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**BURUJ COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED DECEMBER 2012**

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BURUJ COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

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For the year ended 31 December 2012

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

**SCOPE OF AUDIT:**

We have audited the accompanying statement of financial position of Buruj Cooperative Insurance Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2012, the related statements of insurance and shareholders' comprehensive operations, changes in shareholders' equity, insurance operations' and shareholders' cash flows for the year then ended and the related notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the International Financial Reporting Standards, the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**UNQUALIFIED OPINION:**

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

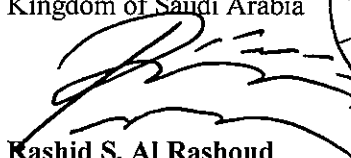
- present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- comply with the requirements of the Regulation for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

**EMPHASIS OF A MATTER:**

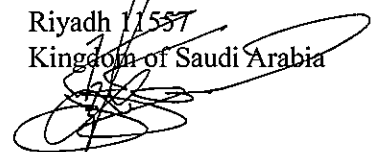
We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants.

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Riyadh 11461  
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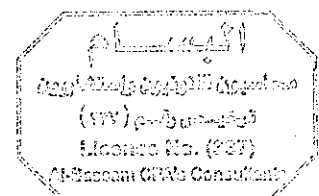
  
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Certified Public Accountant  
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7 Rabi Thani 1434H  
(17 February 2013)

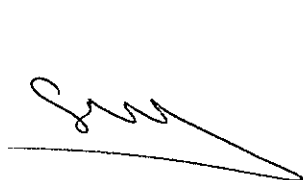


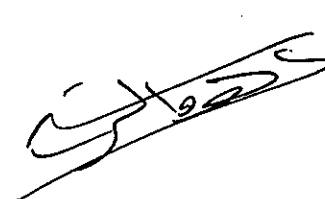
**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2012

	<i>Note</i>	<i>2012 SR</i>	<i>2011 SR</i>
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	6	83,841,589	35,673,588
Premiums and reinsurance balances receivable, net	8	31,743,493	37,771,509
Available for sale investments	12(i)(a)	8,050,824	-
Reinsurers' share of outstanding claims	10(a)	27,789,918	16,422,034
Prepayments and other assets	7	4,932,541	1,316,622
Deferred policy acquisition costs	9(a)	8,172,281	7,616,181
Reinsurers' share of unearned premiums	9(b)	21,636,698	12,804,232
Property and equipment, net	11	4,460,391	5,228,188
Due from shareholders' operations		6,231,910	-
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>196,859,645</b>	<b>116,832,354</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	6	33,870,831	33,379,381
Available for sale investments	12(ii)(c)	34,540,378	34,170,224
Due from insurance operations		-	11,553,307
Prepayments and other assets	7	836,300	822,348
Statutory deposit		13,110,708	13,000,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>82,358,217</b>	<b>92,925,260</b>
<b>TOTAL ASSETS</b>		<b>279,217,862</b>	<b>209,757,614</b>





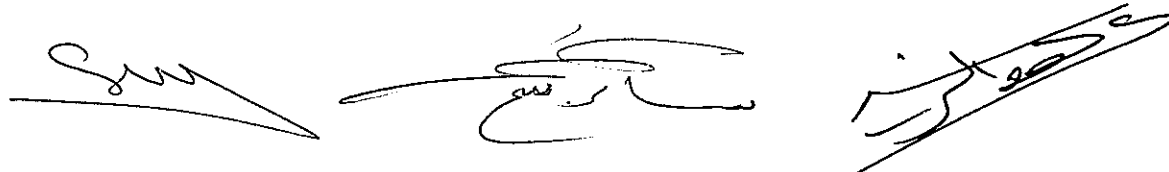
The accompanying notes 1 to 25 form part of these financial statements.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF FINANCIAL POSITION (continued)**

As at 31 December 2012

	<i>Note</i>	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
<b>INSURANCE OPERATIONS' LIABILITIES &amp; SURPLUS</b>			
Gross outstanding claims	10 (a)	65,459,524	33,758,195
Reinsurance and insurance balances payable	13	24,309,413	15,536,104
Accrued expenses and other liabilities	15	7,374,974	4,008,156
Employees' end of service benefits	16	1,480,899	793,421
Due to shareholders operations		-	11,553,307
Unearned reinsurance commission	9 (c)	3,621,073	3,410,350
Gross unearned premiums	9 (b)	91,952,351	45,328,158
Other reserves		2,652,159	2,444,663
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>196,850,393</b>	<b>116,832,354</b>
<b>INSURANCE OPERATIONS' SURPLUS</b>			
Change in fair values of available for sale investments	12(i)(a)	9,252	-
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES &amp; SURPLUS</b>		<b>196,859,645</b>	<b>116,832,354</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	17	130,000,000	130,000,000
Accumulated losses		(63,766,512)	(44,766,205)
Change in fair values of available for sale investments	12(ii)(c)	986,012	(104,897)
<b>Total shareholders' equity</b>		<b>67,219,500</b>	<b>85,128,898</b>
<b>Shareholders' liabilities</b>			
Zakat payable	18	7,069,613	5,852,347
Accrued expenses and other liabilities	15	1,828,987	1,869,311
Due to a related party	14	8,207	74,704
Due to insurance operations		6,231,910	-
<b>Total shareholders' liabilities</b>		<b>15,138,717</b>	<b>7,796,362</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>82,358,217</b>	<b>92,925,260</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>279,217,862</b>	<b>209,757,614</b>



The accompanying notes 1 to 25 form part of these financial statements.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE COMPREHENSIVE OPERATIONS**

For the year ended 31 December 2012

	<i>Note</i>	<b>2012 SR</b>	<b>2011 SR</b>
Gross written premiums	9 (b)	233,540,257	103,803,397
Reinsurance premiums ceded	9 (b)	(48,029,284)	(36,161,841)
Excess of loss premiums	9 (b)	(8,827,530)	(2,350,880)
<b>NET PREMIUMS WRITTEN</b>		<b>176,683,443</b>	<b>65,290,676</b>
Movement in unearned premiums, net	9 (b)	(37,791,727)	(24,258,308)
<b>NET PREMIUMS EARNED</b>	9 (b)	<b>138,891,716</b>	<b>41,032,368</b>
Reinsurance commission income	9 (c)	11,441,970	9,831,907
Policy fees		2,638,665	2,520,715
<b>TOTAL REVENUES</b>		<b>152,972,351</b>	<b>53,384,990</b>
Gross claims paid	10 (a)	(106,410,851)	(52,428,436)
Reinsurers' share of claims paid	10 (a)	8,257,195	28,484,336
<b>NET CLAIMS PAID</b>		<b>(98,153,656)</b>	<b>(23,944,100)</b>
Movement in outstanding claims, net	10 (a)	(20,333,446)	(686,894)
Movement in other reserves, net	10 (a)	(207,496)	(2,444,663)
<b>NET CLAIMS INCURRED</b>		<b>(118,694,598)</b>	<b>(27,075,657)</b>
Policy acquisition costs	9 (a)	(20,680,763)	(8,844,444)
Inspection and supervision fees		(1,337,301)	(477,891)
Other underwriting expenses		(1,079,200)	-
<b>TOTAL UNDERWRITING COSTS</b>		<b>(141,791,862)</b>	<b>(36,397,992)</b>
<b>NET UNDERWRITING SURPLUS</b>		<b>11,180,489</b>	<b>16,986,998</b>
General and administrative expenses	19	(31,836,378)	(27,881,105)
Reversal of (allowance for) doubtful debts	8	2,277,933	(2,596,135)
Special commission income from time deposits	6	585,650	65,145
Special commission income from available for sale investments		69,613	-
(Loss) gain on disposal of property and equipment		(28)	34,755
<b>DEFICIT FROM INSURANCE OPERATIONS</b>		<b>(17,722,721)</b>	<b>(13,390,342)</b>
Deficit transferred to shareholders' operations		17,722,721	13,390,342
<b>NET RESULT FOR THE YEAR</b>		<b>-</b>	<b>-</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
Change in fair values of available for sale investments	12(i)(a)	9,252	-
<b>Total comprehensive income for the year</b>		<b>9,252</b>	<b>-</b>

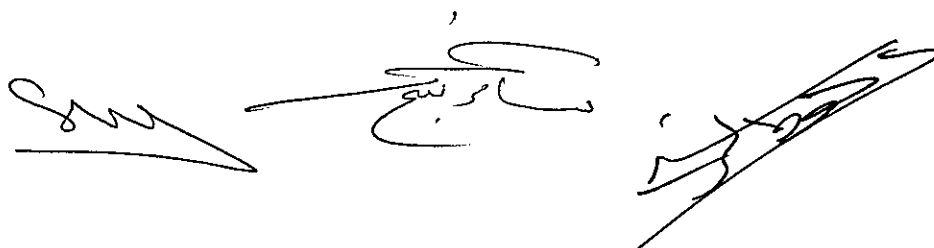
The accompanying notes 1 to 25 form part of these financial statements.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS**

For the year ended 31 December 2012

	<i>Note</i>	<b>2012 SR</b>	<b>2011 SR</b>
Deficit transferred from insurance operations		(17,722,721)	(13,390,342)
<b>EXPENSES</b>			
General and administrative	19	(2,417,042)	(2,065,479)
<b>LOSS FROM OPERATIONS</b>		<b>(20,139,763)</b>	<b>(15,455,821)</b>
Special commission income from time deposits	6	321,687	578,962
Special commission income from available for sale investments		1,194,212	825,274
Realised gain from available for sale investments		840,823	26,975
<b>LOSS BEFORE ZAKAT</b>		<b>(17,783,041)</b>	<b>(14,024,610)</b>
Provision for zakat	18	(1,217,266)	(1,749,897)
<b>NET LOSS FOR THE YEAR</b>		<b>(19,000,307)</b>	<b>(15,774,507)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>			
Change in fair values of available for sale investments	12(ii)(c)	1,090,909	(104,897)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(17,909,398)</b>	<b>(15,879,404)</b>
<b>BASIC AND DILUTED LOSS PER SHARE (BEFORE ZAKAT) FOR THE YEAR</b>	20 (a)	<b>(1.37)</b>	<b>(1.08)</b>
<b>BASIC AND DILUTED LOSS PER SHARE (AFTER ZAKAT) FOR THE YEAR</b>	20 (b)	<b>(1.46)</b>	<b>(1.21)</b>



The accompanying notes 1 to 25 form part of these financial statements.

**BURUJ 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</i>	<i>Accumulated losses SR</i>	<i>Change in fair values of available for sale investments SR</i>	<i>Total SR</i>
<b><u>2011</u></b>				
Balance as at 1 January 2011	130,000,000	(28,991,698)	-	101,008,302
Net loss for the year	-	(15,774,507)	-	(15,774,507)
Other comprehensive loss for the year	-	-	(104,897)	(104,897)
Total comprehensive loss for the year	-	(15,774,507)	(104,897)	(15,879,404)
Balance as at 31 December 2011	130,000,000	(44,766,205)	(104,897)	85,128,898
<b><u>2012</u></b>				
Balance as at 1 January 2012	130,000,000	(44,766,205)	(104,897)	85,128,898
Net loss for the year	-	(19,000,307)	-	(19,000,307)
Other comprehensive income for the year	-	-	1,090,909	1,090,909
Total comprehensive (loss) income for the year	-	(19,000,307)	1,090,909	(17,909,398)
Balance as at 31 December 2012	130,000,000	(63,766,512)	986,012	67,219,500

The accompanying notes 1 to 25 form part of these financial statements.



**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

For the year ended 31 December 2012

	<i>Note</i>	<i>2012</i> <i>SR</i>	<i>2011</i> <i>SR</i>
<b>OPERATING ACTIVITIES</b>			
Deficit from insurance operations		(17,722,721)	(13,390,342)
<i>Adjustments for:</i>			
Depreciation	11	1,827,744	1,637,885
Provision for employees' end of service benefits	16	734,060	567,337
(Reversal of) / allowance for doubtful debts	8	(2,277,933)	2,596,135
Special commission income from time deposits		(585,650)	(65,145)
Special commission income from available for sale investments		(69,613)	-
Loss (gain) on disposal of property and equipment		28	(34,755)
<i>Net deficit before changes in operating assets and liabilities</i>		<i>(18,094,085)</i>	<i>(8,688,885)</i>
<i>Changes in operating assets and liabilities:</i>			
Premiums and reinsurance balances receivable		8,305,949	(14,028,540)
Prepayments and other assets		(3,615,919)	422,988
Reinsurers' share of outstanding claims		(11,367,884)	15,719,179
Deferred policy acquisition costs		(556,100)	(6,337,025)
Reinsurers' share of unearned premiums		(8,832,466)	(5,804,129)
Gross outstanding claims		31,701,329	(15,032,284)
Reinsurance and insurance balances payable		8,773,309	(6,163,143)
Accrued expenses and other liabilities		3,366,818	2,582,856
Unearned commission income		210,723	1,571,336
Gross unearned premiums		46,624,193	30,062,437
Other reserves		207,496	2,444,663
<i>Cash from (used in) operations</i>		<i>56,723,363</i>	<i>(3,250,547)</i>
Employees' end of service benefits paid	16	(46,582)	(444,424)
<i>Net cash from (used in) operating activities</i>		<i>56,676,781</i>	<i>(3,694,971)</i>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	11	(1,065,000)	(1,009,717)
Purchase of available for sale investments		(8,041,572)	-
Special commission income from time deposits		585,650	65,145
Special commission income from available for sale investments		69,613	-
Proceeds from disposal of property and equipment		5,025	34,755
<i>Net cash used in investing activities</i>		<i>(8,446,284)</i>	<i>(909,817)</i>
<b>FINANCING ACTIVITY</b>			
Due (from) to shareholders' operations		(62,496)	19,832,794
<i>Net cash (used in) from financing activity</i>		<i>(62,496)</i>	<i>19,832,794</i>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>48,168,001</b>	<b>15,228,006</b>
Cash and cash equivalents at the beginning of the year		35,673,588	20,445,582
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	6	<b>83,841,589</b>	<b>35,673,588</b>
<i>Non-cash transactions:</i>			
Transfer of deficit to shareholders' comprehensive operations		(17,722,721)	(13,390,342)
Net change in fair values of available for sale investments	12(i)(a)	9,252	-

The accompanying notes 1 to 25 form part of these financial statements.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**STATEMENT OF SHAREHOLDERS' CASH FLOWS**

For the year ended 31 December 2012

	<i>Note</i>	<b>2012 SR</b>	<b>2011 SR</b>
<b>OPERATING ACTIVITIES</b>			
Loss before zakat		(17,783,041)	(14,024,610)
<i>Adjustments for:</i>			
Deficit transferred from insurance' operations		17,722,721	13,390,342
Special commission income from time deposits		(321,687)	(578,962)
Special commission income from available for sale investments		(1,194,212)	(825,274)
Realised gain from available for sale investments		(840,823)	(26,975)
<i>Net deficit before changes in operating assets and liabilities</i>		<u>(2,417,042)</u>	<u>(2,065,479)</u>
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		(13,952)	(788,369)
Statutory deposit		(110,708)	-
Accrued expenses and other liabilities		(40,324)	1,549,511
Due to a related party		(66,497)	19,731
<i>Cash used in operations</i>		<u>(2,648,523)</u>	<u>(1,284,606)</u>
Zakat paid		-	(145,525)
<i>Net cash used in operating activities</i>		<u>(2,648,523)</u>	<u>(1,430,131)</u>
<b>INVESTING ACTIVITIES</b>			
Special commission income from time deposits		321,687	578,962
Special commission income from available for sale investments		1,194,212	825,274
Realised gain from available for sale investments		840,823	26,975
Purchase of available for sale investments	12(ii)(c)	(19,025,330)	(38,001,783)
Sale of available for sale investments	12(ii)(c)	19,746,085	3,726,662
<i>Net cash from (used in) investing activities</i>		<u>3,077,477</u>	<u>(32,843,910)</u>
<b>FINANCING ACTIVITIES</b>			
Due to (from) insurance operations		62,496	(19,832,794)
<i>Net cash from (used in) financing activities</i>		<u>62,496</u>	<u>(19,832,794)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>491,450</b>	<b>(54,106,835)</b>
Cash and cash equivalents at the beginning of the year		<u>33,379,381</u>	<u>87,486,216</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>6</b>	<u><u>33,870,831</u></u>	<u><u>33,379,381</u></u>
<b><i>Non-cash transactions:</i></b>			
Transfer of deficit from insurance operations		<u>17,722,721</u>	<u>13,390,342</u>
Net change in fair values of available for sale investments	12(ii)(c)	<u>1,090,909</u>	<u>(104,897)</u>

The accompanying notes 1 to 25 form part of these financial statements.

# BURUJ COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

### 1 ORGANISATION AND PRINCIPAL ACTIVITIES

Buruj Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010280606 dated 10 Safar 1431H, corresponding to 26 January 2010. The registered office address of the Company is P O Box 51855, Riyadh 11553, Kingdom of Saudi Arabia. The objective of the Company is to transact cooperative insurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed on the Tadawul (the Saudi Arabian Stock Market) on 15 February 2010.

The Company was licensed to conduct insurance business in the Kingdom of Saudi Arabia under cooperative principles in accordance with Royal Decree numbered 72/M dated 28 Shawal 1429H (corresponding to 29 October 2008), pursuant to Council of Ministers resolution numbered 313 dated 27 Shawal 1429H (corresponding to 28 October 2008). On 10 Muharram 1431H (corresponding to 27 December 2009), the Ministry of Commerce and Industry issued a resolution declaring the incorporation of the Company.

On 15 Jumada Thani 1431H (corresponding to 29 May 2010), the Saudi Arabian Monetary Agency ("SAMA") issued a formal approval to transact insurance business.

The Company launched its insurance operations on 1 July 2010 after receipt of an authorization from SAMA to commence insurance operations as product approval and related formalities were completed.

### 2 BASIS OF PREPARATION

The accompanying financial statements have been prepared on the historical cost basis, except for the measurement at fair value of "available for sale investments".

#### *Statement of compliance*

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

As required by Saudi Arabian insurance regulations, the Company maintains separate books of accounts for Insurance and Shareholders' Operations. The physical custody 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 other revenue and expenses from joint operations is determined by the management and Board of Directors.

#### *Functional and presentational currency*

The functional and presentation currency of the Company is Saudi Riyals.

#### *Transfer of deficit / surplus*

The Company is required to distribute 10% of the net surplus from insurance operations to policyholders and the remaining 90% to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Agency ("SAMA").

However, the insurance operations incurred a deficit for the year ended 31 December 2012. Accordingly, the net deficit amounting to SR 17.7 million (31 December 2011: SR 13.4 million) has been transferred to the shareholders' operations.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**3 NEW STANDARDS ISSUED**

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

***IFRS 1 Government Loans — Amendments to IFRS 1***

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013.

The amendment has no impact on the Company.

***IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7***

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

These amendments will not impact the Company's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

***IFRS 9 Financial Instruments***

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting.

The Company will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

***IFRS 13 – Fair Value measurement***

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements.

Adoption of the standard is not expected to have a material impact on the financial position or performance of the Company.

***IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1***

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans).

The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

**BURUJ COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**3 NEW STANDARDS ISSUED (continued)**

***IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32***

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. It will be necessary to assess the impact to the Company by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Company as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc.

As the impact of the adoption depends on the Company’s examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

***Annual Improvements May 2012***

These improvements will not have an impact on the Company, but include:

***IFRS 1 First-time Adoption of International Financial Reporting Standards***

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

***IAS 1 Presentation of Financial Statements***

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

***IAS 16 Property Plant and Equipment***

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

***IAS 34 Interim Financial Reporting***

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures. These improvements are effective for annual periods beginning on or after 1 January 2013.

**4 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

- ***IFRS 7 Financial Instruments: Disclosures (amendment)***

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for ‘transferred financial assets that are derecognised in their entirety’ and Transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011.

- ***IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets***

Other amendments resulting from Improvements to IFRSs to the following standard did not have any impact on the accounting policies, financial position or performance of the Company.

**BURUJ COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted are as follows:

***Product classification***

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event. 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 expired.

***Premiums earned and commission income***

Premiums are taken into income and recorded in the statement of insurance comprehensive operations, over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

Retained premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

- Last three months from the period in respect of marine cargo and
- Actual number of days for other lines of business

***Intangible assets***

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

***Premiums and reinsurance balances receivable***

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

Any difference between the provisions at the end of reporting period and settlements and provisions in the following year is included in the statement of insurance operations.

***Claims***

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to the statement of insurance operations, in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at 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. The ultimate liability may be in excess of or less than the amount provided.

Any difference between the provisions at reporting date and settlements and provisions in the following year is included in the statement of insurance operations for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

**BURUJ COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Liability adequacy test***

At each end of reporting period, a liability adequacy test is performed to ensure the adequacy of the insurance contract liabilities net of related deferred policy acquisition costs using current estimates of future cash flows under insurance contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of insurance comprehensive operations initially by writing off related deferred policy acquisition costs and subsequently by establishing a provision for losses arising from liability adequacy tests, captioned as premium deficiency reserves.

***Reinsurance***

Reinsurance contracts are contracts entered into by the Company with reinsurers under which the Company is compensated for losses on insurance contracts issued.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers on settlement of claims and other receivables such as profit commissions, if any, and reinsurers' share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are recognised consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

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. Impairment, if any is recognised in the statement of insurance comprehensive operations.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

***Property and equipment***

Property and equipment are measured at cost less accumulated depreciation. Depreciation is charged to the statement of insurance operations on a straight line basis over the estimated useful lives of the assets. The carrying values of property and equipment are reviewed to determine any impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Expenditure for repairs and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

***Deferred policy acquisition costs***

Commissions and other costs directly and indirectly related to the acquisition and renewal of insurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate as premiums are earned. For marine, such costs are deferred on the same basis as premiums are earned. Amortisation is recorded in the statement of insurance comprehensive operations.

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

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

**BURUJ COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Unearned commission income***

Commission income on outwards reinsurance contracts are deferred and amortised over the terms of the insurance contracts to which they relate. Amortisation is recorded in the statement of insurance comprehensive operations.

***Accounts payable and accruals***

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

***Zakat***

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. Zakat is accrued and charged to the statement of shareholders' comprehensive operations.

***Employees' end of service benefits***

The Company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

***Provisions***

Provisions are recognised 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 may be measured reliably.

***Leases***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

***Cash and cash equivalents***

Cash and cash equivalents comprise of cash in hand and at banks and time deposits with original maturities of less than three months from the date of the acquisition.

***Special commission income***

Special commission income is recognised on an effective yield basis.

***Statutory reserve***

In accordance with its by-laws, the Company allocates 20% of its net income of each year to the statutory reserve until it has built up a reserve equal to the share capital. In view of the accumulated losses, no such transfer has been made for the year ended 31 December 2012.

***Foreign currencies***

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



# BURUJ COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

### 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Segmental reporting*

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organised into business units based on products and services and has five reportable operating segments as follows:

- Motor insurance which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Medical products which provide health care cover to policyholders
- Property which provides coverage against fire, and any other insurance included under this class of insurance.
- General Accident and liability which provides coverage against accidental death to individual and group of persons under Personal Accident Insurance and insures the interest of employers under Fidelity Guarantee and affords cover for loss or damage under Money and certain public liability insurances.
- Engineering products which provide companies with solutions against unfortunate events with respect to activities undertaken during construction projects.
- Marine products which provide cover for unpredictable events during sea voyage and inland transit with solutions against unfortunate events incidences during travel and transit.

Shareholders' Funds is a non-operating segment. Income earned from time deposits is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations' is allocated to this segment on an appropriate basis.

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

Transfer pricing for intersegment transactions between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by operating segment only.

#### *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 expense are not offset in the statement of insurance or shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

#### *Trade date accounting*

All regular way purchases and sales of financial assets are recognised / derecognised on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

#### *Fair values*

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

For financial assets where there is no active market, fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on Management's best estimates and the discount rate used is a market related rate for similar assets.

**BURUJ COOPERATIVE INSURANCE COMPANY  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**4 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Impairment and uncollectibility of financial assets***

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of 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 in the statement of operations;
- 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;
- 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.

***Investments***

All investments are initially recognised at their fair value, including acquisition charges associated with the investment, excluding those held at fair value through income statement. For investments that are traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs.

***Available for sale investments ("AFS")***

Available for sale investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, AFS financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (through other comprehensive income) captioned under 'change in fair values of available for sale investments'. When the investment is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the statement of shareholders' comprehensive income. Where the Company holds more than one investment in the same security they are deemed to be disposed of on a 'first in first out' basis. Interest earned whilst holding AFS financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding AFS investments are recognised in the statement of shareholders' comprehensive income when the right of payment has been established. The losses arising from impairment of such investments are recognised in the statement of insurance or shareholders' comprehensive operations.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported is an estimation of claims which are expected to be reported subsequent to the end of reporting period, for which the insured event has occurred prior to the end of reporting period. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

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.

*Impairment losses on receivables*

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms.

*Deferred policy acquisition costs*

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

*Fair value of financial instruments that are not quoted in an active market*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
31 December 2012

**6 CASH AND CASH EQUIVALENTS**

	<i>31 December 2012</i>		<i>31 December 2011</i>	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cash on hand and at banks	42,279,100	5,770,831	20,233,581	6,843,488
Short term time deposits	41,562,489	28,100,000	15,440,007	26,535,893
	<u>83,841,589</u>	<u>33,870,831</u>	<u>35,673,588</u>	<u>33,379,381</u>

Short term time deposits placed with local banks have an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 0.78% (2011: 0.53% per annum).

The carrying amounts disclosed above reasonably approximate their fair values at the reporting date.

Cash at bank and short term time deposits are placed with counterparties who have investment grade credit ratings which is equivalent to AA- to A- under Standard and Poor's rating methodology.

**7 PREPAYMENTS AND OTHER ASSETS**

	<i>31 December 2012</i>		<i>31 December 2011</i>	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Prepaid excess of loss premiums	1,698,192	-	-	-
Deferred third party administrator fees	1,075,804	-	-	-
Insurance syndicate receivables	913,477	-	383,535	-
Prepaid rent	574,039	-	217,661	-
Accrued income	241,823	336,300	2,238	322,348
Others	429,206	500,000	713,188	500,000
	<u>4,932,541</u>	<u>836,300</u>	<u>1,316,622</u>	<u>822,348</u>

**8 PREMIUMS AND REINSURANCE BALANCES RECEIVABLE, NET**

	<i>31 December 2012</i>	<i>31 December 2011</i>
	<i>SR</i>	<i>SR</i>
Premiums receivable from policyholders	39,041,173	43,398,106
Less: Allowances for doubtful debts	(7,747,446)	(10,606,789)
	<u>31,293,727</u>	<u>32,791,317</u>
Reinsurance balances receivable	1,381,541	5,330,557
Less: Allowances for doubtful debts	(931,775)	(350,365)
	<u>449,766</u>	<u>4,980,192</u>
Total premiums and reinsurance balances receivables, net	<u>31,743,493</u>	<u>37,771,509</u>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**8 PREMIUMS AND REINSURANCE BALANCES RECEIVABLE, NET (continued)**

As at 31 December 2012 and 2011, the ageing of unimpaired balances is as follows:

	<i>Total SR</i>	<i>Neither past due nor impaired SR</i>	<i>Past due but not impaired</i>		
			<i>91 to 180 Days SR</i>	<i>181 to 365 Days SR</i>	<i>More than 365 days SR</i>
<b>2012</b>					
Policyholders	<u>31,293,727</u>	<u>17,684,728</u>	<u>7,513,357</u>	<u>5,701,411</u>	<u>394,231</u>
Reinsurers	<u>449,766</u>	<u>18,265</u>	<u>96,997</u>	<u>24,832</u>	<u>309,672</u>
<b>2011</b>					
Policyholders	<u>32,791,317</u>	<u>14,363,492</u>	<u>11,620,282</u>	<u>5,023,660</u>	<u>1,783,883</u>
Reinsurers	<u>4,980,192</u>	<u>1,632,410</u>	<u>194,490</u>	<u>2,980,362</u>	<u>172,930</u>

The Company classifies policyholders' and reinsurers' balances as 'past due and impaired' on a case by case basis. An impairment adjustment, if any, is recorded in the statement of insurance comprehensive operations. It is not the practice of the Company to obtain collateral over premiums and reinsurance balances receivables and these are, therefore, unsecured.

The Company does not have an internal credit ratings assessment process. The amounts which are neither past due nor impaired in respect of policyholders balances are from individuals and corporates, which have not been subjected to a rating process by the Company.

Balances due from reinsurers are with counterparties who have investment grade credit ratings which is equivalent to AA+ to BBB under Standard and Poor's rating methodology.

The movement in provision for doubtful policyholders' and reinsurance balances for the year ended 31 December 2012 is set out below:

	<i>Policyholders SR</i>	<i>Reinsurers' SR</i>	<i>Total SR</i>
Beginning balance	10,606,789	350,365	10,957,154
(Reversal) charge for the year (statement of insurance operations)	(2,859,343)	581,410	(2,277,933)
<b>Closing balance</b>	<u>7,747,446</u>	<u>931,775</u>	<u>8,679,221</u>

The movement in provision for doubtful policyholders' and reinsurance balances for the year ended 31 December 2011 is set out below:

	<i>Policyholders SR</i>	<i>Reinsurers' SR</i>	<i>Total SR</i>
Beginning balance	8,293,166	67,853	8,361,019
Charge for the year (statement of insurance operations)	2,313,623	282,512	2,596,135
<b>Closing balance</b>	<u>10,606,789</u>	<u>350,365</u>	<u>10,957,154</u>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**9 MOVEMENT IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED PREMIUMS AND UNEARNED COMMISSION INCOME**

**(a) Deferred policy acquisition costs**

	2012 SR	2011 SR
Beginning balance	7,616,181	1,279,156
Paid during the year	21,236,863	15,181,469
Amortised during the year (statement of insurance operation)	(20,680,763)	(8,844,444)
<i>Closing balance</i>	<u>8,172,281</u>	<u>7,616,181</u>

**(b) Unearned premiums**

	<i>31 December 2012</i>			<i>31 December 2011</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>SR</i>	<i>share</i>	<i>SR</i>	<i>SR</i>	<i>share</i>	<i>SR</i>
Beginning balance	45,328,158	(12,804,232)	32,523,926	15,265,721	(7,000,103)	8,265,618
Premiums written during the year	233,540,257	(56,856,814)	176,683,443	103,803,397	(38,512,721)	65,290,676
Premiums earned during the year	(186,916,064)	48,024,348	(138,891,716)	(73,740,960)	32,708,592	(41,032,368)
<i>Closing balance</i>	<u>91,952,351</u>	<u>(21,636,698)</u>	<u>70,315,653</u>	<u>45,328,158</u>	<u>(12,804,232)</u>	<u>32,523,926</u>

**(c) Unearned reinsurance commission**

	2012 SR	2011 SR
Beginning balance	3,410,350	1,839,014
Commission received during the year	11,652,693	11,403,243
Commission earned during the year	(11,441,970)	(9,831,907)
<i>Closing balance</i>	<u>3,621,073</u>	<u>3,410,350</u>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**10 CLAIMS**

**(a) Outstanding claims**

	<i>31 December 2012</i>			<i>31 December 2011</i>		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>SR</i>	<i>share</i>	<i>SR</i>	<i>SR</i>	<i>share</i>	<i>SR</i>
Outstanding at 31 December	(40,477,369)	20,968,695	(19,508,674)	(28,199,628)	14,630,481	(13,569,147)
Incurred but not reported	(24,982,155)	6,821,223	(18,160,932)	(5,558,567)	1,791,553	(3,767,014)
Other reserves	(2,652,159)	-	(2,652,159)	(2,444,663)	-	(2,444,663)
	<u>(68,111,683)</u>	<u>27,789,918</u>	<u>(40,321,765)</u>	<u>(36,202,858)</u>	<u>16,422,034</u>	<u>(19,780,824)</u>
Claims paid during the year	<u>(106,410,851)</u>	<u>8,257,195</u>	<u>(98,153,656)</u>	<u>(52,428,436)</u>	<u>28,484,336</u>	<u>(23,944,100)</u>
Outstanding at 1 January	(28,199,628)	14,630,481	(13,569,147)	(41,271,092)	27,209,815	(14,061,277)
Incurred but not reported	(5,558,566)	1,791,553	(3,767,013)	(7,519,388)	4,931,398	(2,587,990)
Other reserves	(2,444,663)	-	(2,444,663)	-	-	-
	<u>(36,202,857)</u>	<u>16,422,034</u>	<u>(19,780,823)</u>	<u>(48,790,480)</u>	<u>32,141,213</u>	<u>(16,649,267)</u>
<b>Claims incurred</b>	<u><u>(138,319,677)</u></u>	<u><u>19,625,079</u></u>	<u><u>(118,694,598)</u></u>	<u><u>(39,840,814)</u></u>	<u><u>12,765,157</u></u>	<u><u>(27,075,657)</u></u>

**Note**

Gross outstanding claims in the statement of financial position include claims outstanding at the reporting date and IBNR. The other reserves which comprise mainly of premium deficiency reserves are disclosed separately in the statement of financial position.

**Claims development**

The Company commenced its operations on 1 July 2010. Accordingly, management believes that the disclosure of a claims development table would not be meaningful at this stage.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**11 PROPERTY AND EQUIPMENT, NET**

The estimated useful lives of property and equipment for the calculation of depreciation are as follows:

Leasehold improvements	10 years	Furniture, fixtures and office equipment	7-10 years			
Computer equipment and software	4 years	Motor vehicles	4 years			
	<i>Leasehold improvements SR</i>	<i>Furniture, fixtures and office equipment SR</i>	<i>Computer equipment and software SR</i>	<i>Motor vehicles SR</i>	<i>Total 2012 SR</i>	<i>Total 2011 SR</i>
<i>Cost:</i>						
Beginning balance	2,001,185	1,334,324	5,884,022	103,257	9,322,788	8,787,897
Additions during the year	69,604	97,923	682,924	214,549	1,065,000	1,128,249
Disposals during the year	(8,000)	(2,801)	(699)	-	(11,500)	(593,358)
	<u>2,062,789</u>	<u>1,429,446</u>	<u>6,566,247</u>	<u>317,806</u>	<u>10,376,288</u>	<u>9,322,788</u>
<i>Accumulated depreciation:</i>						
Beginning balance	595,797	329,693	3,143,297	25,813	4,094,600	2,931,541
Charge for the year (note 19)	293,199	149,281	1,352,094	33,170	1,827,744	1,637,885
Disposals during the year	(5,800)	(140)	(507)	-	(6,447)	(474,826)
	<u>883,196</u>	<u>478,834</u>	<u>4,494,884</u>	<u>58,983</u>	<u>5,915,897</u>	<u>4,094,600</u>
<i>Net book value:</i>						
<i>At 31 December 2012</i>	<u>1,179,593</u>	<u>950,612</u>	<u>2,071,363</u>	<u>258,823</u>	<u>4,460,391</u>	
<i>At 31 December 2011</i>	<u>1,405,388</u>	<u>1,004,631</u>	<u>2,740,725</u>	<u>77,444</u>		<u>5,228,188</u>

The depreciation charge for the year has been included in the general and administrative expenses.

**12 AVAILABLE FOR SALE INVESTMENTS**

*(i) Insurance operations*

- (a) During the current year, the Company invested in a portfolio of debt securities (Sharia'a compliant instruments) issued by sovereign, quasi sovereign, and corporates based in the Gulf Cooperative Council countries. This portfolio is managed at the discretion of a locally regulated unrated financial institution.

The net change in fair value of this portfolio amounting to SR 9,252 (31 December 2011: nil) is presented within 'insurance operations surplus' in the statement of financial position and reported in the statement of insurance comprehensive operations' under other comprehensive income.

There were no disposals of investments during the current year.



**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
31 December 2012

**12 AVAILABLE FOR SALE INVESTMENTS (continued)**

*(ii) Shareholders operations*

- (a) Available for sale investments for shareholders operations comprise of various bonds and sukuk issued by governments, quasi governments, banks and corporates in the GCC countries amounting to SR 32,617,300 (31 December 2011: SR 32,247,146). The custody of these investments is with a locally regulated unrated financial institution.
- (b) Available for sale investments of shareholders' operations also comprise of an investment amounting to SR 1,923,078 (31 December 2011: SR 1,923,078) in an unquoted Company, registered in the Kingdom of Saudi Arabia. As there is no quoted price available, this investment has been valued at cost. Management is of the opinion that the fair market value of this investment is not materially different from its carrying value.
- (c) The movement during the year in available for sale investments are as follows:

	<i>31 December 2012</i>	<i>31 December 2011</i>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	34,170,224	-
Purchased during the year	19,025,330	38,001,783
Sold during the year	(19,746,085)	(3,726,662)
	<u>33,449,469</u>	<u>34,275,121</u>
Change in fair values	1,090,909	(104,897)
	<u>34,540,378</u>	<u>34,170,224</u>

The cumulative change in fair values of available for sale investments for the year ended 31 December 2012 amounting to SR 986,012 (31 December 2011: (SR 104,897)) is presented within shareholders' equity in the statement of financial position.

*(iii) Total investments (insurance and shareholders' operations) are classified as follows:*

	<i>Quoted SR</i>	<i>Unquoted SR</i>	<i>Total SR</i>
<b>2011</b>			
Fixed rate bonds	15,145,950	-	15,145,950
Sukuk	16,114,495	986,701	17,101,196
Equities	-	1,923,078	1,923,078
Total	<u>31,260,445</u>	<u>2,909,779</u>	<u>34,170,224</u>
<b>2012</b>			
Fixed rate bonds	15,019,088	-	15,019,088
Sukuk	25,649,036	-	25,649,036
Equities	-	1,923,078	1,923,078
Total	<u>40,668,124</u>	<u>1,923,078</u>	<u>42,591,202</u>

*Note*

Investments in discretionary portfolio of insurance operations have been presented under note (iii), (iv), (v) and (vi) based on the underlying financial instruments within the portfolio.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
31 December 2012

**12 AVAILABLE FOR SALE INVESTMENTS (continued)**

(iv) *The analysis of investments by counterparties is as follows:*

	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Government and quasi government	6,901,206	6,820,945
Banks and financial institutions	19,209,865	15,895,105
Corporates	16,480,131	11,454,174
Total	<u>42,591,202</u>	<u>34,170,224</u>

(v) *The credit quality of investment portfolio is as follows:*

	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
AA- To AA	4,398,532	6,820,945
A- To A+	12,521,772	17,032,300
BBB- To BBB+	13,358,856	1,907,200
Unrated	12,312,042	8,409,779
Total	<u>42,591,202</u>	<u>34,170,224</u>

Credit ratings are based on Standard and Poor's rating methodology or the issuer in case of unrated investments.

(vi) *Determination of fair value and fair values hierarchy*

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

- Level 1: Quoted prices in active markets for the same instrument (i.e., without modification or repacking).
- Level 2: Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<u>Level 1</u> <u>SR</u>	<u>Level 2</u> <u>SR</u>	<u>Level 3</u> <u>SR</u>	<u>Total</u> <u>SR</u>
<b>2011</b>				
Fixed rate bonds	15,145,950	-	-	15,145,950
Sukuks	16,114,495	-	986,701	17,101,196
Equities	-	-	1,923,078	1,923,078
	<u>31,260,445</u>	<u>-</u>	<u>2,909,779</u>	<u>34,170,224</u>
<b>2012</b>				
Fixed rate bonds	15,019,088	-	-	15,019,088
Sukuks	25,649,036	-	-	25,649,036
Equities	-	-	1,923,078	1,923,078
	<u>40,668,124</u>	<u>-</u>	<u>1,923,078</u>	<u>42,591,202</u>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**13 REINSURANCE AND INSURANCE BALANCES PAYABLE**

	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Reinsurance balance payable	17,192,984	6,431,633
Brokers and salesmen payable	5,293,631	6,652,084
Policyholders	-	2,092,935
Other insurance payables	1,822,798	359,452
	<u>24,309,413</u>	<u>15,536,104</u>

**14 TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

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

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amounts of transactions</i>		<i>Balance as at</i>	
		<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Shareholders	Gross written premiums	20,914,982	17,459,347		
	Reinsurance premium ceded	3,449,404	2,546,151		
	Reinsurance commission	775,303	562,790		
	Claims incurred	19,074,230	6,899,984		
	General and administrative expenses	-	292,939	(8,207)	(74,704)
Board of Directors	Board of directors remuneration fees and meeting expenses	1,698,864	1,571,073		
	Gross written premiums	10,315,307	138,137		
	Insurance brokerage contracts	2,765,695	1,364,640		

*b) Compensation of key management personnel*

Key management personnel of the Company include all executive and non-executive directors, and other senior management personnel. The summary of compensation of key management personnel for the year is as follows:

	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Short-term benefits	2,716,680	2,908,749
End of service benefits	127,306	114,896
	<u>2,843,986</u>	<u>3,023,645</u>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**15 ACCRUED EXPENSES AND OTHER LIABILITIES**

	<b>2012</b>		<b>2011</b>	
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Provision for withholding taxes	948,554	-	1,179,232	-
Employees' related accruals and payable	1,729,323	-	1,097,850	-
Professional fees accruals and payable	470,325	-	862,357	-
Board of directors and committee's remuneration fees and expenses	-	1,718,279	-	1,763,760
Third party claims payable	2,863,552	-	269,486	-
Supervision fees payable	414,570	-	160,486	-
Others	948,650	110,708	438,745	105,551
	<u>7,374,974</u>	<u>1,828,987</u>	<u>4,008,156</u>	<u>1,869,311</u>

**16 EMPLOYEES' END OF SERVICE BENEFITS**

	<b>2012</b>	<b>2011</b>
	<i>SR</i>	<i>SR</i>
Beginning balance	793,421	670,508
Charged during the year	734,060	567,337
Paid during the year	(46,582)	(444,424)
At the end of the year	<u>1,480,899</u>	<u>793,421</u>

**17 SHARE CAPITAL**

The authorised, issued and paid up share capital of the Company is SR 130 million divided into 13 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 7.8 million shares with a nominal value of SR 10 each, which represents 60% of the shares of the Company's share capital and the remaining 5.2 million shares with a nominal value of SR 10 each have been subscribed by the public.

**18 ZAKAT**

	<b>2012</b>	<b>2011</b>
	<i>SR</i>	<i>SR</i>
Charge for the year	<u>1,217,266</u>	<u>1,749,897</u>

*Movements in provision during the year is set out below:*

	<b>2012</b>	<b>2011</b>
	<i>SR</i>	<i>SR</i>
At the beginning of the year	5,852,347	4,247,975
Provided during the year	1,217,266	1,749,897
Payments during the year	-	(145,525)
At the end of the year	<u>7,069,613</u>	<u>5,852,347</u>

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31 December 2012

**18 ZAKAT (continued)**

*The provision for the year is based on the following:*

	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Shareholders' equity	85,233,795	101,008,302
Book value of long term assets and statutory deposit	(19,494,177)	(20,151,266)
	65,739,618	80,857,036
Adjusted loss for the year	(17,048,981)	(10,861,138)
Zakat base	<u>48,690,637</u>	<u>69,995,898</u>

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

*Status of assessments*

The Company has filed its Zakat return for the years ended 31 December 2010 and 2011 with the Department of Zakat and Income tax (DZIT).

On an initial review of the zakat return by the Department of Zakat and Income Tax (the "DZIT") for the year ended 31 December 2010 and 2011, a demand of SR 4,831,908 has been raised by the DZIT. However, the Company has filed an appeal with the DZIT. This appeal is in progress. The final assessment has not yet been carried out by the DZIT.

**19 GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2012</u>		<u>2011</u>
	<i>Insurance</i> <i>Operations</i> <i>SR</i>	<i>Shareholders'</i> <i>operations</i> <i>SR</i>	<i>Insurance</i> <i>operations</i> <i>SR</i>
Employees' salaries and costs	21,304,080	-	18,391,357
Office rent	2,187,893	-	2,152,446
Depreciation (note 11)	1,827,744	-	1,637,885
Legal and professional fees	1,427,189	-	1,743,007
Utilities and telecommunications	891,041	-	812,372
Stationery and office supplies	736,455	-	439,834
Information technology expenses	775,702	-	658,104
Board of Directors and committees remuneration fees and expenses	-	1,782,864	-
Listing fees	-	220,000	-
Others	2,586,274	414,178	2,046,100
	<u>31,836,378</u>	<u>2,417,042</u>	<u>27,881,105</u>
			<u>2,065,479</u>

**20 BASIC AND DILUTED LOSS PER SHARE**

- (a) Basic and diluted loss per share (before zakat) for the year has been calculated by dividing the 'loss before zakat' for the year by the ordinary issued and outstanding shares at the year end of 13 million shares.
- (b) Basic and diluted loss per share (after zakat) for the year has been calculated by dividing the net loss for the year by the ordinary issued and outstanding shares at the year end of 13 million shares.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**21 RISK MANAGEMENT**

***Risk governance***

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

***Risk management structure***

A cohesive organisational structure is established within the Company in order to identify, assess, monitor and control risks.

***Board of Directors***

The apex of risk governance is the centralised oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

***Senior management***

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

***Audit committee***

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

***a) Insurance risk***

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property and fire and accident, motor, medical and marine risks.

The Company issues short term insurance policies in connection with property, general accident and liability, motor, engineering and marine risks and they are expected to produce only short tail claims, therefore it is unlikely to have significant reserve movements. This helps to mitigate insurance risk. The insurance risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

***Frequency and amounts of claims***

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly property, general accident and liability, motor, engineering and marine risks. These are regarded as short-term insurance contracts as mainly claims are advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

***Motor***

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company only underwrites comprehensive policies for owner/drivers over 21 years of age.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover for such damage to limit the losses for any individual claim to SR 500,000 (2011: SR 500,000).

***Property***

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to SR 500,000 (2011: SR 500,000).

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**21 RISK MANAGEMENT (continued)**

**a) Insurance risk (continued)**

*General accident and liability*

For general accident contracts, the various insurance covers provided by the Company can be broadly classified under Personal Accident (excluding illness), Fidelity Guarantee, and Cash in Transit, Cash in Premises, Cash in Safe, Public Liability, Workmen's Compensation, and the like. These insurances afford protection for business enterprises towards loss or damage to person, property and interest giving cover per collusion accumulation as well. The Company has reinsurance cover for such damage to limit losses for any individual claim to SR 500,000 (2011: SR 500,000).

*Marine*

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

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim to SR 500,000 (2011: SR 500,000).

*Engineering*

For engineering the main risks is loss or damage to buildings and civil work under construction like erection for plant or equipment and their related testing and commissioning.

The underwriting policy is to ensure that construction all risks are comprehensive in terms of documentation of specific coverage and the risks are well diversified. Engineering all risks cover normally plant and machinery erection and is usually extended beyond erection to include testing and commissioning. The Company has reinsurance cover to limit losses for any individual claim to SR 500,000 (2011: SR 500,000).

*Sensitivity analysis*

The general insurance claims provision is sensitive to the above key assumptions. A hypothetical 10% change in the net claims ratio would impact income by approximately SR 11,869,460 (2011: SR 2,708,210) annually in aggregate

**b) Reinsurance risk**

In order to minimise its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for reinsurance purpose. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

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

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

	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Europe	13,193,608	11,490,671
Middle East including Kingdom of Saudi Arabia	7,775,087	3,139,810
Reinsurers' share of outstanding claims (note 10(a))	<u>20,968,695</u>	<u>14,630,481</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**21 RISK MANAGEMENT (continued)**

*c) Special commission rate risk*

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to special commission rate risk on its cash and cash equivalents. The sensitivity of the income is the effect of assumed changes in special commission rates, with all other variables held constant, on the Company's income for one year, based on the floating rate financial assets held at 31 December 2012. The Company had no significant floating rate financial assets as at 31 December 2012.

*d) Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial instruments held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position. The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. Accordingly, as a pre-requisite, the parties with whom reinsurance is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company seeks to manage its credit risk with respect to policyholders by setting credit limits for individual customers and by monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by the management. Accordingly, as a pre-requisite, the bank with whom cash and cash equivalents are maintained is required to have a minimum acceptable security rating level affirming its financial strength.

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

	2012		2011	
	<i>Insurance' Operations</i>	<i>Shareholders' operations</i>	<i>Insurance' operations</i>	<i>Shareholders' operations</i>
<i>Assets</i>				
Investments	8,050,824	34,540,378	-	34,170,224
Reinsurers' share of outstanding claims	27,789,918	-	16,422,034	-
Cash at banks and time deposits	83,756,816	33,870,831	35,558,619	33,379,381
Premiums and reinsurance balances receivable, net	31,743,493	-	37,771,509	-
Other assets	1,155,300	836,300	385,773	822,348
Statutory deposit	-	13,110,708	-	13,000,000
	<u>152,496,351</u>	<u>82,358,217</u>	<u>90,137,935</u>	<u>81,371,953</u>

*e) 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 a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

*Maturity profiles*

The table below summarises the expected maturity profile of the financial assets and financial liabilities of the Company as of the reporting date. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities.



**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
31 December 2012

**21 RISK MANAGEMENT (continued)**

*e) Liquidity risk (continued)*

	31 December 2012					
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
<b>ASSETS</b>						
Statutory deposit	-	-	-	-	13,110,708	13,110,708
Prepayments and other assets	4,932,541	-	4,932,541	336,300	500,000	836,300
Reinsurers' share of outstanding claims	27,789,918	-	27,789,918	-	-	-
Premiums and reinsurance balances						
Receivable, net	31,743,493	-	31,743,493	-	-	-
Due from shareholders' operations	-	6,231,910	6,231,910	-	-	-
Available for sale investments	8,050,824	-	8,050,824	32,617,300	1,923,078	34,540,378
Cash and cash equivalents	83,841,589	-	83,841,589	33,870,831	-	33,870,831
<b>TOTAL ASSETS</b>	<b>156,358,365</b>	<b>6,231,910</b>	<b>162,590,275</b>	<b>66,824,431</b>	<b>15,533,786</b>	<b>82,358,217</b>

	31 December 2012					
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
<b>LIABILITIES</b>						
Gross outstanding claims	65,459,524	-	65,459,524	-	-	-
Due to a related party	-	-	-	8,207	-	8,207
Employees' end of service benefits	-	1,480,899	1,480,899	-	-	-
Reinsurance and insurance balances						
Payable	24,309,413	-	24,309,413	-	-	-
Zakat payable	-	-	-	7,069,613	-	7,069,613
Accrued expenses and other liabilities	7,374,974	-	7,374,974	1,828,987	-	1,828,987
Due to insurance operations	-	-	-	-	6,231,910	6,231,910
<b>TOTAL LIABILITIES</b>	<b>97,143,911</b>	<b>1,480,899</b>	<b>98,624,810</b>	<b>8,906,807</b>	<b>6,231,910</b>	<b>15,138,717</b>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
31 December 2012

**21 RISK MANAGEMENT (continued)**

*e) Liquidity risk (continued)*

	31 December 2011					
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
<b>ASSETS</b>						
Statutory deposit	-	-	-	-	13,000,000	13,000,000
Prepayments and other assets	1,316,622	-	1,316,622	322,348	500,000	822,348
Reinsurers' share of outstanding claims	16,422,034	-	16,422,034	-	-	-
Premiums and reinsurance balances receivable, net	37,771,509	-	37,771,509	-	-	-
Due from insurance operations	-	-	-	-	11,553,307	11,553,307
Available for sale investments	-	-	-	32,247,146	1,923,078	34,170,224
Cash and cash equivalents	35,673,588	-	35,673,588	33,379,381	-	33,379,381
<b>TOTAL ASSETS</b>	<b>91,183,753</b>	<b>-</b>	<b>91,183,753</b>	<b>65,948,875</b>	<b>26,976,385</b>	<b>92,925,260</b>

	31 December 2011					
	Insurance operations			Shareholders' operations		
	Up to one year SR	No term SR	Total SR	Up to one year SR	No term SR	Total SR
<b>LIABILITIES</b>						
Gross outstanding claims	33,758,195	-	33,758,195	-	-	-
Due to a related parties	-	-	-	74,704	-	74,704
Employees' end of service benefits	-	793,421	793,421	-	-	-
Reinsurance and insurance balances payable	15,536,104	-	15,536,104	-	-	-
Zakat payable	-	-	-	5,852,347	-	5,852,347
Accrued expenses and other liabilities	4,008,156	-	4,008,156	1,869,311	-	1,869,311
Due to shareholders' operations	-	11,553,307	11,553,307	-	-	-
<b>TOTAL LIABILITIES</b>	<b>53,302,455</b>	<b>12,346,728</b>	<b>65,649,183</b>	<b>7,796,362</b>	<b>-</b>	<b>7,796,362</b>

*Liquidity profile*

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all contractually payable on the basis as set out above.

*f) Currency risk*

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in Saudi Riyals or currencies pegged to the Saudi Riyal.

**BURUJ COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**21 RISK MANAGEMENT (continued)**

**g) Equity price risk**

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

The Company has investments in quoted 'sukuks' and 'fixed rate bonds' (see note 12 (iii)), which have been classified under 'available for sale' investments. The Company limits its market price risks by closely monitoring developments in markets in which such investments are quoted. A 5% change in the market price of these quoted investments, with all other variables held constant, would change the 'other comprehensive income' and consequently 'shareholders' equity (for investments held under shareholders' operations) by SR 1.63 million (2011: SR 1.56 million) and insurance operations' surplus (for investments held under insurance operations) by SR 0.40 million (2011: SR nil).

**h) Capital management**

The Company manages its capital to ensure that it is able to continue as going concern and comply with SAMA's capital requirements in the Kingdom of Saudi Arabia while maximising the return to stakeholders through the equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital and reserves.

The operations of the Company are subject to local regulatory requirements within the jurisdiction where it is incorporated. 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 and to enable them to meet unforeseen liabilities as these arise.

The Company is currently reassessing its capital needs to maintain sufficient liquid resources and accordingly comply with the prescribed requirements for maintaining solvency margins.

**i) Fair values of financial instruments**

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Company include cash and cash equivalents, statutory deposit, investments, premiums and reinsurance balances receivables, and reinsurers' share of outstanding claims; its financial liabilities consist of gross outstanding claims, reinsurance and insurance balances payable, accrued expenses and other liabilities. Accounting policies for financial assets and liabilities are set out in note 4.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The fair value of the Company's financial assets and liabilities are not materially different from their carrying values.

**22 SEGMENT INFORMATION**

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

Segment results do not include general and administrative expenses, allowance for doubtful debts, special commission income on term deposits and AFS investments, gain or loss on property, plant and equipment and other income.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, premiums and reinsurance balances receivable and cash and cash equivalents. Accordingly they are included in unallocated assets. Segment liabilities do not include insurance operations' due to shareholders operations, employees' end-of-service benefits, and reinsurance and insurance balances payable, accrued expenses and other liabilities. Accordingly they are included in unallocated liabilities.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
31 December 2012

**22 SEGMENT INFORMATION (continued)**

**Operating segments**

*For the year ended  
31 December 2012*

	<i>Property SR</i>	<i>Motor SR</i>	<i>Marine SR</i>	<i>Medical SR</i>	<i>Others SR</i>	<i>Total SR</i>
Gross written premiums	13,561,486	167,346,570	19,608,914	21,393,520	11,629,767	233,540,257
Reinsurance premiums ceded	(12,515,615)	(1,040,701)	(13,480,624)	(11,323,928)	(9,668,416)	(48,029,284)
Excess of loss premiums	(164,424)	(7,843,834)	(733,362)	-	(85,910)	(8,827,530)
<b>Net premiums written</b>	<b>881,447</b>	<b>158,462,035</b>	<b>5,394,928</b>	<b>10,069,592</b>	<b>1,875,441</b>	<b>176,683,443</b>
Movement in unearned premiums, net	(78,808)	(30,763,917)	311,599	(7,198,574)	(62,027)	(37,791,727)
<b>Net premiums earned</b>	<b>802,639</b>	<b>127,698,118</b>	<b>5,706,527</b>	<b>2,871,018</b>	<b>1,813,414</b>	<b>138,891,716</b>
Reinsurance commission income	2,713,919	(7,135)	6,644,759	-	2,090,427	11,441,970
Policy fees	11,920	2,391,583	221,097	-	14,065	2,638,665
<b>Total revenues</b>	<b>3,528,478</b>	<b>130,082,566</b>	<b>12,572,383</b>	<b>2,871,018</b>	<b>3,917,906</b>	<b>152,972,351</b>
Net claims paid	(111,965)	(96,595,369)	(977,732)	(69,593)	(398,997)	(98,153,656)
Movement in outstanding claims, net	(357,167)	(16,317,213)	(3,204,944)	(752,894)	298,772	(20,333,446)
Movement in other reserves, net	-	(207,496)	-	-	-	(207,496)
<b>Net claims incurred</b>	<b>(469,132)</b>	<b>(113,120,078)</b>	<b>(4,182,676)</b>	<b>(822,487)</b>	<b>(100,225)</b>	<b>(118,694,598)</b>
Policy acquisition costs	(1,283,092)	(16,467,200)	(1,678,784)	(462,797)	(788,890)	(20,680,763)
Inspection and supervision fees	(45,102)	(830,751)	(90,594)	(320,903)	(49,951)	(1,337,301)
Other underwriting expenses	(38,350)	(619,107)	-	(421,743)	-	(1,079,200)
<b>Total underwriting costs</b>	<b>(1,835,676)</b>	<b>(131,037,136)</b>	<b>(5,952,054)</b>	<b>(2,027,930)</b>	<b>(939,066)</b>	<b>(141,791,862)</b>
<b>Net underwriting surplus (deficit)</b>	<b>1,692,802</b>	<b>(954,570)</b>	<b>6,620,329</b>	<b>843,088</b>	<b>2,978,840</b>	<b>11,180,489</b>
Unallocated expenses						(31,836,406)
Unallocated income						2,933,196
<b>Deficit from insurance operations</b>						<b>(17,722,721)</b>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**22 SEGMENT INFORMATION (continued)**

Operating segments

*For the year ended*  
*31 December 2011*

	<i>Property SR</i>	<i>Motor SR</i>	<i>Marine SR</i>	<i>Others SR</i>	<i>Total SR</i>
Gross written premiums	11,602,487	59,746,672	19,641,618	12,812,620	103,803,397
Reinsurance premiums ceded	(10,742,508)	(1,337,401)	(13,464,767)	(10,617,165)	(36,161,841)
Excess of loss premiums	(238,666)	(1,227,585)	(789,321)	(95,308)	(2,350,880)
<b>Net premiums written</b>	<b>621,313</b>	<b>57,181,686</b>	<b>5,387,530</b>	<b>2,100,147</b>	<b>65,290,676</b>
Movement in unearned premiums, net	(95,842)	(22,901,562)	(628,042)	(632,862)	(24,258,308)
<b>Net premiums earned</b>	<b>525,471</b>	<b>34,280,124</b>	<b>4,759,488</b>	<b>1,467,285</b>	<b>41,032,368</b>
Reinsurance commission income	2,186,588	187,461	5,385,723	2,072,135	9,831,907
Policy fees	11,872	2,270,569	224,814	13,460	2,520,715
<b>Total revenues</b>	<b>2,723,931</b>	<b>36,738,154</b>	<b>10,370,025</b>	<b>3,552,880</b>	<b>53,384,990</b>
Net claims paid	(657,887)	(22,446,260)	(535,880)	(304,073)	(23,944,100)
Movement in outstanding claims, net	298,571	(1,303,483)	335,559	(17,541)	(686,894)
Movement in other reserves, net	(100,000)	(2,344,663)	-	-	(2,444,663)
<b>Net claims incurred</b>	<b>(459,316)</b>	<b>(26,094,406)</b>	<b>(200,321)</b>	<b>(321,614)</b>	<b>(27,075,657)</b>
Policy acquisition costs	(1,022,159)	(5,636,079)	(1,469,031)	(717,175)	(8,844,444)
Inspection and supervision fees	(40,651)	(294,144)	(88,470)	(54,626)	(477,891)
<b>Total underwriting costs</b>	<b>(1,522,126)</b>	<b>(32,024,629)</b>	<b>(1,757,822)</b>	<b>(1,093,415)</b>	<b>(36,397,992)</b>
<b>Net underwriting surplus</b>	<b>1,201,805</b>	<b>4,713,525</b>	<b>8,612,203</b>	<b>2,459,465</b>	<b>16,986,998</b>
Unallocated expenses					(30,477,240)
Unallocated income					99,900
<b>Deficit from insurance operations</b>					<b>(13,390,342)</b>

The Company commenced writing medical operations during 2012. Accordingly, there are no comparative figures for medical line of business for the year ended 31 December 2011.

**BURUJ COOPERATIVE INSURANCE COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**22 SEGMENT INFORMATION (continued)**

**Operating segments**  
**As at 31 December 2012**

	<i>Property SR</i>	<i>Motor SR</i>	<i>Marine SR</i>	<i>Medical SR</i>	<i>Others SR</i>	<i>Total SR</i>
<b>ASSETS</b>						
Reinsurers' share of unearned premiums	4,265,932	523,650	2,424,444	8,120,441	6,302,231	21,636,698
Reinsurers' share of outstanding claims	9,903,179	3,256,534	7,699,615	1,770,492	5,160,098	27,789,918
Deferred policy acquisition costs	473,208	5,549,561	223,290	1,193,456	732,766	8,172,281
<b>SEGMENT ASSETS</b>	<b>14,642,319</b>	<b>9,329,745</b>	<b>10,347,349</b>	<b>11,084,389</b>	<b>12,195,095</b>	<b>57,598,897</b>
Unallocated assets						139,260,748
<b>TOTAL ASSETS</b>						<b>196,859,645</b>
<b>LIABILITIES</b>						
Gross unearned premiums	4,600,384	60,983,285	3,609,584	15,319,015	7,440,083	91,952,351
Gross outstanding claims	10,885,894	33,562,397	12,455,582	2,523,385	6,032,266	65,459,524
Unearned reinsurance commission	1,056,962	39,510	904,390	-	1,620,211	3,621,073
Other reserves	100,000	2,552,159	-	-	-	2,652,159
<b>SEGMENT LIABILITIES</b>	<b>16,643,240</b>	<b>97,137,351</b>	<b>16,969,556</b>	<b>17,842,400</b>	<b>15,092,560</b>	<b>163,685,107</b>
Unallocated liabilities						33,174,538
<b>TOTAL LIABILITIES</b>						<b>196,859,645</b>

**Operating segments**  
**As at 31 December 2011**

	<i>Property SR</i>	<i>Motor SR</i>	<i>Marine SR</i>	<i>Others SR</i>	<i>Total SR</i>
<b>ASSETS</b>					
Reinsurers' share of unearned premiums	3,673,867	617,816	3,488,822	5,023,727	12,804,232
Reinsurers' share of outstanding claims	2,759,849	2,322,877	3,376,316	7,962,992	16,422,034
Deferred policy acquisition costs	364,176	6,416,437	363,494	472,074	7,616,181
<b>SEGMENT ASSETS</b>	<b>6,797,892</b>	<b>9,357,130</b>	<b>7,228,632</b>	<b>13,458,793</b>	<b>36,842,447</b>
Unallocated assets					79,989,907
<b>TOTAL ASSETS</b>					<b>116,832,354</b>
<b>LIABILITIES</b>					
Gross unearned premiums	3,929,511	30,313,534	4,985,561	6,099,552	45,328,158
Gross outstanding claims	3,385,397	16,311,527	4,927,339	9,133,932	33,758,195
Unearned reinsurance commission	855,101	83,473	1,239,534	1,232,242	3,410,350
Other reserves	100,000	2,344,663	-	-	2,444,663
<b>SEGMENT LIABILITIES</b>	<b>8,270,009</b>	<b>49,053,197</b>	<b>11,152,434</b>	<b>16,465,726</b>	<b>84,941,366</b>
Unallocated liabilities					31,890,988
<b>TOTAL LIABILITIES</b>					<b>116,832,354</b>

**BURUJ COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

31 December 2012

**23 CONTINGENCIES AND COMMITMENTS**

*a) Legal proceedings and regulations*

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position. The Company did not have any significant outstanding legal proceedings as at the reporting date.

*b) Operating lease commitments*

The minimum future lease payments for the use of the Company's premises total SR 2,559,770 payable during 2013 (2012: SR 2,079,770).

*c) Contingent liabilities*

The Company have provided guarantees of SR 0.35 million (2011: nil) in respect of medical insurance in the normal course of its activities.

**24 COMPARATIVE FIGURES**

Captions and amounts under 'prepayments and other assets' (note 7) and 'accrued expenses and other liabilities' (note 15) have been amended and reclassified to conform to the presentation in the current year. The aggregate amounts of the notes 7 and 15 remain unchanged.

**25 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 7 Rabi Thani 1434H, corresponding to 17 February 2013.