

**Salama Cooperative Insurance Company**  
(Formerly 'Saudi IAIC Cooperative Insurance Company')  
(A Saudi Joint Stock Company)

**FINANCIAL STATEMENTS  
AND AUDITORS' REPORT**

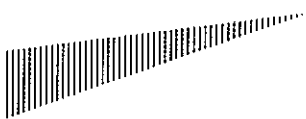
**31 DECEMBER 2012**

**SALAMA COOPERATIVE INSURANCE COMPANY  
(FORMERLY 'SAUDI IAIC COOPERATIVE INSURANCE COMPANY')  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
31 DECEMBER 2012**

---

<b>INDEX</b>	<b>PAGE</b>
Independent Auditors' Report	1
Statement of Financial Position	2 – 3
Statement of Insurance Operations and Accumulated Surplus	4
Statement of Shareholders' Operations	5
Statement of Shareholders' Comprehensive Income	6
Statement of Changes in Shareholders' Equity	7
Statement of Insurance Operations' Cash Flows	8
Statement of Shareholders' Cash Flows	9
Notes to the Financial Statements	10 – 37



**ERNST & YOUNG**

P. O. Box 1994  
Jeddah 21441  
Saudi Arabia

**Al Bassam**

**Certified Public Accountants & Consultants**

P. O. Box 15651  
Jeddah 21454  
Saudi Arabia

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALAMA COOPERATIVE INSURANCE COMPANY (FORMERLY 'SAUDI IAIC COOPERATIVE INSURANCE COMPANY') (A SAUDI JOINT STOCK COMPANY)**

**Scope of audit**

We have audited the accompanying statement of financial position of Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – a Saudi Joint Stock Company – (the "Company") as at 31 December 2012, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended. These financial statements are the responsibility of the Company's Board of Directors and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Unqualified opinion**

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

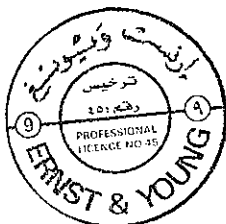
- present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
- comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

**Emphasis of matter**

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

for Ernst & Young

Husam Faisal Bawared  
Certified Public Accountant  
Licence No. 393

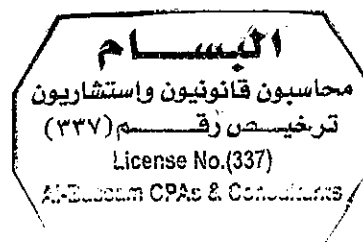


for Al Bassam

Certified Public Accountants & Consultants

Ibrahim A. Al-Bassam  
Certified Public Accountant  
Licence No. 337

14 Rabi Al Thani 1434 H  
24 February 2013  
Jeddah, Saudi Arabia



**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**STATEMENT OF FINANCIAL POSITION**

At 31 December 2012

		<i>31 December 2012</i>	<i>31 December 2011</i>
	<i>Notes</i>	<i>SR'000</i>	<i>SR'000</i>
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	3(a)	37,289	43,560
Term deposits	3(b)	20,648	23,993
Premiums receivable, net	4	34,339	39,650
Reinsurance receivables		12,328	7,457
Deferred policy acquisition costs	6	2,046	10,109
Prepayments and other receivables	9	11,363	4,477
Amount due from a related party	18	6,759	6,759
FVIS investments	8	3,131	3,077
Reinsurers' share of unearned premiums	5	9,306	14,058
Reinsurers' share of outstanding claims	7	14,193	15,128
Held to maturity investments	8	13,685	13,697
Furniture, fittings and office equipment	10	4,172	6,029
<b>Total insurance operations' assets</b>		<b>169,259</b>	<b>187,994</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	3(a)	13,371	29,373
Term deposits	3(b)	20,000	10,000
FVIS investments	8	13,874	3,269
Available for sale investments	8	8,582	20,385
Prepayments and other receivables	9	482	79
Due from insurance operations		4,531	6,818
Held to maturity investments	8	3,731	8,722
Goodwill	1	-	7,140
Statutory deposit	13	10,771	10,643
<b>Total shareholders' assets</b>		<b>75,342</b>	<b>96,429</b>
<b>TOTAL ASSETS</b>		<b>244,601</b>	<b>284,423</b>



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 27 form part of these financial statements.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**STATEMENT OF FINANCIAL POSITION (continued)**

At 31 December 2012

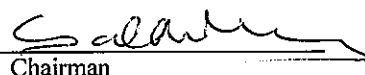
		<i>31 December 2012</i>	<i>31 December 2011</i>
	<i>Notes</i>	<i>SR'000</i>	<i>SR'000</i>
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
<b>Insurance operations' liabilities</b>			
Unearned premiums	5	81,302	102,611
Provision for premium deficiency		221	63
Unearned commission income	11	1,174	1,182
Outstanding claims	7	50,236	46,845
Policyholders' claims		7,726	8,361
Reinsurance payables		3,470	4,878
Accruals and other payables	12	11,105	8,193
Due to shareholders' operations		4,531	6,818
Employees' terminal benefits		6,480	6,029
		<u>166,245</u>	<u>184,980</u>
<b>Insurance operations' surplus</b>			
Accumulated surplus from insurance operations		<u>3,014</u>	<u>3,014</u>
<b>Total insurance operations' liabilities and surplus</b>		<u>169,259</u>	<u>187,994</u>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accruals and other payables	12	1,606	2,070
Zakat provision	17	2,756	2,211
Amount due to a related party	18	2,026	17
Amount due to a related party in respect of goodwill	1&18	-	7,140
<b>Total shareholders' liabilities</b>		<u>6,388</u>	<u>11,438</u>
<b>Shareholders' equity</b>			
Share capital	14	100,000	100,000
Accumulated losses		(32,705)	(19,748)
Available for sale investments reserve		1,659	4,739
<b>Total shareholders' equity</b>		<u>68,954</u>	<u>84,991</u>
<b>Total shareholders' liabilities and equity</b>		<u>75,342</u>	<u>96,429</u>
<b>TOTAL LIABILITIES, SURPLUS AND EQUITY</b>		<u>244,601</u>	<u>284,423</u>



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 27 form part of these financial statements.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**

For the year ended 31 December 2012

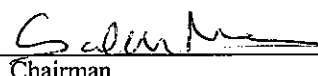
	<i>Notes</i>	<b>2012 SR'000</b>	<b>2011 SR'000</b>
<b>REVENUE</b>			
Gross premiums written	5	204,258	218,663
Less: Reinsurance premiums ceded	5	(25,070)	(35,554)
Less: Excess of loss premiums	5	(2,962)	(2,725)
Net premiums written		176,226	180,384
Changes in net unearned premiums		16,557	(47,983)
Net premiums earned	5	192,783	132,401
Reinsurance commissions earned	11	5,150	3,591
Net revenue		197,933	135,992
<b>COSTS AND EXPENSES</b>			
Gross claims paid	7	177,742	131,490
Less: Reinsurers' share	7	(27,756)	(36,973)
Net claims paid		149,986	94,517
Changes in net outstanding claims		4,326	(10,754)
Net claims incurred	7	154,312	83,763
Provision for premium deficiency reserve		158	-
Policy acquisition costs	6	14,341	11,977
Other operating expenses		4,630	6,838
Net costs and expenses		173,441	102,578
Net results of insurance operations		24,492	33,414
General and administration expenses	19	(41,982)	(34,452)
Other income		210	4,928
Investment income		1,258	1,021
<b>(Deficit)/ surplus from insurance operations</b>		<b>(16,022)</b>	<b>4,911</b>
Shareholders' share of insurance operations' deficit/ (surplus)	2	16,022	(4,420)
Policyholders' share of surplus for the year	2	-	491
Accumulated surplus at the beginning of the year		3,014	2,523
Accumulated surplus at the end of the year		3,014	3,014



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 27 form part of these financial statements.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**STATEMENT OF SHAREHOLDERS' OPERATIONS**

For the year ended 31 December 2012

	Notes	2012 SR' 000	2011 SR' 000
<b>REVENUE/ (LOSS)</b>			
Shareholders' share of insurance operations' (deficit)/ surplus		(16,022)	4,420
Investment income		1,662	537
Gain on sale of available for sale investments	8c (ii)	3,602	-
Other income		66	20
Total (loss)/ revenue		(10,692)	4,977
<b>EXPENSES</b>			
General and administration	19	(465)	(906)
Net (loss)/ profit for the year before zakat		(11,157)	4,071
Zakat	17	(1,800)	(1,800)
Net (loss)/ profit for the year		(12,957)	2,271
<b>Weighted average number of ordinary shares outstanding (in thousands)</b>			
		10,000	10,000
Basic and diluted (loss)/ earnings per share – (SR)	20	(1.3)	0.23



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 27 form part of these financial statements.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>2012</i> <i>SR' 000</i>	<i>2011</i> <i>SR' 000</i>
Net (loss)/ profit for the year	(12,957)	2,271
Change in value of available for sale investments (note 8(c))	<u>522</u>	<u>253</u>
<b>Total comprehensive (loss)/ income for the year</b>	<u><u>(12,435)</u></u>	<u><u>2,524</u></u>



Chief Financial Officer



Chief Executive Officer



Chairman



**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended 31 December 2012

	<i>Share capital SR'000</i>	<i>Accumulated losses SR'000</i>	<i>Available for sale investments reserve SR'000</i>	<i>Total SR'000</i>
Balance as at 31 December 2010	100,000	(22,019)	4,486	82,467
Net profit for the year	-	2,271	-	2,271
Other comprehensive income	-	-	253	253
Balance at 31 December 2011	100,000	(19,748)	4,739	84,991
Net loss for the year	-	(12,957)	-	(12,957)
Other comprehensive income	-	-	522	522
Transfer to statement of shareholders' Operations (note 8c (ii))	-	-	(3,602)	(3,602)
<b>Balance at 31 December 2012</b>	<b>100,000</b>	<b>(32,705)</b>	<b>1,659</b>	<b>68,954</b>



Chief Financial Officer



Chief Executive Officer



Chairman


The accompanying notes 1 to 27 form part of these financial statements.


**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

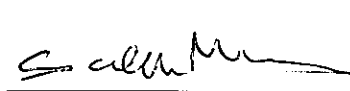
**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
<b>OPERATING ACTIVITIES</b>			
Surplus for the period from the insurance operations		-	491
Adjustments for:			
Deferred policy acquisition costs		8,063	(8,042)
Unrealized gain on FVIS investments	8(a)	(54)	(33)
Gain on disposal of FVIS investments	8(a)	-	(54)
Amortization of held to maturity investments		12	-
Reinsurers share of unearned premiums		4,752	(1,956)
Unearned premiums		(21,309)	49,939
Provision for premium deficiency		158	-
Unearned commission income		(8)	12
Write off of furniture, fittings and office equipment		1,235	-
Depreciation	10	2,581	1,210
Employees' terminal benefits, net		451	715
		(4,119)	42,282
Changes in operating assets and liabilities:			
Term deposits		3,345	(13,993)
Premium receivables, net		5,311	(2,353)
Reinsurance receivables		(4,871)	(3,775)
Prepayments and other receivables		(6,886)	(845)
Amount due from a related party		-	34
Reinsurers share of outstanding claims		935	11,500
Outstanding claims		3,391	(22,254)
Policyholders' claims		(635)	1,092
Reinsurance payables		(1,408)	(6,307)
Other payables		2,912	(2,374)
Due to shareholders' fund		(2,287)	2,492
Net cash (used in)/ from operating activities		(4,312)	5,499
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and office equipment	10	(1,959)	(1,038)
Purchase of investments held to maturity	8(b)	-	(3,697)
Disposal of FVIS investments		-	5,107
Cash (used in)/ from investing activities		(1,959)	372
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(6,271)</b>	<b>5,871</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>43,560</b>	<b>37,689</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	3(a)	<b>37,289</b>	<b>43,560</b>

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

The accompanying notes 1 to 27 form part of these financial statements.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

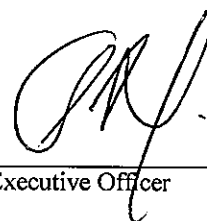
STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
<b>OPERATING ACTIVITIES</b>			
Net (loss)/profit for the period before Zakat		(11,157)	4,071
Adjustments for:			
Unrealized gain on FVIS investments	8(a)	(605)	(12)
Gain on sale of available for sale investments		(3,602)	-
Amortisation of held to maturity investments		11	-
		(15,353)	4,059
Changes in operating assets and liabilities:			
Term deposits		(10,000)	(10,000)
Prepayment and other receivables		(403)	(34)
Due from insurance operations' fund		2,287	(2,492)
Statutory deposit		(128)	(122)
Accruals and other payables		(464)	636
Amount due to a related party		2,009	(105)
Zakat paid	17	(1,255)	(1,362)
Net cash used in operating activities		(23,307)	(9,420)
<b>INVESTING ACTIVITIES</b>			
Purchase of FVIS investments	8(a)	(10,000)	-
Redemption of held to maturity investments	8(b)	4,980	-
Purchase of held to maturity investments	8(b)	-	(3,742)
Disposal of available for sale investments	8(c)	12,325	-
Net cash from/ (used in) investing activities		7,305	(3,742)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		(16,002)	(13,162)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		29,373	42,535
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	3(a)	13,371	29,373
<b>MAJOR NON-CASH TRANSACTIONS</b>			
Change in fair value of available for sale investments	8(c)	522	253



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 27 form part of these financial statements.

# Salama Cooperative Insurance Company (Formerly ‘Saudi IAIC Cooperative Insurance Company’) – A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

### 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Salama Cooperative Insurance Company (Formerly ‘Saudi IAIC Cooperative Insurance Company’) (the “Company”) is a Saudi joint stock company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry’s Resolution number 112/K dated 29 Rabi Al-Thani (corresponding to 16 May 2007). During the year, as per the shareholders resolution dated 23 June 2012, the name of the Company was changed from Saudi IAIC Cooperative Insurance Company to Salama Cooperative Insurance Company. Legal formalities to change the name of the Company have been completed during 2012.

The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awal 1428H (corresponding to 23 May 2007). The Registered Office address of the Company is Al-Amir Muhammed bin Abdulaziz Street, Bin Hamran Center, P.O. Box 122392, Jeddah 21332, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock market on 23 May 2007. The Company started its operations on 1 January 2008. The Company is fully owned by the general public and Saudi shareholders.

In 2010, the Company entered into an agreement with Islamic Arab Insurance Company BSC (“the Seller”) pursuant to which it acquired the Seller’s insurance operations in the Kingdom of Saudi Arabia, effective from 1 October 2009, at a goodwill amount of SR 7,140 thousands, as approved by Saudi Arabian Monetary Agency (“SAMA”), along with related insurance assets and liabilities of an equivalent amount (SR 30,075 thousands). The portfolio valuation date, for the purpose of the transfer, was 31 December 2008. No payment in respect of goodwill has been made till 31 December 2012.

The goodwill payments are governed by rules and regulations issued by SAMA in this regard and also subject to SAMA approval. In case the Company is not able to pay the goodwill before the end of 2015, the goodwill will be set off against the amount payable for goodwill. The Company is not expected to fulfil the requirements of SAMA in respect of goodwill payment, before the end of year 2015; hence the management discussed this matter with the Seller and Seller agreed and relinquished all their rights in respect of goodwill payment. As no amounts are expected to be paid to the Seller, the goodwill amount is offset against the amount payable to the Seller, as at 31 December 2012.

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) *Statement of compliance*

The accounting policies adopted by the Company for the preparation of these financial statements are in accordance with International Financial Reporting Standards (“IFRS”)

#### b) *Basis of presentation*

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgments are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders’ Operations. The physical custody and title of all assets related to the Insurance Operations and Shareholders’ Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and Board of Directors.

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

Shareholders	90%
Policyholders	10%
	<hr/>
	100%
	<hr/>

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

The Company presents its statement of financial position broadly in order of liquidity. All financial assets and liabilities except for investments held to maturity are expected to be recovered and settled respectively, within twelve months after the reporting date.

Salama Cooperative Insurance Company (Formerly ‘Saudi IAIC Cooperative Insurance Company’) – A Saudi Joint Stock Company

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

*c) Accounting convention*

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of FVIS investments and available for sale investments.

*d) Summary of significant accounting policies*

The accounting policies adopted by the Company for preparation of these financial statements are consistent with those of the previous year. The new standards, amendments to standards and interpretations, which are effective for annual period beginning after 1 January 2012 (see note 2(f)) have not had a significant effect on the financial statements of the Company.

The significant accounting policies adopted by the Company are summarized as follows:

***Insurance contracts***

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. Insurance contracts can also transfer financial risk.

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

Insurance contracts are principally divided into medical, marine, property, motor, engineering and accident and liability and are principally short term insurance contracts.

Medical insurance is designed to compensate holders for expenses incurred in treatment of a disease, illness or injury. Medical insurance is primarily offered to corporate customers with a large population to be covered under the policy.

Marine insurance is designed to compensate policyholders for damage and liability arising through loss or damage to marine craft/hull and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft/hull and cargoes.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties. Customers could also receive compensation for the loss of earnings through loss of profit and business interruption. For property insurance contracts the main risks are fire, natural perils, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. The Company also issues comprehensive motor policies. Various extensions cover natural perils, personal accident benefits and dealer repairs.

General accident insurance includes money, fidelity guarantee, personal accident, jeweler block, jewelery all risks and travel insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types:

- (a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, bridges, sewage works and reservoirs.
- (b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and Business Interruption following machinery breakdown and includes electronic equipment, boiler and deterioration of stocks insurance.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

*d) Summary of significant accounting policies (continued)*

**Cash and cash equivalents**

Cash and cash equivalents consists of bank balances, cash on hand, and investments that are readily convertible into known amounts of cash and have an original maturity of three months or less when purchased.

**Premiums receivable**

Premiums receivable are non derivative financial assets with fixed or determined payments.

Premiums receivable are stated at original invoice amount less an allowance for any uncollectible amounts. An allowance for impairment is made when collection of the full amount is no longer probable and charged to statement of insurance operations and accumulated surplus. Bad debts are written off when there is no possibility of recovery.

**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 recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a straight-line basis based on the term of expected future premiums except for marine cargo where the deferred portion is computed based on last three months of the total cost incurred. Amortization is recorded in the statement of insurance operations and accumulated surplus.

**Investments**

All investments are initially recognised at cost, being the fair value consideration given including acquisition charges associated with the investment. Financial assets are initially recognised at fair values plus, in the case of all financial assets not carried at fair value through income statement, transaction costs that are directly attributable to their acquisition.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. The fair value of commission bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

*FVIS Investments*

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

*Available for sale investments*

After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are included in statement of comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported within statement of comprehensive income, is included in the statement of shareholders' operations.

*Investments held to maturity*

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

Held to maturity investments are recorded at cost, adjusted by the amount of amortisation of premium or accretion of discount using the effective interest method.

Any permanent decline in value of investments is adjusted for and reported in the related statements of insurance operations or shareholders's operations as impairment charges.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

d) *Summary of significant accounting policies (continued)*

**Furniture, fittings and office equipment**

Furniture, fittings and office equipment are measured at cost less accumulated depreciation and any impairment in value. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Motor vehicle	5 years (2011: 4 years)
Furniture and fittings	5 years (2011: 10 years)
Computers and office equipment	3 years (2011: 7 years)

Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis over the estimated useful lives of the assets (see note 10(a)).

The carrying values of furniture, fittings and office equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of furniture, fittings and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of furniture, fittings and equipment. All other expenditure is recognised in the statement of insurance operations and accumulated surplus as the expense is incurred.

**Goodwill**

Goodwill represents the amount to be paid by the Company in excess of the net fair value of the identifiable assets and liabilities acquired from Islamic Arab Insurance Company as approved by SAMA. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (note 1).

**Liability adequacy test**

At each reporting date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and accumulated surplus, and a provision for premium deficiency is created.

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

**Accounts payable and accruals**

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

**Provisions**

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. Provisions are not recognized for future operating losses.

**Employees' end of service benefits**

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service subject to the completion of a minimum service period. Provision is made for the amounts payable under Saudi Arabian Labour law applicable to employees accumulated periods of service at the statement of financial position date. The expense for the year is charged to the statement of insurance operations and accumulated surplus.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

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

**d) Summary of significant accounting policies (continued)**

**Zakat**

The Company is subject to Zakat in accordance with the regulations of Department of Zakat and Income tax (DZIT). Zakat is accrued and charged to statement of shareholders' operations.

**Impairment of financial assets**

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

Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised.
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**Impairment of non-financial assets**

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

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

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of insurance operations and accumulated surplus and statement of shareholders' operations unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.



Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

**d) Summary of significant accounting policies (continued)**

**Derecognition of financial instruments**

*Financial asset*

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

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

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

*Financial liability*

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

**Revenue Recognition**

*Premiums and commissions earned*

Gross premiums written and commission income are taken into income over the term of the policies to which they relate on a pro-rata basis. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and unearned commission income, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents last three months of the total premiums written during the current financial period. The change in the unearned premiums is taken to the statement of insurance operations and accumulated surplus in order that revenue is recognized over the period of risk.

*Dividend income*

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

*Commission income*

Commission income on term deposits is recognised using the effective yield method.

**Reinsurance premiums**

Reinsurance premiums ceded are recognised as an expense when payable.

Reinsurance premiums are charged to income over the terms of the policies to which they relate on a pro-rata basis.

**Claims**

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

Outstanding claims comprise the estimated cost of claims incurred but not settled at the reporting date together with the related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims but not paid as of the reporting date are made on the basis of individual case estimates. In addition, a provision based on Management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date ("IBNR") including related claims handling costs and the expected value of salvage and other recoveries at the reporting date.

# Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

#### d) *Summary of significant accounting policies (continued)*

##### **Claims (continued)**

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

##### **Reinsurance contracts held**

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

Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "Reinsurers' share of outstanding claims" in the statement of financial position until the claim is agreed and paid by the Company. Once the claim is paid the amount due from the reinsurers in connection with the paid claim is transferred to amounts due from / to reinsurers.

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

##### **Operating lease**

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

##### **Foreign currencies**

The accounting records of the Company are maintained in Saudi Riyals. Transactions in foreign currencies are recorded in Saudi Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of insurance operations and accumulated surplus or the statement of shareholders' operations as appropriate.

##### **Expenses**

Due to the nature of the Company' business, all expenses incurred are considered to be general and administration expenses and are classified as such.

##### **Segment reporting**

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

- Medical provides compensation to holders for expenses incurred in treatment of a disease, illness or injury.
- Motor provides coverage against losses and liability related to motor vehicles.
- Other includes property, marine, engineering, accident and liability and miscellaneous categories.

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

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

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

*d) Summary of significant accounting policies (continued)*

**Fair values of financial instruments**

Financial instruments comprise cash and cash equivalents, premiums receivable, reinsurance receivables, investments, outstanding claims, reinsurance payables and certain other assets and liabilities.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. Fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or based on the expected discounted cash flows.

**Offsetting**

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

*e) Use of estimates and judgments*

**Estimation uncertainty**

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

*Provision for outstanding claims*

Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. These provisions are not discounted for the time value of money.

Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Claims requiring court or arbitration decisions, if any, are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred on a monthly basis, and claims incurred but not reported on a quarterly basis. The provision for outstanding claims as at 31 December 2012 is also verified and certified by an independent actuary.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

*e) Use of estimates and judgments (continued)*

**Estimation uncertainty (continued)**

*Allowance for impairment of premiums receivable*

The Company makes portfolio provision, estimated on a group basis, based on the ageing profile of the premiums receivable. Such estimates involve various degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Reinsurance*

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

*Deferred acquisition costs*

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

*Useful lives of furniture, fittings and equipment*

The Company's management determines the estimated useful lives of its furniture, fittings and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

*Fair values of financial instruments*

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

*Going concern*

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

*f) New IFRS, IFRIC and amendments thereof, adopted by the Company*

The Company has adopted the following amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

<i>Standard/ Interpretation</i>	<i>Description</i>
IAS 12	Amendments to Income taxes – Deferred taxes: Recovery of underlying assets
IFRS 7	Financial Instruments: Disclosures (Transfers of Financial Assets)
IAS 24	Related Party Disclosures (Definition of Related Party)

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these interim condensed financial statements.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

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

**g) Standards issued but not yet effective**

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

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 1	Amendments to IAS 1 Presentation of financial statements	1 July 2012
IAS 19	Amendments to IAS 19 Employee benefits	1 January 2013
IAS 27	Separate financial statements	1 January 2013
IAS 28	Investments in associates and joint ventures	1 January 2013
IAS 32	Financial Instruments: Presentation (offsetting financial assets and financial liabilities)	1 January 2014
IAS 16	Amendments to classification of servicing equipments	1 January 2013
IAS 32	Amendments to tax effects of distribution to holders of equity instruments	1 January 2013
IAS 34	Amendments to interim financial reporting and segment information for total assets and liabilities	1 January 2013

**3 CASH AND CASH EQUIVALENTS AND TERM DEPOSITS**

**a) Cash and Cash Equivalents**

	<i>2012 SR'000</i>	<i>2011 SR'000</i>
<b>Insurance Operations</b>		
Cash on hand and at banks	37,289	43,560
<b>Shareholders' Operations</b>		
Cash at banks	12,749	13,758
Money market funds	622	15,615
	<b>13,371</b>	<b>29,373</b>

**b) Term Deposits**

<b>Insurance Operations</b>		
Term Deposits	20,648	23,993
<b>Shareholders' Operations</b>		
Term Deposits	20,000	10,000

The term deposits are held with the commercial banks. These term deposits are denominated in Saudi Arabian Riyals and have an original maturity of more than three months and less than twelve months.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

**4 PREMIUMS RECEIVABLE, NET**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Due from policyholders	54,574	52,676
Due from policyholders - related party (see note 18)	6,797	8,648
Allowance for doubtful receivable (see below)	(27,032)	(21,674)
	<u>34,339</u>	<u>39,650</u>

Movements in allowance of doubtful premiums receivable were as follows:

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Balance at the beginning of the year	21,674	23,308
Additional allowance during the year (note 19)	5,358	-
Reversals during the year	-	(1,634)
Balance at the end of the year	<u>27,032</u>	<u>21,674</u>

The age analysis of unimpaired premium receivables arising from insurance contracts is as follows:

	<i>Past due but not impaired</i>				
	<i>Up to three months</i>	<i>Above three and up to six months</i>	<i>Above six and less than twelve months</i>	<i>Twelve months and above</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
2012	18,549	6,439	7,191	2,160	34,339
2011	18,656	4,396	10,836	5,762	39,650

Past due but not impaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority is, therefore, unsecured. In respect of premiums receivable, the five largest customer balances accounted for approximately 29% of this balance as at 31 December 2012 (2011: 22%). Receivables comprise a large number of customers and insurance companies all within the Kingdom of Saudi Arabia.

**5 NET PREMIUMS EARNED**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Gross written premiums	204,258	218,663
Gross unearned premiums at the beginning of the year	102,611	52,672
	<u>306,869</u>	<u>271,335</u>
Gross unearned premiums at the end of the year	(81,302)	(102,611)
Gross premiums earned	<u>225,567</u>	<u>168,724</u>
Reinsurance premium ceded	(25,070)	(35,554)
Excess of loss premiums	(2,962)	(2,725)
Reinsurers' share of unearned premiums at the beginning of the year	(14,058)	(12,102)
	<u>(42,090)</u>	<u>(50,381)</u>
Reinsurers' share of unearned premiums at the end of the year	9,306	14,058
Insurance premiums ceded to reinsurers	<u>(32,784)</u>	<u>(36,323)</u>
Net premiums earned	<u>192,783</u>	<u>132,401</u>

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

**6 DEFERRED POLICY ACQUISITION COSTS**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Balance at the beginning of the year	10,109	2,067
Expenses incurred during the year	6,278	20,019
Amortisation for the year	(14,341)	(11,977)
Balance at the end of the year	<u>2,046</u>	<u>10,109</u>

**7 CLAIMS INCURRED**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Gross claims paid	177,742	131,490
Gross outstanding claims at the end of the year	50,236	46,845
Gross outstanding claims at the beginning of the year	227,978 (46,845)	178,335 (69,099)
Gross claims incurred	181,133	109,236
Reinsurance recoveries	(27,756)	(36,973)
Reinsurers' share of outstanding claims at the end of the year	(14,193)	(15,128)
Reinsurers' share of outstanding claims at the beginning of the year	(41,949) 15,128	(52,101) 26,628
Reinsurers' share of claims	(26,821)	(25,473)
Net claims incurred	<u>154,312</u>	<u>83,763</u>

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

**8 INVESTMENTS**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
<b><i>Insurance Operations</i></b>		
FVIS investments (see (a) below)	3,131	3,077
Held to maturity Investments (see (b) below)	13,685	13,697
<b><i>Shareholders' Operations</i></b>		
FVIS investments (see (a) below)	13,874	3,269
Held to maturity investments (see (b) below)	3,731	8,722
Available for sale investments (see (c) below)	8,582	20,385

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

8 INVESTMENTS (continued)

a) FVIS investments

*Insurance operations*

Movements in FVIS investments is as follows:

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	3,077	8,097
Disposals during the year	-	(5,107)
Gain on disposal of investments	-	54
Changes in fair value of investments	54	33
Balance at the end of the year	3,131	3,077

*Shareholders' operations*

Movements in FVIS investments is as follows:

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	3,269	3,257
Purchases during the year	10,000	-
Changes in fair value of investments	605	12
Balance at the end of the year	13,874	3,269

b) Held to maturity investments

*Insurance operations*

Movements in investments held to maturity is as follows:

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	13,697	10,000
Purchases during the year	-	3,697
Amortised during the year	(12)	-
Balance at the end of the year	13,685	13,697

The fair values of held to maturity investments are not expected to be materially different from their book values.



Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

8 INVESTMENTS (continued)

b) Held to maturity investments (continued)

*Shareholders operations*

Movements in investments held to maturity is as follows:

	2012 SR'000	2011 SR'000
Balance at the beginning of the year	8,722	4,980
Purchases during the year	-	3,742
Matured during the year	(4,980)	-
Amortized during the year	(11)	-
Balance at the end of the year	<u>3,731</u>	<u>8,722</u>

The fair values of held to maturity investments are not expected to be materially different from their book values.

c) Available for sale investments

*Shareholders' operations*

Movements in available for sale investments are as follows:

2012	Quoted securities SR'000	Unquoted securities SR'000	Total SR'000
Balance at the beginning of the year	18,462	1,923	20,385
Disposed during the year (see note (ii) below)	(12,325)	-	(12,325)
Changes in fair value of investments	522	-	522
Balance at the end of the year	<u>6,659</u>	<u>1,923</u>	<u>8,582</u>
2011	Quoted securities SR'000	Unquoted securities SR'000	Total SR'000
Balance at the beginning of the year	18,209	1,923	20,132
Changes in fair value of investments	253	-	253
Balance at the end of the year	<u>18,462</u>	<u>1,923</u>	<u>20,385</u>

- (i) Unquoted available for sale investment, having a carrying value of SR 1,923 thousand (2011: SR 1,923 thousand) are measured at cost as its fair value cannot be reliably measured due to the absence of active market and unavailability of observable market prices for similar instruments.
- (ii) During the year ended 31 December 2012, the Company sold investment with a cost price of SR 8,723 thousand for SR 12,325 thousand. The realised gain of SR 3,602 thousand has been transferred from available for sale investment reserve to statement of shareholders' operations.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

9 PREPAYMENTS AND OTHER RECEIVABLES

	2012 SR'000	2011 SR'000
<b>Insurance Operations</b>		
Prepayments	2,420	2,157
Other receivables (note 25)	8,943	2,320
	<u>11,363</u>	<u>4,477</u>
<b>Shareholders' Operations</b>		
Other receivables (note 25)	<u>482</u>	<u>79</u>

10 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

	Motor vehicle SR'000	Furniture and fittings SR'000	Computers and office equipment SR'000	Total SR'000
<b>Insurance Operations</b>				
<b>Cost:</b>				
At 1 January 2011	59	6,328	4,118	10,505
Additions during the year	-	603	435	1,038
	<u>59</u>	<u>6,931</u>	<u>4,553</u>	<u>11,543</u>
At 31 December 2011	59	6,931	4,553	11,543
Additions during the year	-	1,297	662	1,959
Disposals during the year	-	(2,691)	-	(2,691)
	<u>59</u>	<u>5,537</u>	<u>5,215</u>	<u>10,811</u>
<b>At 31 December 2012</b>	<u>59</u>	<u>5,537</u>	<u>5,215</u>	<u>10,811</u>
<b>Accumulated Depreciation:</b>				
At 1 January 2011	43	2,105	2,156	4,304
Charge for the year (see note 19)	14	647	549	1,210
	<u>57</u>	<u>2,752</u>	<u>2,705</u>	<u>5,514</u>
At 31 December 2011	57	2,752	2,705	5,514
Charge for the year (see note 19)	2	1,428	1,151	2,581
Relating to disposals	-	(1,456)	-	(1,456)
	<u>59</u>	<u>2,724</u>	<u>3,856</u>	<u>6,639</u>
<b>At 31 December 2012</b>	<u>59</u>	<u>2,724</u>	<u>3,856</u>	<u>6,639</u>
<b>Carrying amount:</b>				
At 31 December 2012	<u>-</u>	<u>2,813</u>	<u>1,359</u>	<u>4,172</u>
At 31 December 2011	<u>2</u>	<u>4,179</u>	<u>1,848</u>	<u>6,029</u>

- (a) During the year, the management reassessed the useful lives of all its furniture, fittings, computers and office equipment. The revised useful lives are detailed in note 2(d). As a result of this reassessment, the depreciation charge for the year, deficit from insurance operations, net loss for the year and accumulated losses as at 31 December 2012 are higher by approximately SR 1,263 thousands.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

**11 UNEARNED COMMISSION INCOME**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Balance at the beginning of the year	1,182	1,170
Commission received during the year	5,142	3,603
Commission earned during the year	(5,150)	(3,591)
Balance at the end of the year	<u>1,174</u>	<u>1,182</u>

**12 ACCRUALS AND OTHER PAYABLES**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
<i><b>Insurance Operations</b></i>		
Accrued expenses	2,383	2,689
Other payables	8,722	5,504
	<u>11,105</u>	<u>8,193</u>
<i><b>Shareholders' Operations</b></i>		
Accrued expenses	835	1,428
Other payables	771	642
	<u>1,606</u>	<u>2,070</u>

**13 STATUTORY DEPOSIT**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Statutory deposit	<u>10,771</u>	<u>10,643</u>

As required by Saudi Arabian Insurance Regulations, the Company has deposited 10% of its paid up capital, amounting to SR 10 million in a bank designated by the Saudi Arabian Monetary Agency ("SAMA"). The return on this deposit during the year ended 31 December 2012, which is payable to SAMA, is SR 128 thousand (2011: SR 122 thousand). A corresponding liability to SAMA has been recorded for the return on this deposit, as the Company does not have any entitlement to it.

This statutory deposit cannot be withdrawn without the consent of SAMA.

**14 SHARE CAPITAL**

The 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 six million shares with a nominal value of SR 10 each, which represents 60% of the shares of the Company. The remaining four million shares with a nominal value of SR 10 each, which represents 40% of the shares of the Company, have been subscribed by the public.

**15 STATUTORY RESERVE**

As required by Saudi Arabian Insurance Regulations issued by the Saudi Arabian Monetary Agency ("SAMA"), 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. No transfer to statutory reserve has been made during the year because of accumulated losses.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

**16 REGULATORY REQUIREMENT**

As required by Saudi Arabian Insurance Regulations (Article 66 of the Implementation Regulations), the Company is required to maintain minimum capital requirement of SR 100 million. As at 31 December 2012, the Company's solvency level is less than the minimum solvency margin required by the Saudi Arabian Insurance Regulations. The Company had communicated this matter to SAMA, and also provided an action plan to achieve the solvency margin requirement. The management is confident that their action plan is being considered favorably by SAMA.

**17 ZAKAT**

**Charge for the year**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Current year provision	1,323	1,208
Relating to prior years	477	592
Charge for the year	<u>1,800</u>	<u>1,800</u>

The current year provision is based on the following:

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Equity	100,000	100,000
Opening provision and adjustments	28,404	31,380
Net book value of long term assets	(78,929)	(91,591)
Unrealized gain on available for sale investments	1,659	4,739
	<u>51,134</u>	<u>44,528</u>
Adjusted income for the year	1,792	3,793
Zakat base	<u>52,926</u>	<u>48,321</u>

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

**Movements in provision during the year**

	<i>2012</i> <i>SR'000</i>	<i>2011</i> <i>SR'000</i>
Balance at the beginning of the year	2,211	1,773
Provided during the year	1,800	1,800
Paid amount during the year	(1,255)	(1,362)
Balance at the end of the year	<u>2,756</u>	<u>2,211</u>

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

17 ZAKAT (continued)

Zakat status

The Company has filed its zakat declarations for the period from 16 May 2007 to 31 December 2008 and for the years ended 31 December 2009 through 2011 and obtained restricted zakat certificates.

The Department of Zakat and Income Tax ("DZIT") raised assessment for the period from 16 May 2007 to 31 December 2008 and demanded additional zakat liability of SR 619 thousands. The Company filed an objection against this demand and is confident of a favorable outcome. Zakat assessments for years ended 31 December 2009 through 2011 have not yet been raised. However during the year, the DZIT issued initial assessment for the year 2011, disallowing investments and statutory deposit from zakat base and requested additional zakat of SR 1.3 million. The Company has filed an appeal against DZIT's initial assessment and is confident of a favorable outcome.

18 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year.

		<i>Transactions for the year ended 31 December 2012 SR'000</i>	<i>Transactions for the year ended 31 December 2011 SR'000</i>	<i>Balance as at 31 December 2012 SR'000</i>	<i>Balance as at 31 December 2011 SR'000</i>
<b>Insurance Operations</b>					
<b>Major shareholder</b>					
Islamic Arab Insurance Company (B.S.C.)	General and administrative expenses directly paid on behalf of the Company.	-	(34)	6,759	6,759
<b>Related parties</b>					
Chairman of the Board	Insurance policies issued.	194	271	114	188
Tajeer Co	Insurance policies issued.	85,389	68,095	6,797	8,028
Rusd Global Company	Insurance policies issued.	464	231	23	65
Technology Establishment	Insurance policies issued.	-	-	-	29
Alawwal Financial Services	Insurance policies issued.	18	(17)	(20)	(37)
Al-Shaer Company	Insurance policies issued.	6	-	369	375
	Total (see note 4)			7,283	8,648
<b>Key management personnel</b>					
	Short term benefit	2,960	4,612	622	734
	Long term benefit	176	610	1,251	1,989
				1,873	2,723

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

		<i>Transactions for the year ended 31 December 2012 SR'000</i>	<i>Transactions for the year ended 31 December 2011 SR'000</i>	<i>Balance as at 31 December 2012 SR'000</i>	<i>Balance as at 31 December 2011 SR'000</i>
<i>Shareholders' Operations</i>	<i>Nature of transaction</i>				
<i>Major shareholder</i>					
Islamic Arab Insurance Company (Salama)	Collection on behalf of the founder shareholder/ Company	(2,009)	105	(2,026)	(17)

Amounts due from and due to related parties are disclosed in the statement of financial position and in note 4.

19 GENERAL AND ADMINISTRATION EXPENSES

	<i>2012 SR'000</i>	<i>2011 SR'000</i>
<i>Insurance Operations</i>		
Employees' costs	23,010	24,119
Office rent	3,553	2,896
Information technology	1,079	870
Allowance for doubtful debts (see note 4)	5,358	-
Allowance for reinsurance receivables	1,062	-
Depreciation (see note 10)	2,581	1,210
Telephone	738	799
Printing and stationary	351	379
Annual subscription	344	406
Water and electricity	208	166
Other	3,698	3,607
	<u>41,982</u>	<u>34,452</u>
<i>Shareholders' Operations</i>		
Board of director's remuneration (see note a below)	123	742
Board attendance fees (see note b below)	128	106
Committee expenses (see note c below)	214	58
	<u>465</u>	<u>906</u>

- a) Board of Directors' remuneration is paid in accordance with the by-laws of the Company.
- b) Board attendance fees represent allowances for attending board meetings and sub-committee meetings.
- c) Committee expenses include fees of non-board members for attending committee meetings and other related sub-committee expenses.

20 EARNINGS/ (LOSS) PER SHARE

Earnings/(loss) per share for the year have been calculated by dividing the net profit/ (loss) for the year by the weighted average number of shares in issue during the year. Diluted earnings per share are not applicable to the Company.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

**21 SEGMENTAL INFORMATION**

All the insurance operations of the Company are carried out in the Kingdom of Saudi Arabia. For management purposes, the operations are monitored in two major lines of business. Segment results do not include general and administration expenses and investment income.

Segment assets do not include cash and cash equivalents, term deposits, net premiums receivable, reinsurance receivable, prepayments and other receivables, amount due from a related party, investments and furniture, fittings and office equipment.

Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables, employees' terminal benefits and due to shareholders' operations.

Consistent with the Company's internal reporting process, operating segments have been approved by the management in respect of the Company's activities, assets and liabilities as stated below:

<b>For the year ended 31 December 2012</b>	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Other SR'000</i>	<i>Total SR'000</i>
Gross premium written	35,473	153,608	15,177	<b>204,258</b>
Less: Reinsurance premiums ceded	(14,028)	-	(11,042)	<b>(25,070)</b>
Less: Excess of loss premiums	-	(2,023)	(939)	<b>(2,962)</b>
Net premium written	21,445	151,585	3,196	<b>176,226</b>
Changes in net unearned premiums	8,214	8,632	(289)	<b>16,557</b>
Net premiums earned	29,659	160,217	2,907	<b>192,783</b>
Net reinsurance commissions earned	2,146	-	3,004	<b>5,150</b>
Net revenue	31,805	160,217	5,911	<b>197,933</b>
Gross claims paid	53,408	122,430	1,904	<b>177,742</b>
Less: Reinsurers share	(26,715)	(57)	(984)	<b>(27,756)</b>
Net claims paid	26,693	122,373	920	<b>149,986</b>
Changes in outstanding claims	(1,666)	4,439	1,553	<b>4,326</b>
Net claims incurred	25,027	126,812	2,473	<b>154,312</b>
Provision for premium deficiency	158	-	-	<b>158</b>
Policy acquisition costs	2,567	10,962	812	<b>14,341</b>
Other operating expenses	2,795	1,524	311	<b>4,630</b>
Net costs and expenses	30,547	139,298	3,596	<b>173,441</b>
Net results of insurance operations	1,258	20,919	2,315	<b>24,492</b>
Unallocated expenses				<b>(41,982)</b>
Unallocated other income				<b>210</b>
Investment income				<b>1,258</b>
Deficit from insurance operations				<b>(16,022)</b>

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

21 SEGMENTAL INFORMATION (continued)

As at 31 December 2012	Medical SR'000	Motor SR'000	Other SR'000	Total SR'000
<b>Insurance operations' assets</b>				
Reinsurer's share of unearned premiums	4,942	-	4,364	9,306
Reinsurer's share of outstanding claims	6,849	-	7,344	14,193
Deferred policy acquisition costs	658	1,060	328	2,046
Unallocated assets	-	-	-	143,714
<b>Total insurance operations' assets</b>				<b>169,259</b>
<b>Insurance operations' liabilities and surplus</b>				
Unearned premium	12,755	62,336	6,211	81,302
Outstanding claims	13,697	23,532	13,007	50,236
Unearned commission income	-	-	1,174	1,174
Provision for premium deficiency	158	-	63	221
Unallocated liabilities and surplus	-	-	-	36,326
<b>Total insurance operations' liabilities and surplus</b>				<b>169,259</b>
 For the year ended 31 December 2011	 Medical SR'000	 Motor SR'000	 Other SR'000	 Total SR'000
Gross premium written	60,203	140,510	17,950	218,663
Less: Reinsurance premiums ceded	(22,958)	(19)	(12,577)	(35,554)
Less: Excess of loss premium	-	(1,179)	(1,546)	(2,725)
Net premium written	37,245	139,312	3,827	180,384
Changes in net unearned premiums	(3,480)	(44,655)	152	(47,983)
Net premiums earned	33,765	94,657	3,979	132,401
Reinsurance commissions received	-	1	3,590	3,591
Net revenues	33,765	94,658	7,569	135,992
Gross claims paid	35,067	80,699	15,724	131,490
Less: Reinsurers share	(17,493)	(6,957)	(12,523)	(36,973)
Net claims paid	17,574	73,742	3,201	94,517
Changes in outstanding claims	759	(8,383)	(3,130)	(10,754)
Net claims incurred	18,333	65,359	71	83,763
Policy acquisition costs	3,322	7,482	1,173	11,977
Other operating expenses	5,030	1,322	486	6,838
Net costs and expenses	26,685	74,163	1,730	102,578
Net results of insurance operations	7,080	20,495	5,839	33,414
Unallocated expenses				(34,452)
Unallocated other income				4,928
Unallocated investment income				1,021
Surplus from insurance operations				4,911



Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

21 SEGMENTAL INFORMATION (continued)

As at 31 December 2011	Medical SR'000	Motor SR'000	Other SR'000	Total SR'000
<b>Insurance operations' assets</b>				
Reinsurer's share of unearned premiums	9,774	7	4,277	14,058
Reinsurer's share of outstanding claims	8,514	419	6,195	15,128
Deferred policy acquisition costs	1,622	8,247	240	10,109
Unallocated assets	-	-	-	148,699
<b>Total insurance operations' assets</b>				<b>187,994</b>
<b>Insurance operations' liabilities and surplus</b>				
Unearned premium	25,801	70,975	5,835	102,611
Outstanding claims	17,028	19,510	10,307	46,845
Unearned commission income	-	-	1,182	1,182
Provision for premium deficiency	-	-	63	63
Unallocated liabilities and surplus	-	-	-	37,293
<b>Total insurance operations' liabilities and surplus</b>				<b>187,994</b>

22 CAPITAL COMMITMENTS

At 31 December 2012, the Company had outstanding capital commitments amounting to SR 0.5 million (31 December 2011: SR 0.15 million).

23 CONTINGENT LIABILITIES

Company's bankers have given guarantees to non-government customers amounting to SR 0.8 million (31 December 2011: SR 0.4 million) in respect of motor insurance.

24 SHARIA'A COMMITTEE

The Company's business activities are subject to the supervision of a Sharia'a Committee appointed by the Board of Directors. The Sharia'a Committee performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Sharia'a rules and principles.

25 RISK MANAGEMENT

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

Risk management structure

*Board of Directors*

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

*Audit committee*

The Audit Committee is appointed by the Board of Directors. The audit committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

The risks facing the Company and the way these risks are mitigated by management are summarised below:

# Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

### 25 RISK MANAGEMENT (continued)

#### *Insurance risk*

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

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

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

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

#### *Geographical concentration of risks*

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

#### *Sensitivities*

The impact of reasonably possible changes in ultimate loss ratios on net results, net liabilities and equity of the Company is not expected to be material.

#### *Reinsurance risk*

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

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

Reinsurers are selected using the following parameters and guidelines set by the Company's management. The criteria may be summarized as follows:

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

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved by the local Insurance Regulator. Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's management before approving them for exchange of reinsurance business.

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

#### *Regulatory framework risk*

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities.

The operations of the Company are also subject to regulatory requirements within the jurisdiction it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

25 RISK MANAGEMENT (continued)

*Capital management risk*

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

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

The table below summarizes the minimum regulatory capital of the Company:

	2012 SR'000	2011 SR'000
Minimum regulatory capital (Minimum capital basis)	100,000	100,000

As at 31 December 2012, the Company's capital was less than the minimum regulatory capital requirement, and the Company has communicated this matter to SAMA (see note 16).

*Financial risk*

The Company's principal financial instruments are receivables arising from insurance contracts, due from related parties, cash and cash equivalents, outstanding claims and certain other assets and liabilities.

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

*Market risk*

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

The Company is exposed to market risk with respect to its investments. Market risk is managed by investing in reputed funds which maintain investments in diversified portfolios and equity shares and by continuous monitoring of developments in equity markets. In addition, the key factors that affect stock market movements are monitored, including analysis of the operational and financial performance of investees.

A 5% change in the net asset value of funds, with all other variables held constant, would impact the shareholders operations by SR 725 thousand (2011: SR 944 thousand) and insurance operations by SR 157 thousand (2011: SR 341 thousand).

A 5% change in net asset value of funds, classified as available for sale investments, would impact the equity by SR 333 thousand (2011: SR 923 thousand).

*Commission rate risk*

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its held to maturity investments.

The Company is subject to commission rate fair value risk on its fixed rate murabaha deposits and bonds classified as term deposits and investments held to maturity, respectively in the statement of financial position. There is no impact on the income or equity of reasonably possible change in commission rate, as murabaha deposits and sukuks are measured at cost in the statement of financial position.

The Company is required to maintain a restricted deposit in accordance with insurance regulations in Saudi Arabia on which the Company does not earn any commission. Management limits commission rate risk of other financial instruments by monitoring changes in commission rates in the currencies in which its financial instruments are denominated.

**Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company**

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2012

**25 RISK MANAGEMENT (continued)**

*Commission rate risk (continued)*

Details of maturities of the major classes of commission bearing securities for insurance operations as at 31 December 2012 and 2011 are as follows:

***Insurance Operations***

<i>Insurance Operations</i>		<i>2012</i>		
		<i>SR '000</i>		
	<i>Less than 3 months</i>	<i>1 to 5 years</i>	<i>No fixed maturity</i>	<i>Total</i>
Investments held to maturity (note8(b))	-	10,000	-	10,000
	-	10,000	-	10,000
		<i>2011</i>		
		<i>SR '000</i>		
	<i>Less than 3 months</i>	<i>1 to 5 years</i>	<i>No fixed maturity</i>	<i>Total</i>
Investments held to maturity (note 8(b))	-	10,000	-	10,000
	-	10,000	-	10,000

The maturities of deposits have been determined on the basis of the remaining period, at the reporting date, to the contractual maturity date.

The effective interest rates for the commission bearing financial instruments, were as follows:

	<b>2012</b>	<b>2011</b>
<i>Insurance operations</i>		
Saudi Riyal denominated financial assets	<b>1.76%</b>	2.07%

The following table demonstrates the sensitivity of statement of insurance operations to reasonably possible changes in interest rates, with all other variables held constant.

	<b>2012</b>	<b>2011</b>
	<b>SR'000</b>	<b>SR'000</b>
	<b>Effect on profit</b>	<b>Effect on profit</b>
<i>Insurance operations</i>		
<i>Saudi Riyals:</i>		
Increase in interest rates by 100 basis points	100	100
Decrease in interest rates by 100 basis points	(100)	(100)

## NOTES TO THE FINANCIAL STATEMENTS

25 RISK MANAGEMENT (continued)

Details of maturities of the major classes of commission bearing securities for shareholders' operations as at 31 December 2012 and 2011 are as follows:

2012  
SR '000

		2011 SR '000		
	Less than 3 months	1 to 5 years	No fixed maturity	Total
Investments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The effective interest rates for the commission bearing financial instruments, were as follows:

	2012	2011
<i>Shareholders' operations</i>		
Saudi Riyal denominated financial assets	1.89%	1.63%

2012	2011
SR'000	SR'000
Effect on profit	Effect on profit

Increase in interest rates by 100 basis points	-	50
Decrease in interest rates by 100 basis points	-	(50)

Management believes that there is minimal risk of losses due to exchange rate fluctuations as the insurance operations and shareholders' operations primarily deal in Saudi Riyals and in US Dollar which is pegged to Saudi Riyals.

For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date.

Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

25 RISK MANAGEMENT (continued)

*Credit risk (continued)*

The Company seeks to limit its credit risk with respect to customers by following the credit control policy and monitoring outstanding receivables on an ongoing basis in order to reduce the Company's exposure to bad debts. Management estimates specific impairment provision on a case by case basis. In addition to specific provisions, the Company also makes an additional portfolio provision, estimated on a collective basis, based on the ageing profile of the overdue premiums receivable. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable banks.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

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

	2012 SR' 000	2011 SR' 000
<b><i>Insurance' Operations</i></b>		
Cash and cash equivalents	37,289	43,560
Term deposits	20,648	23,993
Premiums receivable, net	34,339	39,650
Held to maturity investments	13,685	13,697
Reinsurance receivables	12,328	7,457
Other receivables (note 9)	8,943	2,320
Amount due from a related party	6,759	6,759
	<u>133,991</u>	<u>137,436</u>
<b><i>Shareholders' Operations</i></b>		
Cash and cash equivalents	13,371	29,373
Term deposits	20,000	10,000
Held to maturity investments	3,731	8,722
Due from insurance operations	4,531	6,818
Other receivables (note 9)	482	79
	<u>42,115</u>	<u>54,992</u>

***Liquidity risk***

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

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

All of the Company's financial assets and financial liabilities are expected to be realised and settled, respectively within 12 months from the reporting date, except for statutory deposit, which has no term (see note 13), and held to maturity assets, which are expected to be held until their maturities as mentioned in note 8 (b). All financial liabilities are non-interest bearing.

# Salama Cooperative Insurance Company (Formerly 'Saudi IAIC Cooperative Insurance Company') – A Saudi Joint Stock Company

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

### 26 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.

The Company's financial assets consist of cash and cash equivalents, investments, premiums receivable, reinsurance receivables, amount due from related parties and other receivables and its financial liabilities consist of outstanding claims, policyholders' claims, reinsurance payable, other payables and amount due to a related party.

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

#### *Determination of fair value and fair value hierarchy*

The Company, if applicable, uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

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

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

The table below presents the financial instruments at their fair values as at 31 December 2012 and 2011:

<b>2012</b>	<b>Level 1 SR'000</b>	<b>Level 2 SR'000</b>	<b>Level 3 SR'000</b>	<b>Total SR'000</b>
FVIS investments				
- Policyholders	3,131	-	-	3,131
- Shareholders	13,874	-	-	13,874
Available for sale investments				
- Shareholders	6,659	-	1,923	8,582
<b>Total</b>	<b>23,664</b>	<b>-</b>	<b>1,923</b>	<b>25,587</b>
<b>2011</b>				
FVIS investments				
- Policyholders	3,077	-	-	3,077
- Shareholders	3,269	-	-	3,269
Available for sale investments				
- Shareholders	18,462	-	1,923	20,385
<b>Total</b>	<b>24,808</b>	<b>-</b>	<b>1,923</b>	<b>26,731</b>

### 27 BOARD OF DIRECTORS' APPROVAL

These financial statements have been approved by the Board of Directors on 21 February 2013 (corresponding to 11 Rabi Al Thani 1434 H).