3,436,657	235,636,378
Reinsurance premiums ceded	(8,931,445)	-	(58,536,257)	-	(2,280,449)	(69,748,151)
Excess of loss expenses	(432,731)	(2,912,154)	-	(367,500)	(154,989)	(3,867,374)
Net premiums written	230,982	18,204,477	135,625,076	6,959,099	1,001,219	162,020,853
Change in unearned premiums	30,617	9,195,298	350,550	618,152	397,351	10,591,968
Net premiums earned	261,599	27,399,775	135,975,626	7,577,251	1,398,570	172,612,821
Reinsurance commission	2,240,479	-	10,371,161	145,603	442,272	13,199,515
Net claims incurred	33,317	(22,146,281)	(55,455,151)	(3,122,851)	49,348	(80,641,618)
Policy acquisition costs	(1,480,454)	(4,261,816)	(17,977,410)	(1,009,692)	(333,774)	(25,063,146)
Claims management fees	-	-	(9,125,566)	-	-	(9,125,566)
Net underwriting results	1,054,941	991,678	63,788,660	3,590,311	1,556,416	70,982,006
Commission income						732,240
Other income						157,709
Provision for doubtful debts						(6,774,063)
General and administrative expenses						(49,926,735)
Surplus from insurance operations						15,171,157

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Other SR	TOTAL SR
As at 31 December 2013						
Insurance operations' assets						
Reinsurers' share of unearned premiums	10,669,338	5	13,252,691	4,153	853,469	24,779,656
Reinsurers' share of outstanding claims	3,999,485	926,349	8,012,704	216,333	840,637	13,995,508
Deferred acquisition costs	1,675,303	4,699,595	4,034,193	922,146	214,146	11,545,383
Unallocated assets						177,382,771
						227,703,318
Insurance operations' liabilities						
Unearned premiums	11,930,616	62,586,732	45,442,585	6,891,524	1,781,177	128,632,634
Outstanding claims	4,207,028	16,262,441	20,706,234	8,091,308	1,263,763	50,530,774
Unallocated liabilities						48,539,910
						227,703,318

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Other SR	TOTAL SR
As at 31 December 2012						
Insurance operations' assets						
Reinsurers' share of unearned premiums	7,283,455	23	23,049,771	194,633	919,750	31,447,632
Reinsurers' share of outstanding claims	1,849,462	1,328,399	18,512,405	494,333	136,267	22,320,866
Deferred acquisition costs	988,122	847,200	5,292,230	874,496	232,847	8,234,895
Unallocated assets						150,855,611
						212,859,004
Insurance operations' liabilities						
Unearned premiums	7,728,924	8,356,846	72,722,706	6,765,229	1,864,429	97,438,134
Outstanding claims	1,903,759	8,947,004	36,793,531	5,988,818	438,153	54,071,265
Unallocated liabilities						61,349,605
						212,859,004

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

26. CONTINGENT LIABILITIES

As at 31 December 2013, contingent liabilities of the Company, representing a letter of guaranty, amounted to SR 925,000(31 December 2012: 600,000)

27. RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organizational structure to meet strategic targets.

The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board.

The Company is exposed to credit risk, liquidity risk, market risk and operation risk.

Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Department

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

The risks faced by the Company and the manner in which these risks are mitigated by management are set out below:

A) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims severity, actual benefits paid and subsequent development of long term claims are different than expected. Therefore the objective of the Company is to ensure that sufficient resources are available to cover these liabilities. The insurance risk arising from insurance contracts is mainly concentrated in the Kingdom of Saudi Arabia.

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31 December 2013

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. Substantially all of the motor contracts relate to private individuals. The Company also has risk management procedures to control cost of claims.

Medical insurance

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company

Key assumptions

Key assumptions relating to the ultimate loss ratio liabilities for the Company was estimated by using actuarial techniques.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio, with all other assumptions held constant, showing the impact on net liabilities and net income as at 31 December as follows:

		Effect on net liabilities	Effect on net Income
31 December 2013	Changes in assumption	SR	SR
Ultimate loss ratio	+10%	13,773,192	(13,773,192)
	-10%	(13,773,192)	13,773,192

		Effect on net liabilities	Effect on net Income
31 December 2012	Changes in assumption	SR	SR
Ultimate loss ratio	+10%	17,261,282	(17,261,282)
	-10%	(17,261,282)	17,261,282

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

B) Reinsurance risk

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

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

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

C) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in Saudi Riyals.

D) Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment funds and portfolios are managed by the investment officer in accordance with the investment policy established by the board of directors.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and good credit ratings.
- There are no significant concentrations of credit risk within the Company.

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

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(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

	2013		2012	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
	SR	SR	SR	SR
Cash and cash equivalents	87,952,757	41,746,694	101,348,118	41,437,777
Statutory deposit	-	10,196,407	-	10,125,135
Accounts receivable, net	28,926,557	-	27,124,924	-
Reinsurances share of outstanding claims	13,995,508	-	22,320,866	-
Due from shareholders	31,569,273	-	7,528,603	-
	162,444,095	51,943,101	158,322,511	51,562,912

E) Liquidity risk

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

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

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

Maturity date

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

	2013		
	Less than 12 months	More than 12 months	Total
	SR	SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payable	6,761,569	-	6,761,569
Outstanding claims	50,530,774	-	50,530,774
Account payable, accrued expenses and other liabilities	30,815,674	3,884,515	34,700,189
	88,108,017	3,884,515	91,992,532
SHAREHOLDERS' LIABILITIES			
Accrued Zakat and income tax	2,031,511	-	2,031,511
Due to insurance operations	31,569,273	-	31,569,273
Other liabilities	269,107	-	269,107
	33,869,891	-	33,869,891

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

	2012		
	Less than 12 months	More than 12 months	Total
	SR	SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payable	16,602,572	-	16,602,572
Outstanding claims	54,071,265	-	54,071,265
Accounts payable, accrued expenses and other liabilities	38,295,640	3,162,192	41,457,832
	108,969,477	3,162,192	112,131,669
SHAREHOLDERS' LIABILITIES			
Zakat payable	2,566,938	-	2,566,938
Due to insurance operations	7,528,603	-	7,528,603
Other liabilities	132,353	-	132,353
	10,227,894	-	10,227,894

Liquidity

None of the financial liabilities on the date of the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above

G) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. Management believes that there is no significant commission rate risk as all investments are subject to fixed commission rates and are carried at amortised cost.

H) Capital management risk

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

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

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2013

I) Regulatory framework risk

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

28. Comparative figures

Certain of the prior period figures have been reclassified to conform with the presentation in the current period.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 16February 2014.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

**Auditors' Report
Issued in Arabic
2012G**

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
As At 31 December 2012

	Notes	2012	2011
		SR	SR
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	7	101,348,118	125,132,261
Accounts receivable, net	8	27,124,924	24,674,851
Reinsurers› share of unearned premiums	9	31,447,632	36,833,824
Reinsurers› share of outstanding claims	10	22,320,866	24,178,577
Deferred acquisition costs	11	8,234,895	14,188,272
Prepaid expenses and other assets	12	10,303,558	9,839,823
Due from shareholders' operations		7,528,603	16,170,718
Property and equipment, net	13	4,550,408	2,676,823
TOTAL INSURANCE OPERATIONS' ASSETS		212,859,004	253,695,149
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	7	41,437,777	41,331,637
Due from related parties	22	2,041,839	-
Statutory deposit	15	10,125,135	10,065,172
Other assets	12	1,110,202	2,384
TOTAL SHAREHOLDERS' ASSETS		54,714,953	51,399,193
TOTAL ASSETS		267,573,957	305,094,342

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION (Continued)
As At 31 December 2012

	Notes	2012	2011
		SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance balances payable		16,602,572	48,276,086
Unearned premiums	9	97,438,134	113,416,294
Unearned reinsurance commission	16	1,772,085	2,614,570
Outstanding claims	10	54,071,265	53,630,143
Accrued surplus distribution		1,517,116	-
Accounts payable, accrued expenses and other liabilities	17	41,457,832	35,758,056
TOTAL INSURANCE OPERATIONS' LIABILITIES		212,859,004	253,695,149
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Zakat and income tax payable	21	2,566,938	895,937
Due to related parties	22	-	1,599,316
Due to insurance operations		7,528,603	16,170,718
Other liabilities	17	132,353	72,390
TOTAL SHAREHOLDERS' LIABILITIES		10,227,894	18,738,361
SHAREHOLDERS' EQUITY			
Share capital	18	100,000,000	100,000,000
Accumulated losses		(55,512,941)	(67,339,168)
TOTAL SHAREHOLDERS' EQUITY		44,487,059	32,660,832
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		54,714,953	51,399,193
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		267,573,957	305,094,342

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS
For the Year Ended 31 December

	Notes	2012	2011
		SR	SR
Gross premiums written		235,636,378	263,662,212
Less: Reinsurance premiums ceded		(69,748,151)	(83,420,635)
Less: Excess of loss expenses		(3,867,374)	(2,207,696)
Net premiums written	9	162,020,853	178,033,881
Change in unearned premiums	9	10,591,968	9,230,711
Net premiums earned	9	172,612,821	187,264,592
Gross claims paid	10	(131,790,138)	(137,334,803)
Reinsurers' share of gross claims paid	10	53,447,353	57,877,615
Change in outstanding claims, net		(2,298,833)	(13,579,567)
Net claims incurred	10	(80,641,618)	(93,036,755)
Policy acquisition costs	11	(25,063,146)	(36,260,104)
Claims management expenses		(9,125,566)	(16,893,794)
Reinsurance commission earned	16	13,199,515	6,244,180
Net underwriting results		70,982,006	47,318,119
General and administrative expenses	19	(49,926,735)	(50,796,313)
Provision for doubtful debts		(6,774,063)	(1,856,496)
Commission income		732,240	271,423
Other income	20	157,709	207,876
Surplus (Deficit) from insurance operations		15,171,157	(4,855,391)
Shareholders' appropriation from (surplus) deficit		(13,654,041)	4,855,391
Surplus of the year after shareholders' appropriations		1,517,116	-
Surplus distribution to policy holders		(1,517,116)	-
Accumulated surplus at the end of the year		-	-

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' INCOME
For the Year Ended 31 December

	Notes	2012	2011
		SR	SR
Revenues			
Surplus (deficit) transferred from insurance operations		13,654,041	(4,855,391)
Realized income from investments held at fair value through profit and loss	14	-	47,422
Commission income		137,660	72,223
		13,791,701	(4,735,746)
Expenses			
General and administrative expenses	19	(294,473)	(354,727)
Net income (loss) for the year		13,497,228	(5,090,473)
Basic and diluted income / (loss) per share for the year	23	1.35	(0.51)
Average number of shares during the year		10,000,000	10,000,000

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
For the Year Ended 31 December

	Notes	2012	2011
		SR	SR
Net income (loss) for the year		13,497,228	(5,090,473)
Other comprehensive loss:			
Zakat and income tax	21	(1,671,001)	(677,113)
Total comprehensive income (loss) for the year		11,826,227	(5,767,586)

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended 31 December 2012 and 2011

	Share capital	Accumulated losses	Total
	SR	SR	SR
Balance at 1 January 2011	100,000,000	(61,571,582)	38,428,418
Net loss for the year	-	(5,090,473)	(5,090,473)
Zakat and income tax	-	(677,113)	(677,113)
Balance at 31 December 2011	100,000,000	(67,339,168)	32,660,832
Balance at 1 January 2012	100,000,000	(67,339,168)	32,660,832
Net income for the year	-	13,497,228	13,497,228
Zakat and income tax	-	(1,671,001)	(1,671,001)
Balance at 31 December 2012	100,000,000	(55,512,941)	44,487,059

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For The Year Ended 31 December

	2012	2011
	SR	SR
OPERATING ACTIVITIES		
Accumulated surplus at the end of the year after shareholders' appropriations	1,517,116	-
Adjustments for:		
Depreciation	1,250,453	1,620,296
Provision for doubtful debts	6,774,063	1,856,496
Gain from sale of property and equipment	(107,836)	(411,515)
Surplus (deficit) of insurance operations transferred to shareholders	13,654,041	(4,855,391)
Provision of end of service benefits	1,518,206	1,453,789
Operation income (loss) before change in operating assets and liabilities	24,606,043	(336,325)
Changes in operating assets and liabilities:		
Accounts receivable	(9,224,136)	21,075,685
Reinsurers' share of unearned premiums	5,386,192	17,660,523
Reinsurers' share of outstanding claims	1,857,711	(16,664,279)
Deferred acquisition costs	5,953,377	3,051,261
Prepaid expenses and other assets	(463,735)	693,644
Due from shareholders	(5,011,926)	2,049,342
Reinsurance balances	(31,673,514)	(2,320,293)
Unearned premiums	(15,978,160)	(26,891,234)
Unearned reinsurance commission	(842,485)	(1,617,437)
Outstanding claims	441,122	30,243,846
Accounts payable, accrued expenses and other liabilities	4,793,852	3,377,208
Employees' end of service benefits paid	(612,282)	(1,411,449)
Net cash (used in) from operating activities	(20,767,941)	28,910,492

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For The Year Ended 31 December

	2012	2011
	SR	SR
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,129,454)	(753,354)
Proceeds from sale of property and equipment	113,252	451,373
Net cash used in investing activities	(3,016,202)	(301,981)
(Decrease) Increase in cash and cash equivalents	(23,784,143)	28,608,511
Cash and cash equivalents at the beginning of the year	125,132,261	96,523,750
Cash and cash equivalents at the end of the year	101,348,118	125,132,261

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' CASH FLOWS
For the Year Ended 31 December 2012

	2012	2011
OPERATING ACTIVITIES		
Net income (loss) for the year	13,497,228	(5,090,473)
Adjustments for:		
Appropriation of (deficit) surplus from insurance operations	(13,654,041)	4,855,391
Realized gain from investments held at fair value through profit and loss	-	(47,422)
Operating loss before Changes in operating assets and liabilities	(156,813)	(282,504)
Changes in operating assets and liabilities:		
Statutory deposit	(59,963)	(25,250)
Other assets	(1,107,818)	(2,384)
Other liabilities	59,963	32,468
Due from / to a related party	(3,641,155)	(9,496,922)
Due to insurance operations	5,011,926	(2,049,342)
Zakat paid	-	(947,539)
Net cash from (used in) operating activities	106,140	(12,771,473)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of investments held at fair value through income and loss	-	53,387,620
Net cash from investing activities	-	53,387,620
INCREASE IN CASH AND CASH EQUIVALENTS	106,140	40,616,147
Cash and cash equivalent at the beginning of the year	41,331,637	715,490
Cash and cash equivalent at the end of the year	41,437,777	41,331,637

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

1. GENERAL

Al Ahlia Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No.1010238441 dated 7 Ramadan 1428H (corresponding to 19 September 2007). The registered office address of the Company is P.O Box 939, Riyadh 11312, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed at the Saudi Arabian Stock Market (Tadawul) on 24 Ramadan 1428H (corresponding to 6 October 2007). The Company started its insurance operations on 5 Rabi' Al Thani 1430H (corresponding to 1 April 2009).

2. ASSET PURCHASE AGREEMENT AND TRANSFER OF INSURANCE PORTFOLIO

The Company was licensed to conduct cooperative insurance business in the Kingdom of Saudi Arabia in accordance with Royal Decree numbered 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to Council of Ministers resolution numbered 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering transaction on 19 Thul Qedah 1427H (corresponding to 10 December 2006), the Ministry of Commerce and Industry (MOCI) issued a resolution declaring the incorporation of the Company on 18 Jumada Al Thani 1428H (corresponding to 3 July 2007).

The Company is willing to enter into an insurance portfolio and net asset purchase agreement related to the operation of Al Ahlia Insurance Company B.S.C. (closed) in the Kingdom of Saudi Arabia. Accordance to that, a financial due diligence was submitted (which consisted a valuation of the operations) in line with instructions issued by Saudi Arabian Monetary Agency, by an independent external auditor to Saudi Arabian Monetary Agency during the year 2007. The valuation result was issued by Saudi Arabian Monetary Agency (the Agency) in accordance with its letter addressed to Al Ahlia Cooperative Insurance Company dated 28 Rajab 1430H (corresponding to 21 July 2009) which stated that in accordance with the valuation program standards, there is no goodwill amount and the amount that can be transferred is only the net assets value.

The Company has convened for an ordinary general assembly meeting on 18 Shawal 1430H (corresponding to 7 October 2009) whereas the shareholders were notified about the above mentioned valuation result and the approval was obtained with regards to the insurance portfolio transfer and related net assets of Al Ahlia Insurance Company B.S.C. (closed) in the Kingdom of Saudi Arabia to the Company on the fact that it is to be agreed on the assets and liabilities that will be specifically transferred and estimated its value in accordance with the valuation program standards issued by Saudi Arabian Monetary Agency in May 2007 and transferring it on that basis. The Company is willing to transfer the assets and liabilities with retroactive effect as at 1 January 2009 following the finalization of the statutory procedures. As at 31 December 2012, the statutory procedures regarding the portfolio transfer have not yet been finalized.

3. BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The financial statements are prepared under the historical cost basis amendment to include the measurement at fair value of investments held at fair value through income statement.

Functional and presentational currency

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

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

4. NEW STANDARDS AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the financial statements for the period from 17 May 2010 to 31 December 2011, except for the adoption of amendments to existing standards as mentioned below which had no significant financial impact on the financial statements of the Company.

a) IFRS 7 Financial Instruments: Disclosures (amendment)

The company has applied the amendments that were issued by IASB to IFRS 7 on 7 October 2010 and that provides enhanced disclosures about transferred financial assets that are entirely derecognised and that are not entirely derecognised.

b) Some other amendments which led to improvements on the below standards, which did not have any material impact on the accounting policies or financial position or performance of the Company:

- IAS 12 – income taxes (amended) – amended taxes: Recovery of Underlying Assets, and is effective for financial periods beginning on or after 1 January 2012.
- IAS 1 – (amended): cancellation of specific dates upon its adoption for the first time, and is effective for financial periods beginning on or after 1 July 2011.
- IAS 1 – (amended): extremely high inflation rate, and is effective for financial periods beginning on or after 1 July 2011.

The newly amended international financial reporting standards under issuance and which are not yet effective for adoption.

The Company didn't apply the newly amended international financial reporting standards under issuance and which are not yet effective for adoption.

- IFRS 7 financial instruments – disclosures – amendment about offsetting of financial assets against financial liabilities, and is effective for financial periods beginning on or after 1 January 2013.
- IFRS 9 Financial instruments - Classification and measurement of financial assets and offsetting of financial liabilities and derecognition, and is effective for financial periods beginning on or after 1 January 2015.
- IFRS 13 Fair value measurement, and is effective for financial periods beginning on or after 1 January 2013.
- IAS 1 – Amendments for modifying presentation of other comprehensive income, and is effective for financial periods beginning on or after 1 July 2012.
- IAS 32 – Financial instruments: Presentation - Amendments to applying the guidelines related to the offsetting of financial assets against financial liabilities, and is effective for financial periods beginning on or after 1 January 2014.

The Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the Company in the future.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reinsurance

In the ordinary course of business, the Company cedes insurance premiums 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 reinsurance transactions is effected under treaty, facultative and excess of loss reinsurance contracts. Assets or liabilities being recorded in the insurance operations' financial position represents premiums due to or payments due from reinsurers and the company's share of losses being recoverable from reinsurers. Amounts receivable from reinsurers are estimated in a manner consistent with the claims liability associated with the insured parties.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

Deferred policy acquisition costs

Those 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 expensed when incurred.

Subsequent to initial recognition, deferred costs are amortized on a pro-rata method over the expected future premium period except for marine cargo whereas the deferred portion is 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.

Impairment and uncollectibility of financial assets

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

- a) For assets carried at fair value, impairment is the difference between the cost and fair value.
- b) For assets carried at cost, impairment is the difference between the carrying book value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- c) For assets carried at amortized cost, impairment is determined based on the future cash flows that are discounted at the original effective special commission rate.

Trade date accounting

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

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based on the estimated useful life using the straight line method.

The estimated useful lives of property and equipment are as follows:

	Years
Computers and software	4
Furniture and fixtures	10
Motor vehicles	4
Leasehold improvement	5

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of insurance / shareholders' operations.

Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the insurance contracts liabilities after deduction of related deferred acquisition costs. In performing these tests, management uses current best estimates of future contractual cash follows and administration expenses and claims handling. Any deficiency in the carrying amount immediately charged to the statements of insurance operations by writing off first related deferred acquisition cost and by establishing a provision for losses arising from liability adequacy tests (Unexpected loss provision). And in cases requiring liability adequacy test for using best of new estimations, these estimations are used (without any margin for any reversal change) for measuring subsequently these liabilities.

Employees' end of service benefits

Employees' end of service benefits are provided in accordance with Saudi Labor Law. Dues are paid based on employees' last salary and service period subject to completion of the minimum service period. The estimated cost is due for these remunerations over the staff employment period.

Insurance contracts

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

Accounts receivable

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

Premiums earned

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis except for marine cargo insurance whereby it is calculated on the basis of last three month premiums. 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 recorded to the statement of insurance operations over the period to cover the insurance risks. Retained premiums and commission income of the current period which are related are to unexpected risks relating to the subsequent financial period, are recorded based on actual number of days. Commission income is recognized based on the effective yield after taking into consideration the outstanding principal amount and average commission rate.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

Outstanding claims

Outstanding claims comprise the estimated claims incurred but not settled at the date of the financial position, and claims handling cost less the estimated salvage value and other recoveries whether reported or not by the insureds. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at date of the statement of financial position including claims handling costs and the estimated salvage value and other recoveries as at the financial position date.

Any difference between the provisions at the date of the statement of financial position and settlements and provisions in the following year is included in the statement of insurance operation for that year.

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

Fair values

For traded investments in organised financial markets, the fair value is determined based on current price in the financial market. The fair value for items associated with interest based on discounted cash flows using interest rates for those items which have same conditions and risk characteristics. For untraded investments, the fair value is determined based on the market value of similar investments or based on forecasted discounted cash flows.

Investments held at fair value through income statement

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

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

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are measured at fair value. Fair value adjustments and realised gains and losses are recognized in the statement of shareholders' operations.

Derecognition of financial instruments

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statements of operations and shareholders' operations unless required or permitted by any accounting standard or its interpretations.

Operating leases

Operating lease payments are recognized as expenses in the statement of insurance operations on a straight-line method basis over the lease contract period.

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

Segmental reporting

A segment is considered as a basic component of the company that is engaged in selling / providing products or related services whereby its profit or loss is different than profit or loss of other segments. For management purposes, the Company is organized into business units based on their products and services has the following segments:

- Engineering insurance: provides for contractors' risks, installations and building and electrical equipments and electronics risks and any other insurance classified under this segment.
- Motor Insurance: provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Health insurance: covers medical costs, medicines, and all other medical services and supplies.
- Professional malpractice: covers responsibilities of professional medical malpractice.
- Other insurance classes: cover any other classes of insurance not mentioned above.
- Shareholders' operations: and it is a non-operating segment.

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

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian Zakat and Tax Regulations. Zakat is charged to equity accounts of Saudi founding shareholders while income tax is charged to equity accounts of foreign shareholders.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the 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 assets or liabilities affected in the future.

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

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

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

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

Impairment losses of premiums receivable

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.

Deferred acquisition costs

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

If the contract has been classified as "insurance contract" it remains so through the remaining of its period even if the insurance risk heavily decrease during the period.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

	2012		2011	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Cash and balances at banks	2,348,118	341,027	32,123,980	1,327,448
Short term Islamic deposits	99,000,000	41,096,750	93,008,281	40,004,189
	101,348,118	41,437,777	125,132,261	41,331,637

Short term Islamic deposits represent deposits being placed with local banks with a maturity period of three months or less from the date of its original acquisition, and earn special commission at an average rate of 0.86% per annum (31 December 2011: 0.20%).

Short term Islamic deposits and balances at banks are placed with counterparties that have good credit ratings.

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

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

8. ACCOUNTS RECEIVABLE, NET

	2012	2011
	SR	SR
Premiums and insurance balances receivable	43,516,367	34,384,975
Less: Provision for doubtful debts	(16,391,443)	(9,710,124)
	27,124,924	24,674,851

Terms and conditions of the Company's require premiums to be settled in 90 days.

The following represents the ageing of premiums and reinsurance balances receivable that is not impaired as at December 31:

			Past due but not impaired			Past due and impaired
	Total	Not past due and not impaired	From 31 to 60 days	From 61 to 90 days	More than 90 days	
	SR	SR	SR	SR	SR	SR
2012	43,516,367	3,214,982	3,004,475	2,794,080	-	34,502,830
2011	34,384,975	4,784,883	3,050,948	2,246,592	-	24,302,552

9. CHANGE IN UNEARNED PREMIUMS

	2012	2011
	SR	SR
At the beginning of the year	76,582,470	85,813,181
Net written premiums	162,020,853	178,033,881
Net earned premiums	(172,612,821)	(187,264,592)
At the end of the year	65,990,502	76,582,470
Reinsurers' share of unearned premiums	31,447,632	36,833,824
	97,438,134	113,416,294

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

10. OUTSTANDING CLAIMS

Movement in outstanding claims	2012 SR			2011 SR		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
Outstanding claims at beginning of the year	29,382,336	(13,858,577)	15,523,759	18,337,850	(7,514,298)	10,823,552
IBNR	24,247,807	(10,320,000)	13,927,807	5,048,447	-	5,048,447
Total at the beginning of the year	53,630,143	(24,178,577)	29,451,566	23,386,297	(7,514,298)	15,871,999
Paid claims	(131,790,138)	53,447,353	(78,342,785)	(137,334,803)	57,877,615	(79,457,188)
Incurred claims	132,231,260	(51,589,642)	80,641,618	167,578,649	(74,541,894)	93,036,755
Total at the end of the year	54,071,265	(22,320,866)	31,750,399	53,630,143	(24,178,577)	29,451,566
Details of outstanding claims						
Outstanding claims	26,596,191	(9,120,866)	17,475,325	29,382,336	(13,858,577)	15,523,759
IBNR	27,475,074	(13,200,000)	14,275,074	24,247,807	(10,320,000)	13,927,807
Total at the end of the year	54,071,265	(22,320,866)	31,750,399	53,630,143	(24,178,577)	29,451,566

11. DEFERRED ACQUISITION COSTS

	2012	2011
	SR	SR
At 1 January	14,188,272	17,239,533
Costs incurred during the year	19,109,769	31,724,179
Costs charged for the year	(25,063,146)	(34,775,440)
At 31 December	8,234,895	14,188,272

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

12. PREPAID EXPENSES AND OTHER ASSETS

	2012		2011	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Prepayments of intermediaries and service suppliers	4,097,394	1,076,298	2,431,070	-
Deferred claims management	3,036,188	-	4,722,856	-
Prepaid rent	1,272,633	-	760,756	-
Employees	1,148,786	-	559,285	-
Prepaid advertising	417,684	-	173,250	-
Prepaid employees' benefits	52,300	-	653,656	-
Prepaid subscriptions	28,533	-	5,200	-
Other receivables	250,040	33,904	533,750	2,384
	10,303,558	1,110,202	9,839,823	2,384

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2012

13. PROPERTY AND EQUIPMENT, NET

Cost	Office equipment and furniture and fixtures	Computers and software	Motor vehicles	Leaseholder improvement	Total
	SR	SR	SR		SR
As at 1 January 2011	1,147,368	4,621,310	888,846	-	6,657,524
Additions during the year	457,919	295,435	-	-	753,354
Disposals during the year	-	-	(348,111)	-	(348,111)
As at 31 December 2011	1,605,287	4,916,745	540,735	-	7,062,767
Additions during the year	1,581,497	463,481	148,049	936,427	3,129,454
Disposals during the year	(2,000)	-	(220,465)	-	(222,465)
As at 31 December 2012	3,184,784	5,380,226	468,319	936,427	9,969,756
Accumulated depreciation					
As at 1 January 2011	134,654	2,302,204	637,043	-	3,073,901
Charge for the year	239,517	1,198,796	181,983	-	1,620,296
Disposals during the year	-	-	(308,253)	-	(308,253)
As at 31 December 2011	374,171	3,501,000	510,773	-	4,385,944
Charge for the year	313,138	877,676	28,549	31,090	1,250,453
Disposals during the year	(1,134)	-	(215,915)	-	(217,049)
As at 31 December 2012	686,175	4,378,676	323,407	31,090	5,419,348
Net book value					
As at 31 December 2012	2,498,609	1,001,550	144,912	905,337	4,550,408
As at 31 December 2011	1,231,116	1,415,745	29,962	-	2,676,823

14. INVESTMENT HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

Investments held at fair value through profit and loss representing units in investments funds with local bank have been liquidated during the year ended 31 December 2011 whereas a gain of SR 47,422 was recognized from the liquidation.

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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15. STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital in accordance with the Cooperative Insurance Companies Control Law in the Kingdom of Saudi Arabia issued by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA. During year 2009, SAMA approved for investing the statutory deposit amounting to SR 10,000,000 in a local investment fund. The fair value for this investment was SR 10,125,135 as at 31 December 2012 (31 December 2011: SR 10,065,172).

16. UNEARNED REINSURANCE COMMISSION

	2012	2011
	SR	SR
At 1 January	2,614,570	4,232,007
Commission received during the year	12,357,030	4,626,743
Commission earned during the year	(13,199,515)	(6,244,180)
At 31 December	1,772,085	2,614,570

17. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

	2012		2011	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Accounts payable – broker	9,317,203	-	8,843,016	-
Advances from customers	4,409,694	-	5,960,677	-
Accrued withholding tax	10,404,230	-	13,392,541	-
Accounts payable - suppliers	8,298,561	-	3,367,557	-
End of service benefits	3,162,192	-	2,256,268	-
CCHI	1,572,307	-	1,685,231	-
Accrued expenses	4,030,550	-	61,066	-
Others	263,095	132,353	191,700	72,390
	41,457,832	132,353	35,758,056	72,390

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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18. SHARE CAPITAL

The authorized and paid up share capital of the Company is SR 100 million divided into 10 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 6 million shares with a nominal value of SR 10 each, which represent 60% of the shares of the Company and the remaining 4 million shares with a nominal value of SR 10 each have been subscribed for by the public.

On 18 Muharam 1433H (corresponding to December 13, 2011) The Company obtained the approval from SAMA for the capital increase for an amount of SR 220 million through offering rights issue, and a recommendation was issued to the Extraordinary General Assembly to resolve the capital increase and determine the price of rights issue and number of shares whereby this capital increase is limited to shareholders being registered at Tadawul closing date of the Extraordinary General Assembly date that has not yet been scheduled as at the financial position date.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2012		2011	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Employees' salaries and expenses	31,183,212	-	30,927,409	-
Board of directors' and executive committees meeting expenses	-	294,473	-	354,727
Professional and license fees	2,168,179	-	4,710,121	-
Promotion and advertising	798,041	-	1,522,332	-
Depreciation	1,256,492	-	1,620,296	-
End of service benefit	1,518,206	-	1,453,789	-
Rent	3,056,257	-	2,192,402	-
Travelling and business transportation	695,678	-	390,567	-
Utilities and maintenance	2,587,524	-	2,626,227	-
Stationery and printing	655,352	-	740,729	-
Supervision and inspection costs	3,018,666	-	3,165,832	-
GOSI	1,217,355	-	868,445	-
Others	1,771,773	-	578,164	-
	49,926,735	294,473	50,796,313	354,727

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20. OTHER INCOME

	2012	2011
	SR	SR
Various income	49,873	66,761
Capital gain , net	107,836	141,115
	157,709	207,876

21. ZAKAT AND INCOME TAX

a) Zakat charge for the year

Zakat and income tax charges for the current year consist of provision for the current year amounting to SR 1,671,001 (2011: SR 677,113).

The movement of zakat and income tax provision is as follows:

	2012	2011
	SR	SR
Balance at the beginning of the year	895,937	1,166,363
Provision for the year	1,671,001	677,113
Paid during the year	-	(947,539)
Balance at the end of the year	2,566,939	895,937

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b) Zakat provision

The Zakat base is calculated based on the following:

	2012	2011
	SR	SR
Shareholders' equity	26,781,882	37,486,919
Provisions	9,742,201	-
Book value for long term assets	(3,731,335)	(2,676,823)
Statutory deposit	(8,200,000)	-
	(24,592,748)	34,810,096
Adjusted profit / (loss)	18,233,058	(1,780,188)
Zakat base	42,825,807	33,029,908

Some of the amounts were adjusted to reach zakat base.

The movement of zakat provision is as follows:

	2012	2011
	SR	SR
Balance at the beginning of the year	895,937	1,166,363
Provision for the year	1,070,644	677,113
Paid during the year	-	(947,539)
Balance at the end of the year	1,966,581	895,937

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c) Income tax

The movement of income tax provision is as follows:

	2012	2011
	SR	SR
Balance at the beginning of the year	-	-
Provision for the year	600,357	-
Balance at the end of the year	600,357	-

The provision of income tax is calculated based on 20% of non Saudi shareholders (18%) from adjusted net income at 25% after calculating the accumulated losses.

d) Status of assessments

The Company has filed its zakat returns for the years ended 31 December 2009 and 2010 and 2011 to the Department of Zakat and Income Tax (DZIT) whereby the returns are still under the review thereof.

22. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year ended:

Related party	Nature of transaction	31 December 2012	31 December 2011
		SR	SR
Al Ahlia Cooperative Insurance Company B.S.C. (closed) – Shareholder	- Expenses paid on behalf of Al Ahlia Cooperative insurance Company	(5,478,931)	(10,465,702)
	- Expenses paid by the Company on behalf of AlAhlia Insurance Company (B.S.C)	9,132,086	16,053,422

The Balance due from a related party as at 31 December as follows:

	2012	2011
	SR	SR
Al Ahlia Insurance Company B.S.C. (closed) - Shareholder	2,041,839	-

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The Balance due to a related party as at 31 December as follows:

	2012	2011
	SR	SR
Al Ahlia Insurance Company B.S.C. (closed) - Shareholder	-	1,599,316

Compensation of key management personnel

The remunerations of directors and other key management personnel during the year ended were as follows:

	2012	2011
	SR	SR
Short-term benefits	5,063,734	5,060,398
End of service benefit	311,790	183,940

23. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE FOR THE YEAR

Basic and diluted earnings / (loss) per share have been calculated by dividing the net income / (loss) for the year by the outstanding shares at the year.

24. FAIR VALUES 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. Special financial assets of the company include cash and cash equivalents, premium receivables, investments and accrued revenue while its financial liabilities include payables and accrued expenses.

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

Determination of fair value and fair values hierarchy

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

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

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

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

25. SEGMENTAL INFORMATION

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

General and administrative expenses for insurance operations are not allocated to different segments.

Cash and cash equivalents, accounts receivable, net, prepaid expenses and other assets, property and equipment, net, due from shareholders, are not allocated to different segments.

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Reinsurance balances payable, unearned reinsurance commission, accrued expenses and other liabilities, end of service benefits, zakat and due to a related party are not allocated to different segments.

	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Others SR	TOTAL SR
For the year ended 31 December 2012						
Insurance operations						
Gross premiums written	9,595,158	21,116,631	194,161,333	7,326,599	3,436,657	235,636,378
Reinsurance premiums ceded	(8,931,445)	-	(58,536,257)	-	(2,280,449)	(69,748,151)
Excess of loss expenses	(432,731)	(2,912,154)	-	(367,500)	(154,989)	(3,867,374)
Net premiums written	230,982	18,204,477	135,625,076	6,959,099	1,001,219	162,020,853
Change in unearned premiums	30,617	9,195,298	350,550	618,152	397,351	10,591,968
Net premiums earned	261,599	27,399,775	135,975,626	7,577,251	1,398,570	172,612,821
Reinsurance commission	2,240,479	-	10,371,161	145,603	442,272	13,199,515
Net claims incurred	33,317	(22,146,281)	(55,455,151)	(3,122,851)	49,348	(80,641,618)
Policy acquisition costs	(1,480,454)	(4,261,816)	(17,977,410)	(1,009,692)	(333,774)	(25,063,146)
Claims management fees	-	-	(9,125,566)	-	-	(9,125,566)
Net underwriting results	1,054,941	991,678	63,788,660	3,590,311	1,556,416	70,982,006
Commission income						732,240
Other income						157,709
Provision for doubtful debts						(6,774,063)
General and administrative expenses						(49,926,735)
Surplus from insurance operations						15,171,157

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NOTES TO THE FINANCIAL STATEMENTS
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	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Others SR	TOTAL SR
For the year ended 31 December 2011						
Insurance operations						
Gross premiums written	14,746,145	37,546,296	202,208,760	6,010,476	3,150,535	263,662,212
Reinsurance premiums ceded	(13,879,356)	-	(67,508,611)	-	(2,032,668)	(83,420,635)
Excess of loss expenses	(520,642)	(1,300,913)	-	(274,905)	(111,236)	(2,207,696)
Net premiums written	346,147	36,245,383	134,700,149	5,735,571	1,006,631	178,033,881
Change in unearned premiums	143,793	11,904,798	(3,958,450)	617,925	522,645	9,230,711
Net premiums earned	489,940	48,150,181	130,741,699	6,353,496	1,529,276	187,264,592
Reinsurance commission	3,914,744	-	1,520,770	157,506	651,160	6,244,180
Net claims incurred	(106,560)	(44,390,838)	(46,586,169)	(1,919,280)	(33,908)	(93,036,755)
Policy acquisition costs	(2,681,161)	(10,188,153)	(21,775,357)	(843,936)	(771,497)	(36,260,104)
Claims management fees	-	-	(16,893,794)	-	-	(16,893,794)
Net underwriting results	1,616,963	(6,428,810)	47,007,149	3,747,786	1,375,031	47,318,119
Commission income						271,423
Other income						207,876
Provision for doubtful debts						(1,856,496)
General and administrative expenses						(50,796,313)
Deficit from insurance operations						(4,855,391)

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	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Other SR	TOTAL SR
As at 31 December 2012						
Insurance operations' assets						
Reinsurers' share of unearned premiums	7,283,455	23	23,049,771	194,633	919,750	31,447,632
Reinsurers' share of outstanding claims	1,849,462	1,328,399	18,512,405	494,333	136,267	22,320,866
Deferred acquisition costs	988,122	847,200	5,292,230	874,496	232,847	8,234,895
Unallocated assets						150,855,611
						212,859,004
Insurance operations' liabilities						
Unearned premiums	7,728,924	8,356,846	72,722,706	6,765,229	1,864,429	97,438,134
Outstanding claims	1,903,759	8,947,004	36,793,531	5,988,818	438,153	54,071,265
Unallocated liabilities						61,349,605
						212,859,004

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	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Other SR	TOTAL SR
As at 31 December 2011						
Insurance operations' assets						
Reinsurers' share of unearned premiums	9,852,700	70,099	25,503,173	869,262	538,590	36,833,824
Reinsurers' share of outstanding claims	3,059,715	2,427,545	17,588,963	606,833	495,521	24,178,577
Deferred acquisition costs	1,310,869	2,668,428	9,089,521	913,582	205,872	14,188,272
Unallocated assets						178,494,476
						253,695,149
Insurance operations' liabilities						
Unearned premiums	10,328,786	17,622,220	75,526,658	8,058,010	1,880,620	113,416,294
Outstanding claims	3,211,200	13,038,124	33,136,969	3,334,633	909,217	53,630,143
Unallocated liabilities						86,648,712
						253,695,149

26. CONTINGENT LIABILITIES

As at 31 December 2012, contingent liabilities of the Company, representing a letter of guaranty, amounted to SR 600,000 (31 December 2011: 1,100,000)

27 RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organizational structure to meet strategic targets.

The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board.

The Company is exposed to credit risk, liquidity risk, market risk and operation risk.

Risk management structure

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

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31 DECEMBER 2012

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Department

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

The risks faced by the Company and the manner in which these risks are mitigated by management are set out below:

A) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims severity, actual benefits paid and subsequent development of long term claims are different than expected. Therefore the objective of the Company is to ensure that sufficient resources are available to cover these liabilities. The insurance risk arising from insurance contracts is mainly concentrated in the Kingdom of Saudi Arabia.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. Substantially all of the motor contracts relate to private individuals. The Company also has risk management procedures to control cost of claims.

Medical insurance

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Al Ahlia cooperative insurance COMPANY
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Key assumptions

Key assumptions relating to the ultimate loss ratio liabilities for the Company was estimated by using actuarial techniques.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio, with all other assumptions held constant, showing the impact on net liabilities and net income as at 31 December as follows:

31 December 2012	Changes in assumption	Effect on net liabilities	Effect on net Income
		SR	SR
Ultimate loss ratio	+10%	17,261,282	(17,261,282)
	-10%	(17,261,282)	17,261,282

31 December 2011	Changes in assumption	Effect on net liabilities	Effect on net Income
		SR	SR
Ultimate loss ratio	+10%	18,726,459	(18,726,459)
	-10%	(18,726,459)	18,726,459

B) Reinsurance risk

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

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

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

C) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in Saudi Riyals.

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NOTES TO THE FINANCIAL STATEMENTS
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D) Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment funds and portfolios are managed by the investment officer in accordance with the investment policy established by the board of directors.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and good credit ratings.
- There are no significant concentrations of credit risk within the Company.

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

	2012		2011	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
	SR	SR	SR	SR
Cash and cash equivalents	101,348,118	41,437,777	125,132,261	41,331,637
Statutory deposit	-	10,125,135	-	10,065,172
Accounts receivable, net	27,124,924	-	24,674,851	-
Reinsurances share of outstanding claims	22,320,866	-	24,178,577	-
Due from shareholders	7,528,603	-	16,170,718	-
	158,322,511	51,562,912	190,156,407	51,396,809

E) Liquidity risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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Maturity date

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

	2012		
	Less than 12 months	More than 12 months	Total
	SR	SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payable	16,602,572	-	16,602,572
Outstanding claims	54,071,265	-	54,071,265
Other liabilities	38,295,640	3,162,192	41,457,832
	108,969,477	3,162,192	112,131,669
SHAREHOLDERS' LIABILITIES			
Zakat payable	2,566,938	-	2,566,938
Other liabilities	132,353	-	132,353
Due to related parties	-	-	-
Due to insurance operations	7,528,603	-	7,528,603
	10,227,894	-	10,227,894

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31 DECEMBER 2012

	2011		
	Less than 12 months	More than 12 months	Total
	SR	SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payable	48,276,086	-	48,276,086
Outstanding claims	53,630,143	-	53,630,143
Other liabilities	33,501,788	2,256,268	35,758,056
	135,408,017	2,256,268	137,664,285
SHAREHOLDERS' LIABILITIES			
Zakat payable	895,937	-	895,937
Accounts payable, accrued expenses and other liabilities	72,390	-	72,390
Due to related parties	1,599,316	-	1,599,316
Due to insurance operations	16,170,718	-	16,170,718
	18,738,361	-	18,738,361

Liquidity

None of the financial liabilities on the date of the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above.

G Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. Management believes that there is no significant commission rate risk as all investments are subject to fixed commission rates and are carried at amortised cost.

H) Capital management risk

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

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

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
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I) Regulatory framework risk

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

28. Comparative figures

Certain of the prior period figures have been reclassified to conform with the presentation in the current period

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 17 February 2013 (corresponding to 7 Rabi Al thani 1434 H).

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

**Auditors' Report
Issued in Arabic
2011G**

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION
As At 31 December 2011

	Notes	31 December 2011	31 December 2010
		SR	SR
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	7	125,132,261	96,523,750
Premiums receivable, net	8	24,674,851	47,607,032
Reinsurers› share of unearned premiums	9	36,833,824	54,494,347
Reinsurers› share of outstanding claims	10	24,178,577	7,514,298
Deferred acquisition costs	11	14,188,272	17,239,533
Prepaid expenses and other assets	12	9,839,823	10,533,467
Due from shareholders' operations		16,170,718	13,364,669
Property and equipment, net	13	2,676,823	3,583,623
TOTAL INSURANCE OPERATIONS' ASSETS		253,695,149	250,860,719
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	7	41,331,637	715,490
Investments held at fair value through profit and loss	14	-	53,340,198
Statutory deposit	15	10,065,172	10,039,922
Other assets		2,384	-
TOTAL SHAREHOLDERS' ASSETS		51,399,193	64,095,610
TOTAL ASSETS		305,094,342	314,956,329

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF FINANCIAL POSITION (Continued)
As At 31 December 2011

	Notes	31 December 2011	31 December 2010
		SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance balances payable		48,276,086	50,596,379
Unearned premiums	9	113,416,294	140,307,528
Unearned reinsurance commission	16	2,614,570	4,232,007
Outstanding claims	10	53,630,143	23,386,297
Accounts payable, accrued expenses and other liabilities	17	35,758,056	32,338,508
TOTAL INSURANCE OPERATIONS' LIABILITIES		253,695,149	250,860,719
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Zakat and income tax payable	21	895,937	1,166,363
Due to related parties	22	1,599,316	11,096,238
Due to insurance operations		16,170,718	13,364,669
Other liabilities	17	72,390	39,922
TOTAL SHAREHOLDERS' LIABILITIES		18,738,361	25,667,192
SHAREHOLDERS' EQUITY			
Share capital	18	100,000,000	100,000,000
Accumulated losses		(67,339,168)	(61,571,582)
TOTAL SHAREHOLDERS' EQUITY		32,660,832	38,428,418
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		51,399,193	64,095,610
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SHAREHOLDERS' LIABILITIES AND EQUITY		305,094,342	314,956,329

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS
For the Year Ended 31 December 2011

	Notes	31 December 2011	31 December 2010
		SR	SR
Gross premiums written		257,737,745	260,647,715
Less: Reinsurance premiums ceded		(83,429,625)	(95,226,973)
Less: Excess of loss expenses		(2,198,706)	(1,848,035)
Net premiums written		172,109,414	163,572,707
Change in unearned premiums, net	9	9,230,711	(62,396,557)
Net premiums earned		181,340,125	101,176,150
Gross claims paid	10	(137,334,803)	(65,192,292)
Reinsurers' share of gross claims paid	10	57,877,615	33,913,253
Change in outstanding claims, net		(13,579,567)	(9,150,069)
Net claims incurred	10	(93,036,755)	(40,429,108)
Policy acquisition costs	11	(36,260,104)	(17,999,998)
Reinsurance commission earned	16	6,244,180	6,427,605
Issuance income		5,924,467	1,540,145
Net underwriting results		64,211,913	50,714,794
General and administrative expenses	19	(50,796,313)	(49,876,948)
Claims management expenses		(16,893,794)	(7,509,744)
Provision for doubtful debts		(1,856,496)	(4,896,457)
Commission income		271,423	-
Other income	20	207,876	285,623
Deficit from insurance operations		(4,855,391)	(11,282,732)
Shareholders' appropriation from deficit		4,855,391	11,282,732
Net deficit at year end		-	-

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS'1 OPERATIONS
For the Year Ended 31 December 2011

	Notes	31 December 2011	31 December 2010
		SR	SR
Revenues			
Deficit transferred from insurance operations		(4,855,391)	(11,282,732)
Unrealized income from investments held at fair value through profit and loss		-	275,018
Realized income from investments held at fair value through profit and loss	14	47,422	-
Commission income		72,223	3,547
		(4,735,746)	(11,004,167)
Expenses			
General and administrative expenses	19	(354,727)	(389,167)
Net loss for the year		(5,090,473)	(11,393,334)
Basic and diluted loss per share for the year	23	(0.509)	(1.139)
Average number of share during the year		10,000,000	10,000,000

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS
For the Year Ended 31 December 2011

	Notes	31 December 2011	31 December 2010
		SR	SR
Net loss for the year		(5,090,473)	(11,393,334)
Other comprehensive loss:			
Zakat and income tax	21	(677,113)	(1,248,303)
Total comprehensive loss for the year		(5,767,586)	(12,641,637)

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended 31 December 2011

	Share capital	Accumulated losses	Total
	SR	SR	SR
Balance at 1 January 2010	100,000,000	(48,929,945)	51,070,055
Net loss for the year	-	(11,393,334)	(11,393,334)
Zakat and income tax	-	(1,248,303)	(1,248,303)
Balance at 31 December 2010	100,000,000	(61,571,582)	38,428,418
Balance at 1 January 2011	100,000,000	(61,571,582)	38,428,418
Net loss for the year	-	(5,090,473)	(5,090,473)
Zakat and income tax	-	(677,113)	(677,113)
Balance at 31 December 2011	100,000,000	(67,339,168)	32,660,832

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For The Year Ended 31 December 2011

	31 December 2011	31 December 2010
	SR	SR
CASH FLOWS FROM OPERATING ACTIVITIES		
Accumulated surplus at the end of the year	-	-
Adjustments for:		
Depreciation	1,620,296	1,422,950
Provision for doubtful debts	1,856,496	4,896,457
Gain from sale of property and equipment	(141,115)	(163,303)
Deficit transferred from insurance operations	(4,855,391)	(11,282,732)
Provision of end of service benefits	1,453,789	1,447,751
Operation loss before change in operating assets and liabilities	(65,925)	(3,678,877)
Changes in operating assets and liabilities:		
Premiums receivable	21,075,685	(9,126,879)
Reinsurers' share of unearned premiums	17,660,523	(26,372,224)
Reinsurers' share of outstanding claims	(16,664,279)	(4,509,741)
Deferred acquisition costs	3,051,261	(12,811,819)
Prepaid expenses and other assets	693,644	(7,537,008)
Due from shareholders	2,049,342	12,744,358
Reinsurance balances	(2,320,293)	25,032,415
Unearned premiums	(26,891,234)	88,768,781
Unearned reinsurance commission	(1,617,437)	2,635,463
Outstanding claims	30,243,846	13,659,810
Accounts payable, accrued expenses and other liabilities	3,377,208	16,343,282
Employees' end of service benefits paid	(1,411,449)	(340,620)
Net cash from operating activities	29,180,892	94,806,941

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For The Year Ended 31 December 2011

	31 December 2011	31 December 2010
	SR	SR
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,023,754)	(1,884,587)
Proceeds from sale of property and equipment	451,373	462,000
Net cash used in investing activities	(572,381)	(1,422,587)
Increase in cash and cash equivalents	28,608,511	93,384,354
Cash and cash equivalents at the beginning of the year	96,523,750	3,139,396
Cash and cash equivalents at the end of the year	125,132,261	96,523,750

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' CASH FLOWS
For the Year Ended 31 December 2011

	31 December 2011	31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(5,090,473)	(11,393,334)
Adjustments for:		
Appropriation of deficit from insurance operations	4,855,391	11,282,732
Unrealized gain from investments held at fair value through profit and loss	-	(275,018)
Realized gain from investments held at fair value through profit and loss	(47,422)	-
Operating loss before Changes in operating assets and liabilities	(282,504)	(385,620)
Changes in operating assets and liabilities:		
Statutory deposit	(25,250)	(32,703)
Other assets	(2,384)	-
Other liabilities	32,468	32,703
Due to insurance operations	(2,049,342)	(12,744,358)
Zakat paid	(947,539)	(1,059,842)
Net cash used in operating activities	(3,274,551)	(14,189,820)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of investments held at fair value through income and loss	53,387,620	-
Net cash from investing activities	53,387,620	-
FINANCING ACTIVITIES		
Due to related parties	(9,496,922)	(865,999)
Net cash used in financing activity	(9,496,922)	(865,999)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	40,616,147	(15,055,819)
Cash and cash equivalent at the beginning of the year	715,490	15,771,309
Cash and cash equivalent at the end of the year	41,331,637	715,490

The accompanying notes 1 to 29 form an integral part of these financial statements.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

1. GENERAL

Al Ahlia Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No.1010238441 dated 7 Ramadan 1428H (corresponding to 19 September 2007). The registered office address of the Company is P.O Box 939, Riyadh 11312, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed at the Saudi Arabian Stock Market (Tadawul) on 24 Ramadan 1428H (corresponding to 6 October 2007). The Company started its insurance operations on 5 Rabi' Al Thani 1430H (corresponding to 1 April 2010).

2. ASSET PURCHASE AGREEMENT AND TRANSFER OF INSURANCE PORTFOLIO

The Company was licensed to conduct cooperative insurance business in the Kingdom of Saudi Arabia in accordance with Royal Decree numbered 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to Council of Ministers resolution numbered 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering transaction on 19 Thul Qedah 1427H (corresponding to 10 December 2006), the Ministry of Commerce and Industry (MOCI) issued a resolution declaring the incorporation of the Company on 18 Jumada Al Thani 1428H (corresponding to 3 July 2007).

The Company is willing to enter into an insurance portfolio and net asset purchase agreement related to the operation of Al Ahlia Insurance Company B.S.C. (closed) in the Kingdom of Saudi Arabia. Accordance to that, a financial due diligence was submitted (which consisted a valuation of the operations) in line with instructions issued by Saudi Arabian Monetary Agency, by an independent external auditor to Saudi Arabian Monetary Agency during the year 2007. The valuation result was issued by Saudi Arabian Monetary Agency (the Agency) in accordance with its letter addressed to Al Ahlia Cooperative Insurance Company dated 28 Rajab 1430H (corresponding to 21 July 2009) which stated that in accordance with the valuation program standards, there is no goodwill amount and the amount that can be transferred is only the net assets value.

The Company has convened for an ordinary general assembly meeting on 18 Shawal 1430H (corresponding to 7 October 2009) whereas the shareholders were notified about the above mentioned valuation result and the approval was obtained with regards to the insurance portfolio transfer and related net assets of Al Ahlia Insurance Company B.S.C. (closed) in the Kingdom of Saudi Arabia to the Company on the fact that it is to be agreed on the assets and liabilities that will be specifically transferred and estimated its value in accordance with the valuation program standards issued by Saudi Arabian Monetary Agency in May 2007 and transferring it on that basis. The Company is willing to transfer the assets and liabilities with retroactive effect as at 1 January 2009 following the finalization of the statutory procedures. As at 31 December 2011, the statutory procedures regarding the portfolio transfer have not yet been finalized.

3. BASIS OF PREPARATION

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The financial statements are prepared under the historical cost basis amendment to include the measurement at fair value of investments held at fair value through profit and loss.

Functional and presentational currency

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

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

4. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND AMENDMENTS

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements as of and for the year ended December 31, 2010, except for the adoption of amendments and revisions to existing standards as mentioned below which had no significant financial impact on the financial statements of the Company.

a) IAS 24 “Related Party Disclosures”:

The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.

b) IFRS 7 “Financial Instruments: Disclosures”:

The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

c) IAS 1 “Presentation of Financial Statements”:

IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in shareholders’ equity or in the notes.

Other amendments resulting in improvements to the following standards also did not have any material impact on the accounting policies or financial position or performance of the Company:

- IFRS 7 – Financial Instruments, Disclosures;
- IAS 1 – Presentation of Financial Statements;
- IAS 32 – Financial Instruments: Presentation.

The new standards and amendments to standards and interpretations of International Financial Reporting Standards, which the company must adopt for the first time with respect to the financial year beginning on 1 January 2011 have not resulted in any significant amendments to the presentation of financial statements and the accompanying financial statements and its disclosures .

The Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the Company in the future.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reinsurance

In the ordinary course of business, the Company cedes insurance premiums 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 reinsurance transactions is effected under treaty, facultative and excess of loss reinsurance contracts. Assets or liabilities being recorded in the insurance operations’ financial position represents premiums due to or payments due from reinsurers and the company’s share of losses being recoverable from reinsurers. Amounts receivable from reinsurers are estimated in a manner consistent with the claims liability associated with the insured parties.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

Deferred policy acquisition costs

Those 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 expensed when incurred.

Subsequent to initial recognition, deferred costs are amortized on a pro-rata method over the expected future premium period except for marine cargo whereas the deferred portion is 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.

Impairment and uncollectibility of financial assets

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

- a) For assets carried at fair value, impairment is the difference between the cost and fair value.
- b) For assets carried at cost, impairment is the difference between the carrying book value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- c) For assets carried at amortized cost, impairment is determined based on the future cash flows that are discounted at the original effective special commission rate.

Trade date accounting

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

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based on the estimated useful life using the straight line method.

The estimated useful lives of property and equipment are as follows:

	Years
Computers and software	4
Furniture and fixtures	10
Motor vehicles	4

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of insurance / shareholders' operations.

Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the insurance contracts liabilities after deduction of related deferred acquisition costs. In performing these tests, management uses current best estimates of future contractual cash flows and administration expenses and claims handling. Any deficiency in the carrying amount immediately charged to the statements of insurance operations by writing off first related deferred acquisition cost and by establishing a provision for losses arising from liability adequacy tests (Unexpected loss provision). And in cases requiring liability adequacy test for using best of new estimations, these estimations are used (without any margin for any reversal change) for measuring subsequently these liabilities.

Employees' end of service benefits

Employees' end of service benefits are provided in accordance with Saudi Labor Law. Dues are paid based on employees' last salary and service period subject to completion of the minimum service period. The estimated cost is due for these remunerations over the staff employment period.

Insurance contracts

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

Premiums receivable

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

Premiums earned

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis except for marine cargo insurance whereby it is calculated on the basis of last three month premiums. 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 recorded to the statement of insurance operations over the period to cover the insurance risks. Retained premiums and commission income of the current period which are related are to unexpected risks relating to the subsequent financial period, are recorded based on actual number of days. Commission income is recognized based on the effective yield after taking into consideration the outstanding principal amount and average commission rate.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

Outstanding claims

Outstanding claims comprise the estimated claims incurred but not settled at the date of the financial position, and claims handling cost less the estimated salvage value and other recoveries whether reported or not by the insureds. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at date of the statement of financial position including claims handling costs and the estimated salvage value and other recoveries as at the financial position date.

Any difference between the provisions at the date of the statement of financial position and settlements and provisions in the following year is included in the statement of insurance operation for that year.

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

Fair values

For traded investments in organised financial markets, the fair value is determined based on current price in the financial market. The fair value for items associated with interest based on discounted cash flows using interest rates for those items which have same conditions and risk characteristics. For untraded investments, the fair value is determined based on the market value of similar investments or based on forecasted discounted cash flows.

Investments held at fair value through income and loss

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

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

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are measured at fair value. Fair value adjustments and realised gains and losses are recognized in the statement of shareholders' operations.

Derecognition of financial instruments

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statements of operations and shareholders' operations unless required or permitted by any accounting standard or its interpretations.

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

Operating leases

Operating lease payments are recognized as expenses in the statement of insurance operations on a straight-line method basis over the lease contract period.

Segmental reporting

A segment is considered as a basic component of the company that is engaged in selling / providing products or related services whereby its profit or loss is different than profit or loss of other segments. For management purposes, the Company is organized into business units based on their products and services has the following segments:

- Engineering insurance: provides for contractors' risks, installations and building and electrical equipments and electronics risks and any other insurance classified under this segment.
- Motor Insurance: provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Health insurance: covers medical costs, medicines, and all other medical services and supplies.
- Professional malpractice: covers responsibilities of professional medical malpractice.
- Other insurance classes: cover any other classes of insurance not mentioned above.
- Shareholders' operations: and it is a non-operating segment.

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

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian Zakat and Tax Regulations. Zakat is charged to equity accounts of Saudi founding shareholders while income tax is charged to equity accounts of foreign shareholders.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the 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 assets or liabilities affected in the future.

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

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

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

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

Impairment losses of premiums receivable

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.

Deferred acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred policy acquisition costs and are amortized 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 realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are composed of the following:

	2011		2010	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Balances at banks	32,123,980	1,327,448	31,514,267	715,490
Short term Islamic deposits	93,008,281	40,004,189	65,009,483	-
	125,132,261	41,331,637	96,523,750	715,490

Short term Islamic deposits represent deposits being placed with local banks with a maturity period of three months or less from the date of its original acquisition, and earn special commission at an average rate of 0.2% per annum (31 December 2010: 0.5%).

Short term Islamic deposits and balances at banks are placed with counterparties that have good credit ratings.

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

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

8. PREMIUMS RECEIVABLE, NET

	2011	2010
	SR	SR
Premiums and insurance balances receivable	34,384,975	55,465,302
Less: Provision for doubtful debts	(9,710,124)	(7,858,270)
	24,674,851	47,607,032

Terms and conditions of the Company's require premiums to be settled in 90 days.

Movement of provision for doubtful debts represents net amount charged during the year amounting to SR 1,851,854 (31 December 2010: SR 4,896,457). The following represents the ageing of premiums and insurance balances receivable that is not impaired as at December 31:

			Past due but not impaired			Past due and impaired
	Total	Not past due and not impaired	From 31 to 60 days	From 61 to 90 days	More than 90 days	
	SR	SR	SR	SR	SR	SR
2011	34,384,975	4,784,883	3,050,948	2,246,592	-	24,302,552
2010	55,465,302	11,072,175	8,250,408	5,165,267	-	30,977,452

9. CHANGE IN UNEARNED PREMIUMS

	2011	2010
	SR	SR
At the beginning of the year	85,813,181	23,416,624
Net written premiums	172,109,414	163,572,707
Net earned premiums	(181,340,125)	(101,176,150)
At the end of the year	76,582,470	85,813,181
Reinsurers' share of unearned premiums	36,833,824	54,494,347
	113,416,294	140,307,528

Al Ahlia cooperative insurance COMPANY
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

10. OUTSTANDING CLAIMS

Movement in outstanding claims	2011 SR			2010 SR		
	Gross	Reinsurance share	Net	Gross	Reinsurance share	Net
Outstanding claims at beginning of the year	18,337,850	(7,514,298)	10,823,552	6,303,262	(3,004,557)	3,298,705
IBNR	5,048,447	-	5,048,447	3,423,225	-	3,423,225
Total at the beginning of the year	23,386,297	(7,514,298)	15,871,999	9,726,487	(3,004,557)	6,721,930
Paid claims	(137,334,803)	57,877,615	(79,457,188)	(65,192,292)	33,913,253	(31,279,039)
Incurred claims	167,578,649	(74,541,894)	93,036,755	78,852,102	(38,422,994)	40,429,108
Total at the end of the year	53,630,143	(24,178,577)	29,451,566	23,386,297	(7,514,298)	15,871,999
Details of outstanding claims						
Outstanding claims	29,382,336	(13,858,577)	15,523,759	18,337,850	(7,514,298)	10,823,552
IBNR	24,247,807	(10,320,000)	13,927,807	5,048,447	-	5,048,447
Total at the end of the year	53,630,143	(24,178,577)	29,451,566	23,386,297	(7,514,298)	15,871,999

11. DEFERRED ACQUISITION COSTS

	2011	2010
	SR	SR
Balance at 1 January	17,239,533	4,427,714
Costs incurred during the year	33,208,843	30,811,817
Costs charged for the year	(36,260,104)	(17,999,998)
Balance at 31 December	14,188,272	17,239,533

Al Ahlia cooperative insurance COMPANY
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NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

12. PREPAID EXPENSES AND OTHER ASSETS

	2011		2010	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Deferred claims management	4,722,856	-	6,207,502	-
Prepayment of intermediaries and service suppliers	2,431,070	-	2,058,769	-
Employees' benefits paid in advance	653,656	-	869,371	-
Prepaid rent	760,756	-	616,730	-
Prepaid advertising	173,250	-	234,180	-
Prepaid subscriptions	5,200	-	195,002	-
Employees	559,285	-	74,738	-
Other receivables	533,750	-	277,175	-
	9,839,823	-	10,533,467	-

Al Ahlia cooperative insurance COMPANY
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13. PROPERTY AND EQUIPMENT, NET

Cost	Office equipment and furniture and fixtures	Computers and software	Motor vehicles	Total
	SR	SR	SR	SR
As at 1 January 2010	425,021	3,459,070	1,629,387	5,513,478
Additions during the year	722,347	1,162,240	-	1,884,587
Disposals during the year	-	-	(740,541)	(740,541)
As at 31 December 2010	1,147,368	4,621,310	888,846	6,657,524
Additions during the year	457,919	295,435	-	753,354
Disposals during the year	-	-	(348,111)	(348,111)
As at 31 December 2011	1,605,287	4,916,745	540,735	7,062,767
Accumulated depreciation				
As at 1 January 2010	50,730	1,229,173	812,892	2,092,795
Charge for the year	83,924	1,073,031	265,995	1,422,950
Disposals during the year	-	-	(441,844)	(441,844)
As at 31 December 2010	134,654	2,302,204	637,043	3,073,901
Charge for the year	239,517	1,198,796	181,983	1,620,296
Disposals during the year	-	-	(308,253)	(308,253)
As at 31 December 2011	374,171	3,501,000	510,773	4,385,944
Net book value				
As at 31 December 2011	1,231,116	1,415,745	29,962	2,676,823
As at 31 December 2010	1,012,714	2,319,106	251,803	3,583,623

During 2010, all property and equipments of shareholders' assets were transferred to insurance operations' assets.

14. INVESTMENT HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

Investments held at fair value through profit and loss representing units in investments funds with local bank have been liquidated during the year ended 31 December 2011 whereas a gain of SR 47,422 was recognized from the liquidation.

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15. STATUTORY DEPOSITS

Statutory deposit represents 10% of the paid up capital in accordance with the Cooperative Insurance Companies Control Law in the Kingdom of Saudi Arabia issued by SAMA. This statutory deposit cannot be withdrawn without the consent of SAMA.

During year 2009, SAMA approved for investing the statutory deposit amounting to SR 10,000,000 in a local investment fund. The fair value for this investment was SR 10,065,172 as at 31 December 2011 (31 December 2010: SR 10,039,922).

16. UNEARNED REINSURANCE COMMISSION

	2011	2010
	SR	SR
At 1 January	4,232,007	1,596,544
Commission received during the year	4,626,743	9,063,068
Commission earned during the year	(6,244,180)	(6,427,605)
At 31 December	2,614,570	4,232,007

17. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

	2011		2010	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Accounts payable - customers	8,843,016	-	8,977,518	-
Advance from customers	5,960,677	-	4,456,545	-
Accounts payable - suppliers	16,760,098	-	15,569,100	-
End of service benefits	2,256,268	-	2,213,928	-
CCHI	1,685,231	-	1,113,800	-
Accrued expenses	61,066	-	-	-
Others	191,700	72,390	7,617	39,922
	35,758,056	72,390	32,338,508	39,922

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18. SHARE CAPITAL

The authorized and paid up share capital of the Company is SR 100 million divided into 10 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 6 million shares with a nominal value of SR 10 each, which represent 60% of the shares of the Company and the remaining 4 million shares with a nominal value of SR 10 each have been subscribed for by the public.

On 18 Muharam 1433H (corresponding to December 13, 2011) The Company obtained the approval from SAMA for the capital increase for an amount of SR 220 million through offering rights issue, and a recommendation was issued to the Extraordinary General Assembly to resolve the capital increase and determine the price of rights issue and number of shares whereby this capital increase is limited to shareholders being registered at Tadawul closing date of the Extraordinary General Assembly date that has not yet been scheduled as at the financial position date.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2011		2010	
	Insurance operations	Shareholders	Insurance operations	Shareholders
	SR	SR	SR	SR
Employee salaries and expenses	30,927,409	-	28,942,000	-
Board of directors' and executive committees meeting expenses	-	354,727	-	389,167
Professional and license fees	4,710,121	-	5,104,455	-
Promotion and advertising	1,522,332	-	2,017,263	-
Depreciation	1,620,296	-	1,422,950	-
End of service benefit	1,453,789	-	1,476,269	-
Rent	2,192,402	-	1,748,718	-
Travelling and business transportation	390,567	-	737,675	-
Utilities	2,458,637	-	2,165,756	-
Maintenance and repair	167,590	-	945,286	-
Stationery and printing	740,729	-	1,029,005	-
Supervision and inspection costs	3,165,832	-	2,952,012	-
GOSI	868,445	-	666,028	-
Others	578,164	-	669,531	-
	50,796,313	354,727	49,876,948	389,167

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20. OTHER INCOME

	2011	2010
	SR	SR
Investment income	-	70,771
Other income	66,761	51,549
Capital gain , net	141,115	163,303
	207,876	285,623

21. ZAKAT AND INCOME TAX

a) Zakat charge for the year

Zakat charges for the current year consist of provision for the current year amounting to SR 677,113 (2010: SR 1,248,303).

The Zakat base is calculated based on the following:

	2011	2010
	SR	SR
Shareholders' equity	37,486,919	57,633,912
Book value for long term assets	(2,676,823)	(3,189,482)
	34,810,096	54,444,430
Adjusted loss	(1,780,188)	(4,512,301)
Zakat base	33,029,908	49,932,129

The differences between the financial and the Zakatable results are mainly due to provisions which are not allowed in the calculation of adjusted loss.

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b) Movement in zakat provision

The movement of zakat provision is as follows:

	2011	2010
	SR	SR
Balance at the beginning of the year	1,166,363	977,902
Provision for the year	677,113	1,248,303
Paid during the year	(947,539)	(1,059,842)
Balance at the end of the year	895,937	1,166,363

c) Income tax

There is no income tax being provided for due to losses being incurred by the Company during the year.

d) Status of assessments

The Company has filed its zakat return for the years ended 31 December 2010 and 2009 to the Department of Zakat and Income Tax (DZIT) and has not yet received the final assessment.

22. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year ended:

Related party	Nature of transaction	31 December 2011	31 December 2010
		SR	SR
Al Ahlia Cooperative Insurance Company B.S.C. (closed) – Shareholder	- Expenses paid on behalf of Al Ahlia Cooperative insurance Company	(11,848,773)	(26,033,097)
	- Expenses paid by the Company on behalf of AlAhlia Insurance Company (B.S.C)	21,345,695	26,899,096

The above significant transactions with the related parties resulted in the following balances as at financial position date:

	31 December 2011	31 December 2010
	SR	SR
Al Ahlia Insurance Company B.S.C. (closed) - Shareholder	1,599,316	11,096,238

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b) Shareholders' operations

Compensation of key management personnel

The remunerations of directors and other key management personnel during the year ended were as follows:

	2011	2010
	SR	SR
Short-term benefits	5,060,398	2,511,900
End of service benefit	183,940	145,116

23. LOSS PER SHARE

Loss per share for the year has been calculated by dividing the net loss for the year by the outstanding shares during the year.

24. FAIR VALUES 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. Special financial assets of the company include cash and cash equivalents, premium receivables, investments and accrued revenue while its financial liabilities include payables and accrued expenses.

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

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24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and fair values hierarchy

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value as at 31 December 2011 and 2010 by levels of the hierarchy:

2011	SR '000			
	Level 1	Level 2	Level 3	Total
Investments held at fair value through profit and loss - shareholders	-	-	-	-
Total	-	-	-	-

2010	SR '000			
	Level 1	Level 2	Level 3	Total
Investments held at fair value through profit and loss - shareholders	54,340,198	-	-	54,340,198
Total	54,340,198	-	-	54,340,198

25. SEGMENTAL INFORMATION

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

Segment results do not include allocation of general and administrative expenses of insurance operations.

Segment assets do not include allocation of cash and cash equivalents, receivables, prepaid expenses and other assets, property and equipment, net and due from shareholders' operations whether different segments .

Segment liabilities do not include allocation of reinsurance balances payable, unearned reinsurance commission, accrued expenses and other liabilities, employees' end of service benefits, zakat and due to related parties within different segments.

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	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Others SR	TOTAL SR
For the year ended 31 December 2011						
Insurance operations						
Gross premiums written	14,737,020	36,637,654	197,280,281	5,939,465	3,143,325	257,737,745
Reinsurance premiums ceded	(13,457,729)	(638,662)	(67,508,611)	-	(1,824,623)	(83,429,625)
Excess of loss expenses	(421,627)	(1,294,128)	-	(274,905)	(208,046)	(2,198,706)
Net premiums written	857,664	34,704,864	129,771,670	5,664,560	1,110,656	172,109,414
Change in unearned premiums	143,793	11,904,798	(3,958,450)	617,925	522,645	9,230,711
Net premiums earned	1,001,457	46,609,662	125,813,220	6,282,485	1,633,301	181,340,125
Reinsurance commission	3,914,744	-	1,520,770	157,506	651,160	6,244,180
Net claim incurred	(106,560)	(44,390,839)	(46,586,169)	(1,919,280)	(33,907)	(93,036,755)
Policy acquisition costs	(2,681,161)	(10,188,153)	(21,775,357)	(843,936)	(771,497)	(36,260,104)
Issuance income	9,125	908,642	4,928,479	71,011	7,210	5,924,467
Net underwriting results	2,137,605	(7,060,688)	63,900,943	3,747,786	1,486,267	64,211,913
Claims management fees	-	-	(16,893,794)	-	-	(16,893,794)
Commission income						271,423
Other income						207,876
Provision for doubtful debts						(1,856,496)
General and administrative expenses						(50,796,313)
Deficit from insurance operations						(4,855,391)

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	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Others SR	TOTAL SR
For the year ended 31 December 2010						
Insurance operations						
Gross premiums written	20,789,491	55,979,416	166,825,927	10,359,528	6,693,352	260,647,715
Reinsurance premiums ceded	(23,638,431)	(585,764)	(64,952,080)	(2,081,694)	(3,969,004)	(95,226,973)
Excess of loss expenses	(256,485)	(1,369,520)	-	-	(222,030)	(1,848,035)
Net premiums written	(3,105,425)	54,024,132	101,873,847	8,277,834	2,502,319	163,572,707
Change in unearned premiums	2,600,180	(22,588,227)	(37,437,863)	(4,022,408)	(948,239)	(62,396,557)
Net premiums earned	(505,245)	31,435,905	64,435,984	4,255,426	1,554,080	101,176,150
Reinsurance commission	5,132,641	1,363	-	126,922	1,166,679	6,427,605
Net claim incurred	(61,623)	(20,706,923)	(18,617,313)	(687,939)	(355,310)	(40,429,108)
Policy acquisition costs	(2,133,044)	(4,945,662)	(9,849,710)	(480,101)	(591,481)	(17,999,998)
Issuance income	108,945	281,727	1,041,735	65,664	42,074	1,540,145
Net underwriting results	2,541,674	6,066,410	37,010,696	3,279,972	1,816,042	50,714,794
Claims management fees	-	-	(7,509,744)	-	-	(7,509,744)
Commission income						-
Other income						285,623
Provision for doubtful debts						(4,896,457)
General and administrative expenses						(49,876,948)
Deficit from insurance operations						(11,282,732)

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	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Other SR	TOTAL SR
As at 31 December 2011						
Insurance operations' assets						
Reinsurers' share of unearned premiums	9,852,700	70,099	25,503,173	869,262	538,590	36,833,824
Reinsurers' share of outstanding claims	3,059,715	2,427,545	17,588,963	606,833	495,521	24,178,577
Deferred acquisition costs	1,310,869	2,668,428	9,089,521	913,582	205,872	14,188,272
Claims management prepayments	-	-	4,722,856	-	-	4,722,856
Unallocated assets						173,771,620
						253,695,149
Insurance operations' liabilities						
Unearned premiums	10,328,786	17,622,220	75,526,658	8,058,010	1,880,620	113,416,294
Outstanding claims	3,211,200	13,038,124	33,136,969	3,334,633	909,217	53,630,143
Unallocated liabilities						86,648,712
						253,695,149

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	Engineering SR	Motor SR	Health SR	Malpractice professional SR	Other SR	TOTAL SR
As at 31 December 2010						
Insurance operations' assets						
Reinsurers' share of unearned premiums	14,770,749	821,989	35,966,208	1,517,596	1,417,805	54,494,347
Reinsurers' share of outstanding claims	501,386	607,880	3,969,859	172,500	2,262,673	7,514,298
Deferred acquisition costs	1,925,107	2,648,745	8,727,994	3,648,745	288,942	17,239,533
Claims management prepayments	-	-	6,207,502	-	-	6,207,502
Unallocated assets						165,405,039
						250,860,719
Insurance operations' liabilities						
Unearned premiums	15,390,628	30,278,908	82,031,243	9,324,269	3,282,480	140,307,528
Outstanding claims	545,322	9,606,674	9,308,650	1,042,020	2,883,631	23,386,297
Unallocated liabilities						87,166,894
						250,860,719

26. CONTINGENT LIABILITIES

As at 31 December 2011, contingent liabilities of the Company, representing a letter of guaranty, amounted to SR 1,100,000 (31 December 2010: nil)

27 RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organizational structure to meet strategic targets.

The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board.

The Company is exposed to credit risk, liquidity risk, market risk and operation risk.

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Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee and Internal Audit Department

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

The risks faced by the Company and the manner in which these risks are mitigated by management are set out below:

A) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims severity, actual benefits paid and subsequent development of long term claims are different than expected. Therefore the objective of the Company is to ensure that sufficient resources are available to cover these liabilities. The insurance risk arising from insurance contracts is mainly concentrated in the Kingdom of Saudi Arabia.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. Substantially all of the motor contracts relate to private individuals. The Company also has risk management procedures to control cost of claims.

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Medical insurance

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Key assumptions

Key assumptions relating to the ultimate loss ratio liabilities for the Company was estimated by using actuarial techniques.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio, with all other assumptions held constant, showing the impact on net liabilities and net income as at 31 December as follows:

31 December 2011	Changes in assumption	Effect on net liabilities	Effect on net Income
		SR	SR
Ultimate loss ratio	+10%	18,134,012	(18,134,012)
	-10%	(18,134,012)	18,134,012

31 December 2010	Changes in assumption	Effect on net liabilities	Effect on net Income
		SR	SR
Ultimate loss ratio	+10%	10,117,615	(10,117,615)
	-10%	(10,117,615)	10,117,615

B) Reinsurance risk

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

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

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

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C) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in Saudi Riyals.

D) Credit risk

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

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

- The Company only enters into insurance and reinsurance contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment funds and portfolios are managed by the investment officer in accordance with the investment policy established by the board of directors.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and good credit ratings.
- There are no significant concentrations of credit risk within the Company.

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

	2011		2010	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
	SR	SR	SR	SR
Cash and cash equivalents	125,132,261	41,331,637	96,523,750	715,490
Investments held at fair value through of profit and loss	-	-	-	53,340,198
Statutory deposit	-	10,065,172	-	10,039,922
Premiums receivable, net	24,674,851	-	47,607,032	-
Reinsurances share of outstanding claims	24,178,577	-	7,514,298	-
Due from shareholders	16,170,718	-	13,364,669	-
	190,156,407	51,396,809	165,009,749	64,095,610

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E) Liquidity risk

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

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

Maturity date

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

	2011		
	Less than 12 months	More than 12 months	Total
	SR	SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payable	48,276,086	-	48,276,086
Outstanding claims	53,630,143	-	53,630,143
Accounts payable, accrued expenses and other liabilities	33,501,788	2,256,268	35,758,056
	135,408,017	2,256,268	137,664,285
SHAREHOLDERS' LIABILITIES			
Zakat payable	895,937	-	895,937
Accounts payable, accrued expenses and other liabilities	72,390	-	72,390
Due to related parties	1,599,316	-	1,599,316
Due to insurance operations	16,170,718	-	16,170,718
	18,738,361	-	18,738,361

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	2010		
	Less than 12 months	More than 12 months	Total
	SR	SR	SR
INSURANCE OPERATIONS' LIABILITIES			
Reinsurance payable	50,596,379	-	50,596,379
Outstanding claims	23,386,297	-	23,386,297
Accounts payable, accrued expenses and other liabilities	30,124,580	2,213,928	32,338,508
	104,107,256	2,213,928	106,321,184
SHAREHOLDERS' LIABILITIES			
Zakat payable	1,166,363	-	1,166,363
Accounts payable, accrued expenses and other liabilities	39,922	-	39,922
Due to related parties	11,096,238	-	11,096,238
Due to insurance operations	13,364,669	-	13,364,669
	25,667,192	-	25,667,192

Liquidity

None of the financial liabilities on the date of the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above.

G) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. Management believes that there is no significant commission rate risk as all investments are subject to fixed commission rates and are carried at amortised cost.

H) Fund price risk

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

The Company limits fund price risk by maintaining a diversified portfolio by having different types of funds and by monitoring of developments in fund markets.

A 5% change in the net asset value of funds, with all other variables held constant, would impact net income by increase / decrease of SR 2,667,010 (2010: SR 2,653,259).

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J) Capital management risk

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

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

H) Regulatory framework risk

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

28. Comparative figures

Certain of the prior period figures have been reclassified to conform with the presentation in the current period

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 23 Rabi awal 1433H corresponding to 15 February 2012.



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