**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)

**FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**
**AND INDEPENDENT AUDITORS' REPORT**

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**
**YEAR ENDED DECEMBER 31, 2012**


| **Index** | **Page** |
|---|---|
| Independent auditors' report | 2 |
| Statement of financial position | 3-4 |
| Statement of insurance operations | 5 |
| Statement of shareholders' income | 6 |
| Statement of shareholders' comprehensive income | 7 |
| Statement of changes in shareholders' equity | 8 |
| Statement of insurance operations' cash flows | 9 |
| Statement of shareholders' operations' cash flows | 10 |
| Notes to the financial statements | 11-39 |

ERNST & YOUNG

P.O. Box 3795
4th Floor, Fluor Building
Al Khobar 31952
Saudi Arabia

Tel : +966 (3) 849 9500
Fax: +966 (3) 882 7224
www.ey.com/me
Registration No. 45

pwc

PricewaterhouseCoopers
Al Hugayet Tower
P.o. Box 467, Dhahran Airport 31932
Kingdom of Saudi Arabia

Telephone :+966 (3) 849-6311
Facsimile :+966 (3) 849-6281
www.pwc.com/middle-east
Registration No. 25

**INDEPENDENT AUDITORS' REPORT**

To the shareholders of
Saudi United Cooperative Insurance Company (Wala'a)

Scope of audit:
We have audited the accompanying statement of financial position of Saudi United Cooperative Insurance Company (Wala'a) (a Saudi joint stock company) (the "Company") as at December 31, 2012 and the related statements of insurance operations', shareholders' income, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with Article 123 of the Regulations for Companies and presented to us together with all 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 basis for our opinion.

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

- Present fairly, in all material respects, the financial position of the Company as at December 31, 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 in all material respects with the requirements of the Regulations for Companies and the Company's by-laws so far as they affect the preparation and presentation of the financial statements.

Emphasis of matter:
We draw attention to Note 2 to the accompanying financial statements. These financial statements have been prepared in accordance with IFRS and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

PricewaterhouseCoopers

Omar M. Al Sagga
License Number 369

Ernst & Young

Abdulaziz Saud Alshubaibi
License Number 339

Febraury 18, 2013

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

إرنست ويونغ
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF FINANCIAL POSITION**
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | As at December 31, 2012 | 2011 |
|---|---|---|---|
| **INSURANCE OPERATIONS' ASSETS** | | | |
| Property and equipment | 4 | **3,207,792** | 2,314,729 |
| Premiums and insurance balances receivable | 5 | **62,065,879** | 57,259,911 |
| Reinsurers' share of unearned premiums | 11 | **44,284,121** | 74,893,102 |
| Reinsurers' share of outstanding claims | 12 | **46,153,014** | 45,360,562 |
| Deferred policy acquisition costs | | **9,720,768** | 13,759,195 |
| Due from an affiliate | | **1,871,945** | - |
| Accrued commission income | | **77,903** | 111,964 |
| Prepaid expenses and other assets | 6 | **4,578,493** | 4,880,604 |
| Cash and cash equivalents | 7 | **81,786,405** | 137,715,642 |
| **TOTAL INSURANCE OPERATIONS' ASSETS** | | **253,746,320** | 336,295,709 |
| **SHAREHOLDERS' ASSETS** | | | |
| Statutory deposit | 8 | **20,000,000** | 20,000,000 |
| Other financial assets | 9 | **64,800,506** | 51,396,722 |
| Short-term deposits | 10 | **26,475,994** | 40,000,000 |
| Accrued commission income | | **1,167,878** | 757,940 |
| Due from insurance operations | | **10,420,017** | 20,808,921 |
| Cash and cash equivalents | 7 | **60,000,000** | 26,272,575 |
| **TOTAL SHAREHOLDERS' ASSETS** | | **182,864,395** | 159,236,158 |
| **TOTAL ASSETS** | | **436,610,715** | 495,531,867 |

***(Continued)***

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

Acting CFO | Chief Executive Officer | Director

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF FINANCIAL POSITION *(continued)***
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | As at December 31, 2012 | 2011 |
|---|---|---|---|
| **INSURANCE OPERATIONS' LIABILITIES** | | | |
| **Liabilities arising from insurance contracts:** | | | |
| Unearned premiums | 11 | **91,115,733** | 137,803,035 |
| Outstanding claims | 12 | **107,273,881** | 95,090,233 |
| **Total liabilities arising from insurance contracts** | | **198,389,614** | 232,893,268 |
| End-of-service indemnities | 13 | **2,180,634** | 1,490,883 |
| Reinsurance balances payable | | **8,197,770** | 52,450,505 |
| Unearned reinsurance commission | 14 | **5,198,133** | 4,860,735 |
| Accrued expenses and other liabilities | 15 | **27,238,932** | 23,190,066 |
| Due to shareholders' operations | | **10,420,017** | 20,808,921 |
| **TOTAL INSURANCE OPERATIONS' LIABILITIES** | | **251,625,100** | 335,694,378 |
| **Insurance operations' surplus** | | | |
| Accumulated surplus | | **2,121,220** | 601,331 |
| **TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS** | | **253,746,320** | 336,295,709 |
| **SHAREHOLDERS' LIABILITIES AND EQUITY** | | | |
| **Shareholders' liabilities** | | | |
| Accrued expenses and other liabilities | 15 | **7,727,200** | 4,750,569 |
| **Shareholders' equity** | | | |
| Share capital | 17 | **200,000,000** | 200,000,000 |
| Accumulated losses | | **(36,128,195)** | (52,138,055) |
| Fair value reserve | | **11,265,390** | 6,623,644 |
| **Total shareholders' equity** | | **175,137,195** | 154,485,589 |
| **TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY** | | **182,864,395** | 159,236,158 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **436,610,715** | 495,531,867 |

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

Acting CFO | Chief Executive Officer | Director

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF INSURANCE OPERATIONS**
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | Year ended December 31, 2012 | 2011 |
|---|---|---|---|
| **REVENUES** | | | |
| Gross premiums written | 19 | **234,092,747** | 278,560,419 |
| Reinsurance premiums ceded | 19 | **(75,468,993)** | (124,749,911) |
| Net premiums written | | **158,623,754** | 153,810,508 |
| Changes in unearned premiums | 11 | **19,237,866** | 10,621,079 |
| Net premiums earned | 11 | **177,861,620** | 164,431,587 |
| Reinsurance commission | | **10,452,804** | 15,194,949 |
| Other underwriting income | | **164,353** | 310,286 |
| Total revenues | | **188,478,777** | 179,936,822 |
| **UNDERWRITING COSTS AND EXPENSES** | | | |
| Gross claims paid | 12 | **121,739,998** | 116,107,416 |
| Reinsurers' share of claims paid | 12 | **(31,784,985)** | (24,905,939) |
| Net claims paid | | **89,955,013** | 91,201,477 |
| Changes in outstanding claims | 12 | **11,391,196** | 10,073,913 |
| Net incurred claims | 12 | **101,346,209** | 101,275,390 |
| Policy acquisition costs | | **23,155,762** | 27,041,372 |
| Excess of loss expenses | | **5,642,298** | 5,993,864 |
| Other expenses | | **5,103,054** | 3,767,318 |
| Total underwriting costs and expenses | | **135,247,323** | 138,077,944 |
| Net underwriting income | | **53,231,454** | 41,858,878 |
| **OTHER OPERATING EXPENSES, NET** | | | |
| Operating and administrative salaries | | **(25,109,963)** | (21,176,141) |
| General and administrative expenses | 20 | **(13,761,496)** | (15,082,190) |
| Commission income on bank deposits | | **838,900** | 412,768 |
| **Total other operating expenses, net** | | **(38,032,559)** | (35,845,563) |
| **Net surplus from insurance operations** | | **15,198,895** | 6,013,315 |
| Shareholders' appropriation of surplus | | **(13,679,006)** | (5,411,984) |
| **Net results from insurance operations after appropriation of surplus** | | **1,519,889** | 601,331 |

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

Acting CFO | Chief Executive Officer | Director

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF SHAREHOLDERS' INCOME**
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | Year ended December 31, 2012 | 2011 |
|---|---|---|---|
| Net surplus transferred from insurance operations | | **13,679,006** | 5,411,984 |
| Commission income on bank deposits | | **678,404** | 601,176 |
| Commission income on held-to-maturity investments | | **188,500** | 188,500 |
| Realized fair value changes on available-for-sale investments | | **7,212,038** | - |
| General and administrative expenses | 20 | **(2,998,088)** | (1,623,193) |
| **Shareholders' net income for the year** | | **18,759,860** | 4,578,467 |
| **Basic and diluted earnings per share** | 24 | **0.94** | 0.23 |
| **Weighted average number of outstanding shares** | | **20,000,000** | 20,000,000 |

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

Acting CFO | Chief Executive Officer | Director

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME**
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | Year ended December 31, 2012 | 2011 |
|---|---|---|---|
| Shareholders' net income for the year | | **18,759,860** | 4,578,467 |
| Unrealized fair value changes on available-for-sale investments | | **4,641,746** | 1,653,972 |
| Provision for zakat and income tax | 16 | **(2,750,000)** | (1,874,997) |
| **Total comprehensive income for the year** | | **20,651,606** | 4,357,442 |
| **Basic and diluted earnings per share** | 24 | **1.03** | 0.22 |
| **Weighted average number of outstanding shares** | | **20,000,000** | 20,000,000 |

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

Acting CFO

Chief Executive Officer

Director

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
(All amounts in Saudi Riyals unless otherwise stated)

| | Share capital | Accumulated losses | Fair value reserve | Total |
|---|---|---|---|---|
| Balance at January 1, 2011 | 200,000,000 | (54,841,525) | 4,969,672 | 150,128,147 |
| Net income for the year | - | 4,578,467 | - | 4,578,467 |
| Net unrealised gain on available-for-sale investments | - | - | 1,653,972 | 1,653,972 |
| Provision for zakat and income tax | - | (1,874,997) | - | (1,874,997) |
| **Balance at December 31, 2011** | 200,000,000 | (52,138,055) | 6,623,644 | 154,485,589 |
| Balance at January 1, 2012 | 200,000,000 | (52,138,055) | 6,623,644 | **154,485,589** |
| Net income for the year | - | 18,759,860 | - | **18,759,860** |
| Net unrealised gain on available-for-sale investments | - | - | 4,641,746 | **4,641,746** |
| Provision for zakat and income tax | - | (2,750,000) | - | **(2,750,000)** |
| **Balance at December 31, 2012** | **200,000,000** | **(36,128,195)** | **11,265,390** | **175,137,195** |

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

Acting CFO

Chief Executive Officer

Director

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | Year ended December 31, 2012 | 2011 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net surplus from insurance operations | | **15,198,895** | 6,013,315 |
| Adjustments for: | | | |
| Depreciation | 4 | **1,244,224** | 1,100,282 |
| Gain on disposal of property and equipment | | **(4,388)** | - |
| End-of-service indemnities, net | | **689,751** | 216,573 |
| | | **17,128,482** | 7,330,170 |
| Changes in operating assets and liabilities: | | | |
| Premiums and insurance balances receivables | | **(4,805,968)** | (1,764,344) |
| Reinsurers' share of unearned premiums | | **30,608,981** | (43,969,472) |
| Reinsurers' share of outstanding claims | | **(792,452)** | (3,335,105) |
| Deferred policy acquisition costs | | **4,038,427** | (213,664) |
| Due from an affiliate | | **(1,871,945)** | - |
| Prepaid expenses and other assets | | **302,111** | (1,984,199) |
| Accrued commission income | | **34,061** | (94,542) |
| Reinsurance balances payables | | **(44,252,735)** | 22,364,603 |
| Unearned premiums | | **(46,687,302)** | 33,348,393 |
| Unearned reinsurance commission | | **337,398** | (1,874,694) |
| Outstanding claims | | **12,183,648** | 13,409,018 |
| Accrued expenses and other liabilities | | **4,048,866** | 11,146,520 |
| **Net cash (used in) generated from operating activities** | | **(29,728,428)** | 34,362,684 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 4 | **(2,144,199)** | (872,694) |
| Proceeds from disposal of property and equipment | | **11,300** | - |
| **Net cash used in investing activities** | | **(2,132,899)** | (872,694) |
| **CASH FLOW FROM FINANCING ACTIVITY** | | | |
| Due from shareholders' operations | | **(24,067,910)** | 17,985,537 |
| **Net cash (used in) generated from financing activities** | | **(24,067,910)** | 17,985,537 |
| **Net (decrease) increase in cash and cash equivalents** | | **(55,929,237)** | 51,475,527 |
| Cash and cash equivalents at the beginning of the year | | **137,715,642** | 86,240,115 |
| **Cash and cash equivalents at the end of the year** | 7 | **81,786,405** | 137,715,642 |

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

Acting CFO | Chief Executive Officer | Director

**SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)**
(A Saudi Joint Stock Company)
**STATEMENT OF SHAREHOLDERS' OPERATIONS' CASH FLOWS**
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | Year ended December 31, 2012 | 2011 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income for the year | | **18,759,860** | 4,578,467 |
| Adjustments for: | | | |
| Commission income | | **(678,404)** | (601,176) |
| Income from available-for-sale investments | | **(7,212,038)** | - |
| | | **10,869,418** | 3,977,291 |
| Changes in operating assets and liabilities: | | | |
| Due from insurance operations | | **10,388,904** | (23,397,521) |
| Accrued expenses and other liabilities | | **1,672,809** | 55,480 |
| **Cash generated from (used in) operations** | | **22,931,131** | (19,364,750) |
| Zakat paid | 16 | **(1,446,178)** | (915,698) |
| **Cash generated from (used in) operating activities** | | **21,484,953** | (20,280,448) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Short-term deposits | | **13,524,006** | - |
| Movement in other financial assets | | **-** | (50,000) |
| Purchase of investments, net | | **(1,550,000)** | - |
| Commission income received | | **268,466** | 517,624 |
| **Net cash generated from investing activities** | | **12,242,472** | 467,624 |
| **Net increase (decrease) in cash and cash equivalents** | | **33,727,425** | (19,812,824) |
| Cash and cash equivalents at the beginning of the year | | **26,272,575** | 46,085,399 |
| Cash and cash equivalents at the end **of the year** | 7 | **60,000,000** | 26,272,575 |
| **Non-cash transaction:** | | | |
| Unrealised fair value changes on available-for-sale investments | | **4,641,746** | 1,653,972 |

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

Acting CFO

Chief Executive Officer

Director

## 1 General information

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

The principal activities of the Company are to transact cooperative insurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies (the "Law") and its implementing regulations in the Kingdom of Saudi Arabia. The Company was granted the license (number TMN/16/2008) to practice general and medical insurance and re-insurance business from the Saudi Arabian Monetary Agency (SAMA) on 28 Jumada II 1429 H corresponding to July 2, 2008.

## 2. Summary of significant accounting policies

Significant accounting policies applied in the preparation of these financial statements are set out below.

### 2.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of available-for-sale investments at their fair values. Accordingly, these financial statements are not intended to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia, i.e. in accordance with the standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and board of directors of the Company.

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

| | |
|---|---|
| Transfer to shareholders' operations | 90% |
| Transfer to insurance operations' accumulated surplus | 10% |
| | 100% |

### 2.2 New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The accounting policies used in the preparation of these financial statements are consistently applied for all years presented, except for the adoption of certain amendments and revisions to existing standards as mentioned below, which had no significant financial impact on the financial statements of the Company.

| Standard | Description |
|---|---|
| IAS 12 | Amendments to Income taxes - Deferred taxes: Recovery of underlying assets |
| IFRS 7 | Financial instruments: Disclosures (Transfers of Financial Assets) |
| IAS 34 | Interim Financial Reporting |

### 2.2.1 Standards and amendments to published standards that are not yet effective and have not been early adopted by the Company

The Company's management decided not to choose the early adoption of the following new and amended standards issued which will become effective for the periods commencing on or after January 1, 2013.

| Standard | Description |
|---|---|
| Amendments to IAS 1 | Presentation of Financial Statements |
| Amendments to IAS 19 | Employee Benefits |
| Amendments to IAS 27 | Separate Financial Statements |
| Amendments to IAS 28 | Investments in Associates and Joint Ventures |
| IFRS 9 | Financial Instruments Classification and measurement |
| IFRS 10 | Consolidated Financial Statements |
| IFRS 11 | Joint Arrangements |
| IFRS 12 | Disclosure of Interests in Other Entities |
| IFRS 13 | Fair Value Measurement |
| Amendments to IAS 32 and IFRS 7 | Offsetting of Financial Assets and Financial Liabilities |

The application of the above standards and amendments are not expected to have material impact on the financial statements as and when they become effective.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

### 2.4 Product classification

#### 2.4.1 Insurance contracts

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

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.

#### 2.4.2 Investment contracts

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

Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

### 2.5 Segment reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs 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 organized into business units based on their products and services and has four reportable operating segments as follows:

- Medical insurance provides coverage for health insurance.
- Motor insurance provides coverage for vehicles' insurance.
- Property insurance provides coverage for property insurance.
- General insurance provides coverage for engineering, fire, marine and other general insurance.

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

No inter-segment transactions occurred during the period. If any transaction was to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Shareholders' income is a non-operating segment. Income earned from time deposits and investments 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.

### 2.6 Functional and presentation currency

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at exchange rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi riyals at rates prevailing on the reporting date. All differences are taken to the statements of insurance operations or to the statement of shareholders' operations as appropriate.

### 2.7 Property and equipment

Property and equipment are initially recorded at cost and are subsequently stated at cost less accumulated depreciation and any impairment in value, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of insurance operations during the financial period in which they are incurred. Depreciation is charged to the statement of insurance operations on a straight line basis based on the following estimated useful lives:

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

The assets' useful lives are reviewed at the end of each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of insurance operations under other income.

### 2.8 Financial Assets

#### 2.8.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, available-for-sale investments and investments held to maturity. The classification is determined by management at initial recognition and depends on the purpose for which the financial asset were acquired or originated.

**a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

**b) Available-for-sale investments**

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices and are designated as such at inception.

**c) Investments in held to maturity**

Investments in Held-to-maturity are financial assets which have fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity.

#### 2.8.2 Recognition and measurement

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive income and financial position for insurance operations. Investments in Held-to-maturity and Loans and receivable are carried at amortized costs using effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on investments in Held-to-maturity is recognised in the statement of shareholders' comprehensive income or statement of insurance operations, as appropriate, when the investment is derecognized or impaired.

Financial assets are derecognised when the rights to receive cash flows from the available-for-sale investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in statement of changes in shareholders' equity are included in the statements of the insurance operations or shareholders' comprehensive income as 'gains and losses from available-for-sale investments'. Commission on available-for-sale investments calculated using the effective interest method is recognised in the statement of insurance operations and statement of shareholders income as part of other income.

#### 2.8.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of insurance operations and statement of shareholders income. Dividends on available-for-sale equity instruments are recognized in statement of insurance operations and statement of shareholders' income when the Company's right to receive payments is established. Both are included in the commission income line.

**2.8.4 Impairment of assets**

(a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of insurance operations.

(b) Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from shareholders' equity and recognised in the statement of insurance / shareholders' operations. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of insurance / shareholders' operations.

**2.9 Derecognition of financial assets**

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired, or the Company retains the right to receive cash flows from the asset and has assumed an obligation to pay the received cash flows in full, without material delay to a third party under a 'pass-through' arrangement; and either the Company has transferred substantially all the risks and rewards of the asset, or the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

**2.10 Premiums earned and commission income**

Premiums are taken into income over the terms of the respective policies on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

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

- Premium written in last three months of the financial year for marine cargo business; and
- Actual number of days for other lines of business.

### 2.11 Premiums receivable

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

### 2.12 Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables, if any, that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

At each reporting date, the Company assesses whether there is any indication that any reinsurance assets may be impaired. Where an indicator of impairment exists, the Company makes an estimate of the 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.

### 2.13 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts is recognized as “Deferred policy acquisition costs”. The deferred policy acquisition costs are subsequently amortised over the period of the insurance contracts.

### 2.14 Claims

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

The Company generally estimates its claims based on previous experience. In addition, a provision based on management’s judgement is maintained for the cost of settling claims incurred but not reported at the reporting date. Any difference between the provisions at the reporting date and settlements for the following period is included in the statement of insurance operations for that period.

### 2.15 Liability adequacy test

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

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

### 2.16 Short-term deposits

These comprise of deposits with banks with maturity periods of less than one year and more than three months from the date of acquisition.

### 2.17 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, cash at banks and short term deposits with an original maturity of less than three months at the date of acquisition.

### 2.18 Unearned reinsurance commission

Commission income on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. Amortisation is recorded in the statement of insurance operations.

### 2.19 Provisions

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

### 2.20 Accrued and other liabilities

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

### 2.21 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method. Liabilities are recognized for amounts to be paid and services rendered, whether or not billed to the Company.

### 2.22 End-of-service indemnities

End-of-service indemnities required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of insurance operations. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the reporting date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

### 2.23 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of shareholders' comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

### 2.24 Derecognition of Financial liabilities

Financial liabilities, insurance, reinsurance payable and other payables are derecognised when the obligation under the liability is discharged, cancelled or expired. When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of insurance operations.

### 2.25 Offsetting

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

### 2.26 Revenue Recognition

(a) Recognition of premium and commission revenue

Gross premiums and commissions are recognized with the commencement of the insurance risks. The portion of premiums and commission that will be earned in the future is reported as unearned premiums and commissions, respectively, and are deferred on a basis consistent with the term of the related policy coverage.

Premiums earned on reinsurance assumed, if any, are recognised as revenue in the same manner as if the reinsurance premiums were considered to be gross premiums.

(b) Commission income

Commission income from short-term deposits is recognized on a time proportion basis using the effective interest rate method.

(c) Dividend income

Dividend income is recognized when the right to receive a dividend is established.

### 2.27 Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

### 2.28 Trade date accounting

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

## 3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

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

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

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

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

## 4. Property and equipment

| **2012** | **Computer equipment and software** | **Furniture, fixture and office equipment** | **Vehicles** | **Total** |
|---|---|---|---|---|
| Cost | | | | |
| January 1, 2012 | 2,554,062 | 2,629,509 | 175,350 | **5,358,921** |
| Additions | 514,437 | 1,429,942 | 199,820 | **2,144,199** |
| Disposals | - | (65,000) | - | **(65,000)** |
| At December 31, 2012 | 3,068,499 | 3,994,451 | 375,170 | **7,438,120** |
| Accumulated depreciation | | | | |
| January 1, 2012 | 1,559,927 | 1,382,633 | 101,632 | **3,044,192** |
| Charge for the year | 536,033 | 640,392 | 67,799 | **1,244,224** |
| Disposals | - | (58,088) | - | **(58,088)** |
| At December 31, 2012 | 2,095,960 | 1,964,937 | 169,431 | **4,230,328** |
| **Net book value** | | | | |
| **December 31, 2012** | **972,539** | **2,029,514** | **205,739** | **3,207,792** |

| **2011** | **Computer equipment and software** | **Furniture, fixture and office equipment** | **Vehicles** | **Total** |
|---|---|---|---|---|
| Cost | | | | |
| January 1, 2011 | 2,260,705 | 2,070,172 | 155,350 | 4,486,227 |
| Additions | 293,357 | 559,337 | 20,000 | 872,694 |
| At December 31, 2011 | 2,554,062 | 2,629,509 | 175,350 | 5,358,921 |
| Accumulated depreciation | | | | |
| January 1, 2011 | 976,588 | 907,118 | 60,204 | 1,943,910 |
| Charge for the year | 583,339 | 475,515 | 41,428 | 1,100,282 |
| At December 31, 2011 | 1,559,927 | 1,382,633 | 101,632 | 3,044,192 |
| Net book value | | | | |
| December 31, 2011 | 994,135 | 1,246,876 | 73,718 | 2,314,729 |

## 5. Premiums and reinsurance balances receivable

| | **2012** | **2011** |
|---|---|---|
| Premiums receivable | **73,594,210** | 66,242,999 |
| Insurance and reinsurance receivables | **1,206,173** | 1,135,052 |
| Allowance for doubtful debts | **(12,734,504)** | (10,118,140) |
| | **62,065,879** | 57,259,911 |

Movement in allowance for doubtful debts was as follows:

| | **2012** | **2011** |
|---|---|---|
| January 1, | **10,118,140** | 2,981,412 |
| Provided during the year (Note 22) | **2,616,364** | 7,136,728 |
| December 31, | **12,734,504** | 10,118,140 |

**5. Premiums and reinsurance balances receivable** (continued)

The aging of receivables arising from insurance and reinsurance contracts is as follows:

**Insurance premium receivables**

| | | Past due but not impaired | | | |
|---|---|---|---|---|---|
| | **Total** | **Neither impaired nor past due** | 91-180 days | 181-360 days | More than 360 days |
| **2012** | **61,954,360** | **33,789,473** | **15,946,634** | **10,435,883** | **1,782,370** |
| 2011 | 56,599,655 | 27,634,582 | 17,974,779 | 9,937,334 | 1,052,960 |

**Insurance and reinsurance receivables**

| | | Past due but not impaired | | | |
|---|---|---|---|---|---|
| | **Total** | **Neither impaired nor past due** | 91-180 days | 181-360 days | More than 360 days |
| **2012** | **111,519** | **-** | **-** | - | **111,519** |
| 2011 | 660,256 | - | 564,739 | - | 95,517 |

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia and reinsurance companies both in Kingdom of Saudi Arabia and Europe, respectively. Premiums and reinsurance balances receivable include Saudi Riyal 2,188,872 (December 31, 2011: Saudi Riyal 2,790,779) due in foreign currencies, mainly US dollars. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company accounts for more than 14.4% of the premiums receivable as at December 31, 2012 (2011: 14.2%). In addition, the five largest customers account for 46% of the premiums receivable as at December 31, 2012 (2011: 54%).

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

**6. Prepaid expenses and other assets**

| | **2012** | **2011** |
|---|---|---|
| Prepaid rent | **949,295** | **626,235** |
| Prepaid fees | **750,035** | **1,476,049** |
| Advances | **2,709,517** | **2,476,198** |
| Deposits | **145,690** | **97,852** |
| Other | **23,956** | **204,270** |
| | **4,578,493** | **4,880,604** |

## 7. Cash and cash equivalents

| | 2012 | 2011 |
|---|---|---|
| **Insurance operations** | | |
| Cash in hand | **72,000** | 34,883 |
| Cash at banks | **41,650,405** | 37,616,759 |
| Short-term deposits | **40,064,000** | 100,064,000 |
| | **81,786,405** | 137,715,642 |

| | 2012 | 2011 |
|---|---|---|
| **Shareholders' operations** | | |
| Cash at banks | **60,000,000** | 839,063 |
| Short-term deposits | **-** | 25,433,512 |
| | **60,000,000** | 26,272,575 |

Short-term deposits are placed with local and foreign banks with an original maturity of less than three months from the date of acquisition and earn financial income at an average rate of 0.8% to 1.1% (2011: 0.65% to 0.9%) per annum.

## 8. Statutory deposit

The statutory deposit represents 10% of the paid up share capital which is maintained in accordance with the Law. This statutory deposit cannot be withdrawn without the consent of SAMA.

## 9. Other financial assets

The Company's other financial assets are classified as follows:

| | 2012 | 2011 |
|---|---|---|
| Held-to-maturity | **6,500,000** | 6,500,000 |
| Available-for-sale | **57,800,506** | 44,346,722 |
| Advances | **500,000** | 550,000 |
| | **64,800,506** | 51,396,722 |

The fair values of the investments approximate their carrying values at December 31, 2012 and 2011.

Held-to-maturity investments represent fixed rate bonds that are traded in an interbank market within Saudi Arabia and values are determined according to such market, when available, or through an appropriate pricing model. These fixed rate bonds are with a maturity period of 10 years (callable after 5 years- December 2014). Management believes that fair value of these investments approximates the carrying value.

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

## 10. Short-term deposits

The short-term deposits which are denominated in Saudi Riyals, are made for varying periods between 3 months and 12 months depending on the cash requirements of the Company, and earn interest at an effective commission rate of 1.1% at December 31, 2012 (December 31, 2011: 0.83%). Short-term deposits are placed with counterparties who have investment grade rating.

## 11. Unearned premiums

| | Year ended December 31, | |
|---|---|---|
| | **2012** | **2011** |
| **At January 1,** | | |
| Unearned premium | **137,803,035** | 104,454,642 |
| Reinsurers' share of unearned premiums | **(74,893,102)** | (30,923,630) |
| | **62,909,933** | 73,531,012 |
| Net written premiums during the year | **158,623,754** | 153,810,508 |
| Net earned premiums during the year | **(177,861,620)** | (164,431,587) |
| Changes in unearned premium, net | **(19,237,866)** | (10,621,079) |
| **At December 31,** | | |
| Unearned premium | **91,115,733** | 137,803,035 |
| Reinsurers' share of unearned premiums | **(44,284,121)** | (74,893,102) |
| | **46,831,612** | 62,909,933 |

## 12. Outstanding claims

| | 2012 | | |
|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** |
| **Claims** | | | |
| Balance, beginning of the year | (95,090,233) | 45,360,562 | **(49,729,671)** |
| Claims settled during the year | 121,739,998 | (31,784,985) | **89,955,013** |
| Balance, end of the year | 107,273,881 | (46,153,014) | **61,120,867** |
| **Claims incurred during the year** | **133,923,646** | **(32,577,437)** | **101,346,209** |

**Analysis of outstanding claims**
At December 31,

| | | | |
|---|---|---|---|
| At the beginning of the year | (95,090,233) | 45,360,562 | **(49,729,671)** |
| Reported claims | 51,943,616 | (22,521,067) | **29,422,549** |
| Claims incurred but not reported | 55,330,265 | (23,631,947) | **31,698,318** |
| Changes in outstanding claims, net | **12,183,648** | **(792,452)** | **11,391,196** |

| | 2011 | | |
|---|---|---|---|
| | **Gross** | **Reinsurers' share** | **Net** |
| **Claims** | | | |
| Balance, beginning of the year | (58,049,270) | 18,393,512 | (39,655,758) |
| Claims settled during the year | 116,107,416 | (24,905,939) | 91,201,477 |
| Balance, end of the year | 95,090,233 | (45,360,562) | 49,729,671 |
| **Claims incurred during the year** | 153,148,379 | (51,872,989) | 101,275,390 |

**Analysis of outstanding claims**
At December 31,

| | | | |
|---|---|---|---|
| At the beginning of the year | (58,049,270) | 18,393,512 | (39,655,758) |
| Reported claims | 46,500,443 | (21,728,617) | 24,771,826 |
| Claims incurred but not reported | 48,589,792 | (23,631,947) | 24,957,845 |
| Changes in outstanding claims | 37,040,965 | (26,967,052) | 10,073,913 |

## 13. End-of-service indemnities

| | **2012** | **2011** |
|---|---|---|
| January 1, | **1,490,883** | 1,274,310 |
| Charged during the year | **933,155** | 726,923 |
| Paid during the year | **(243,404)** | (510,350) |
| December 31, | **2,180,634** | 1,490,883 |

## 14. Unearned reinsurance commission

| | 2012 | 2011 |
|---|---|---|
| At January 1, | **4,860,735** | 6,735,429 |
| Commission received during the year | **10,790,202** | 13,320,255 |
| Commission earned during the year | **(10,452,804)** | (15,194,949) |
| At December 31, | **5,198,133** | **4,860,735** |

## 15. Accrued expenses and other liabilities

### a) Insurance operations

| | 2012 | 2011 |
|---|---|---|
| Accrued expenses | **27,238,932** | 22,917,097 |
| Due to an affiliate | **-** | 272,969 |
| | **27,238,932** | 23,190,066 |

### b) Shareholders' operations

| | | |
|---|---|---|
| Accrued expenses | **1,747,500** | 229,000 |
| Zakat and income tax (Note 16) | **5,215,488** | 3,911,666 |
| Other payables | **764,212** | 609,903 |
| | **7,727,200** | 4,750,569 |

## 16. Zakat and income tax matters

(i) Provision for zakat and income tax

Provision for zakat has been made at 2.5% of approximate zakat base attributable to the Saudi shareholders of the Company. Income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

The principal elements of approximate zakat base are as follows:

| | 2012 | 2011 |
|---|---|---|
| Shareholders' equity | **154,485,589** | 150,128,147 |
| Non-current liabilities | **2,180,634** | 1,490,883 |
| Non-current assets | **(85,585,220)** | (71,287,807) |
| Approximate zakat base | **71,081,003** | 80,331,223 |

Movements in provision for zakat and income tax as at December 31, 2012 and 2011 are as follows:

| **2012** | **Zakat** | **Income tax** | **Total** |
|---|---|---|---|
| Balance, beginning of the year | 3,708,494 | 203,172 | **3,911,666** |
| Payments | (1,235,686) | (210,492) | **(1,446,178)** |
| Provision for the year | 2,546,828 | 203,172 | **2,750,000** |
| Balance, end of the year | **5,019,636** | **195,852** | **5,215,488** |

| **2011** | **Zakat** | **Income tax** | **Total** |
|---|---|---|---|
| Balance, beginning of the year | 2,952,367 | - | 2,952,367 |
| Payments | (915,698) | - | (915,698) |
| Provision for the year | 1,671,825 | 203,172 | 1,874,997 |
| Balance, end of the year | 3,708,494 | 203,172 | 3,911,666 |

(ii) Status of zakat and income tax certificate

The Company has submitted its zakat and income tax returns upto the year ended December 31, 2011 and obtained the required certificate from the DZIT.

## 17. Share capital

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

## 18. Statutory reserve

In accordance with the Law, the Company is required to transfer not less than 20% of its annual net income, after adjusting accumulated losses, to a legal reserve until such reserve amounts to 100% of the paid-up share capital of the Company. No such transfer has been made during the year due to accumulated losses as at December 31, 2012.

## 19. Related party transactions and balances

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

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

| | | **Sales of insurance contracts** | **Amounts owed by related parties** | **Amounts owed to related parties** |
|---|---|---|---|---|
| Directors and related parties | **2012** | **1,810,711** | **561,589** | **-** |
| | 2011 | 2,972,976 | 146,753 | 46,770 |
| Key management personnel | **2012** | **9,449** | **-** | **-** |
| | 2011 | 4,089 | - | - |
| Due from/to an affiliate | **2012** | **-** | **2,164,251** | **-** |
| | 2011 | - | 470,358 | - |

Outstanding balances at year end, with relate parties, are unsecured and settlement occurs as per payment terms. There have been no guarantees provided or received for any related party receivables.

For the years ended December 31, 2012 and 2011, the Company has not raised any allowance for doubtful debts relating to amount owed by related parties as management is confident regarding recoverability of relevant balances.

Compensation of key management personnel of the Company:

| | 2012 | 2011 |
|---|---|---|
| Short-term benefits | **2,552,077** | 2,375,161 |
| Employees' end of service indemnity | **456,597** | 327,206 |
| | **3,008,674** | 2,702,367 |

## 20. General and administrative expenses

### a) Insurance operations

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Doubtful debts | **2,616,364** | 7,136,728 |
| Legal and professional fees | **3,972,360** | 2,056,868 |
| Rent expenses | **1,979,161** | 1,358,509 |
| Depreciation | **1,244,224** | 1,100,282 |
| Office supplies | **484,028** | 879,318 |
| Utilities | **847,168** | 860,104 |
| Marketing, advertising and promotion | **214,269** | 367,123 |
| Withholding tax | **314,187** | 366,698 |
| Training and education | **542,836** | 215,264 |
| Information technology expenses | **323,198** | 190,876 |
| Other expenses | **1,223,701** | 550,420 |
| | **13,761,496** | 15,082,190 |

### b) Shareholders' operations

| | Year ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Employee costs | **1,200,000** | 1,200,000 |
| Board members fee | **1,700,000** | - |
| Other expenses | **98,088** | 423,193 |
| | **2,998,088** | 1,623,193 |

## 21. Segmental reporting

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

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

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

**21. Segmental reporting** (Continued)

**Operating segments**

| | Medical | Motor | Property | Others | Total |
|---|---|---|---|---|---|
| **For the year ended December 31, 2012** | | | | | |
| Gross premiums written | 64,705,279 | 59,574,320 | 54,485,071 | 55,328,077 | 234,092,747 |
| Net premiums written | 64,238,833 | 58,634,095 | 2,793,131 | 32,957,695 | 158,623,754 |
| Net premiums earned | 78,513,050 | 60,827,717 | 2,575,769 | 35,945,084 | 177,861,620 |
| Reinsurance commission | - | 188,045 | 6,312,219 | 3,952,540 | 10,452,804 |
| Other underwriting income | 1,250 | 112,920 | 8,980 | 41,203 | 164,353 |
| Total revenues | 78,514,300 | 61,128,682 | 8,896,968 | 39,938,827 | 188,478,777 |
| Gross claims paid | (34,386,071) | (58,087,547) | (7,789,792) | (21,476,588) | (121,739,998) |
| Reinsurers' share of claims paid | 14,995,122 | 2,153,556 | 6,335,616 | 8,300,691 | 31,784,985 |
| Changes in outstanding claims | (7,326,448) | (2,550,229) | (39,522) | (1,474,997) | (11,391,196) |
| Net claims incurred | (26,717,397) | (58,484,220) | (1,493,698) | (14,650,894) | (101,346,209) |
| Other underwriting expenses | (11,760,416) | (8,002,057) | (3,894,002) | (10,244,638) | (33,901,113) |
| Other general and administrative expenses (unallocated) | - | - | - | - | (38,871,460) |
| **Surplus from insurance operations** | 40,036,487 | (5,357,595) | 3,509,268 | 15,043,295 | 14,359,995 |
| Commission income on bank deposits | - | - | - | | 838,900 |
| **Net surplus from insurance operations** | - | - | - | - | 15,198,895 |

**21. Segmental reporting** (Continued)

**As at December 31, 2012**

| | Medical | Motor | Property | Others | Total |
|---|---|---|---|---|---|
| **Insurance operations' assets** | | | | | |
| Reinsurers' share of unearned premiums | **(523,008)** | **-** | **21,477,960** | **23,329,169** | **44,284,121** |
| Reinsurers' share of outstanding claims | **5,728,240** | **1,673,687** | **9,584,618** | **29,166,469** | **46,153,014** |
| Deferred policy acquisition costs | **4,766,098** | **1,531,124** | **956,425** | **2,467,121** | **9,720,768** |
| Unallocated assets | **-** | **-** | **-** | **-** | **153,588,417** |
| **Total assets** | **9,971,330** | **3,204,811** | **32,019,003** | **54,962,759** | **253,746,320** |
| **Insurance operations' liabilities** | | | | | |
| Unearned premiums | **21,918,838** | **18,310,943** | **22,011,958** | **28,873,994** | **91,115,733** |
| Outstanding claims | **19,605,388** | **32,456,920** | **12,190,559** | **43,021,014** | **107,273,881** |
| Unearned reinsurance commission | **219,998** | **-** | **2,389,327** | **2,588,808** | **5,198,133** |
| Unallocated liabilities | **-** | **-** | **-** | **-** | **50,158,573** |
| **Total liabilities** | **41,744,224** | **50,767,863** | **36,591,844** | **74,483,816** | **253,746,320** |

| **For the year ended December 31, 2011** | Medical | Motor | Property | Others | Total |
|---|---|---|---|---|---|
| Gross premiums written | 98,541,201 | 63,415,029 | 28,452,127 | 88,152,062 | 278,560,419 |
| Net premiums written | 53,610,787 | 62,292,907 | 3,030,819 | 34,875,995 | 153,810,508 |
| Net premiums earned | 28,964,930 | 98,936,609 | 2,839,050 | 33,690,998 | 164,431,587 |
| Reinsurance commission | 4,372,817 | 224,119 | 5,482,742 | 5,115,271 | 15,194,949 |
| Other underwriting income | 9,871 | 255,648 | 8,590 | 36,177 | 310,286 |
| Total revenues | 33,347,618 | 99,416,376 | 8,330,382 | 38,842,446 | 179,936,822 |
| Gross claims paid | (19,745,514) | (72,671,042) | (6,530,733) | (17,160,127) | (116,107,416) |
| Reinsurers' share of claims paid | 10,213,366 | 281,244 | 4,489,349 | 9,921,980 | 24,905,939 |
| Changes in outstanding claims | (2,418,141) | (4,522,672) | 652,806 | (3,785,906) | (10,073,913) |
| Net claims incurred | (11,950,289) | (76,912,470) | (1,388,578) | (11,024,053) | (101,275,390) |
| Other underwriting expenses | (4,726,700) | (19,140,017) | (4,024,954) | (8,910,883) | (36,802,554) |
| Other general and administrative expenses (unallocated) | - | - | - | - | (36,258,331) |
| Surplus from insurance operations | 16,670,629 | 3,363,889 | 2,916,850 | 18,907,510 | 5,600,547 |
| Commission income from bank deposits | - | - | - | - | 412,768 |
| Net surplus from insurance operations | - | - | - | - | 6,013,315 |

**21. Segmental reporting** (Continued)

| | Medical | Motor | Property | Others | Total |
|---|---|---|---|---|---|
| As at December 31, 2011 | | | | | |
| Insurance operations' assets | | | | | |
| Reinsurers' share of unearned premiums | 32,500,262 | - | 7,739,543 | 34,653,297 | 74,893,102 |
| Reinsurers' share of outstanding claims | 5,839,978 | 1,176,470 | 9,098,579 | 29,245,535 | 45,360,562 |
| Deferred policy acquisition cost | 7,683,171 | 1,853,365 | 1,200,145 | 3,022,514 | 13,759,195 |
| Unallocated assets | - | - | - | - | 202,282,850 |
| Total assets | 46,023,411 | 3,029,835 | 18,038,267 | 66,921,346 | 336,295,709 |
| Insurance operations' liabilities | | | | | |
| Unearned premiums | 66,056,780 | 20,496,766 | 7,757,742 | 43,491,747 | 137,803,035 |
| Outstanding claims | 12,370,387 | 29,409,474 | 11,264,998 | 42,045,374 | 95,090,233 |
| Unearned reinsurance commission | 219,998 | - | 1,921,218 | 2,719,519 | 4,860,735 |
| Unallocated liabilities | - | - | - | - | 98,541,706 |
| Total liabilities | 78,647,165 | 49,906,240 | 20,943,958 | 88,256,640 | 336,295,709 |

**Geographical segments**

All of the significant assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for some of the reinsurance assets/ liabilities which are held outside the Kingdom of Saudi Arabia.

**22. 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, regulatory framework, credit, liquidity, foreign currency, interest rate, and market 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 Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

**Senior management**

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

**Audit Committee and Internal Audit Department**

Risk management processes throughout the Company are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

**Insurance risk management**

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

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

**Insurance claims reserving**

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

**Frequency and amounts of claims**

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor, medical and others which include marine, engineering, fire, casualty risks. These are regarded as short-term insurance contracts as claims are normally reported and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

**Reinsurance strategy**

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

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The reinsurance is placed with providers who meet the Company's counterparty security requirements and deals with reinsurers approved by the board of directors.

The largest five reinsurers account for 70% of the maximum credit exposure at December 31, 2012 (2011: 76%).

**Medical**

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

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

**Motor**

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

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. Substantially all of the motor contracts relate to corporate customers. The Company has reinsurance cover to limit losses for any individual claim upto Saudi Riyal 1 million.

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

**Property**

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

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

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

**Casualty**

Casualty insurance primarily consists of risks taken for money, fidelity, workmen compensation, general public liability, engineering, etc and is designed to compensate contract holders for damage suffered to them or others, arising through accidents, thefts, etc. Substantially all of the casualty contracts relate to corporate customers.

The Company has reinsurance cover to limit losses for any individual claim upto Saudi Riyal 1 million.

**Marine cargo**

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

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

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

**Concentration of insurance risk**

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

**Regulatory framework risk**

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

**Financial risk**

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

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

**Credit risk**

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

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables. Premiums receivable comprise a large number of brokers/customers mainly within Saudi Arabia of which the five largest brokers/customers account for 46% of the receivables as at December 31, 2012 (2011: 42%).

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

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

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

**Insurance operations assets as at December 31, 2012**

| | Neither past due nor impaired | | | |
|---|---|---|---|---|
| | **Investment grade** | **Non investment grade (satisfactory)** | **Past due but not impaired** | **Total** |
| Receivables arising from insurance contracts | **-** | **19,334,723** | **41,524,983** | **60,859,706** |
| Receivables arising from re-insurance contracts | **-** | **1,206,173** | **-** | **1,206,173** |
| Reinsurers' share of unearned premium | **-** | **44,284,121** | **-** | **44,284,121** |
| Reinsurers' share of outstanding claims | **-** | **46,153,014** | **-** | **46,153,014** |
| Cash and cash equivalents | **81,714,405** | **72,000** | **-** | **81,786,405** |
| Accrued commission income | **-** | **77,903** | **-** | **77,903** |
| | **81,714,405** | **111,127,934** | **41,524,983** | **234,367,322** |

**Insurance operations assets as at December 31, 2011**

| | Neither past due nor impaired | | | |
|---|---|---|---|---|
| | Investment grade | Non investment grade (satisfactory) | Past due but not impaired | Total |
| Receivables arising from insurance contracts | - | 12,495,446 | 43,629,413 | 56,124,859 |
| Receivables arising from re-insurance contracts | - | 1,135,052 | - | 1,135,052 |
| Reinsurers' share of unearned premium | - | 74,893,102 | - | 74,893,102 |
| Reinsurers' share of outstanding claims | - | 45,360,562 | - | 45,360,562 |
| Cash and cash equivalents | 137,680,758 | 34,884 | - | 137,715,642 |
| Accrued commission income | - | 111,964 | - | 111,964 |
| | 137,680,758 | 134,031,010 | 43,629,413 | 315,341,181 |

**Shareholders' assets as at December 31, 2012**

| | **Neither past due nor impaired** | | | |
|---|---|---|---|---|
| | **Investment grade** | **Non investment grade (satisfactory)** | **Past due but not impaired** | **Total** |
| Statutory deposit | **20,000,000** | **-** | **-** | **20,000,000** |
| Other financial assets | **64,800,506** | **-** | **-** | **64,800,506** |
| Short-term deposits | **26,475,994** | **-** | **-** | **26,475,994** |
| Accrued commission income | **1,167,878** | **-** | **-** | **1,167,878** |
| Due to shareholders | **-** | **10,420,017** | **-** | **10,420,017** |
| Cash and cash equivalents | **60,000,000** | **-** | **-** | **60,000,000** |
| | **172,444,378** | **10,420,017** | **-** | **182,864,395** |

**Shareholders' assets as at December 31, 2011**

| | Neither past due nor impaired | | | |
|---|---|---|---|---|
| | Investment grade | Non investment grade (satisfactory) | Past due but not impaired | Total |
| Statutory deposit | 20,000,000 | - | - | 20,000,000 |
| Other financial assets | 51,396,722 | - | - | 51,396,722 |
| Short-term deposits | 40,000,000 | - | - | 40,000,000 |
| Accrued commission income | 757,940 | - | - | 757,940 |
| Cash and cash equivalents | 26,272,575 | - | - | 26,272,575 |
| | 138,427,237 | - | - | 138,427,237 |

**Liquidity risk**

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

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

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

All financial liabilities are contractually payable within a year's time and are not commission bearing.

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

**As at December 31, 2012**

| | **Less than 12 months** | **More than 12 months** | **Total** |
|---|---|---|---|
| **Insurance operations financial assets** | | | |
| Insurance premium receivable | **62,065,879** | **-** | **62,065,879** |
| Reinsurers' share of unearned premium | **44,284,121** | **-** | **44,284,121** |
| Reinsurers' share of outstanding claims | **46,153,014** | **-** | **46,153,014** |
| Accrued commission income | **77,903** | **-** | **77,903** |
| Due from affiliates | **1,871,945** | **-** | **1,871,945** |
| Cash and cash equivalents | **81,786,405** | **-** | **81,786,405** |
| **Total insurance operations financial assets** | **236,239,267** | **-** | **236,239,267** |
| **Insurance operations financial liabilities** | | | |
| Reinsurance balances payables | **8,197,770** | **-** | **8,197,770** |
| Accrued expenses and other liabilities | **27,238,932** | **-** | **27,238,932** |
| Unearned premium | **91,115,733** | **-** | **91,115,733** |
| Outstanding claims | **107,273,881** | **-** | **107,273,881** |
| Unearned reinsurance commission | **5,198,133** | **-** | **5,198,133** |
| **Total insurance operations financial liabilities** | **239,024,449** | **-** | **239,024,449** |

**As at December 31, 2011**

| | Less than 12 months | More than 12 months | Total |
|---|---|---|---|
| **Insurance operations financial assets** | | | |
| Insurance premium receivable | 57,259,911 | - | 57,259,911 |
| Reinsurers' share of unearned premium | 74,893,102 | - | 74,893,102 |
| Reinsurers' share of outstanding claims | 45,360,562 | - | 45,360,562 |
| Accrued commission income | 111,964 | - | 111,964 |
| Cash and cash equivalents | 137,715,642 | - | 137,715,642 |
| **Total insurance operations financial assets** | 315,341,181 | - | 315,341,181 |

| | Less than 12 months | More than 12 months | Total |
|---|---|---|---|
| **Insurance operations financial liabilities** | | | |
| Reinsurance balances payable | 52,450,505 | - | 52,450,505 |
| Accrued expenses and other liabilities | 23,190,066 | - | 23,190,066 |
| Unearned premium | 137,803,035 | - | 137,803,035 |
| Outstanding claims | 95,090,233 | - | 95,090,233 |
| Unearned reinsurance commission | 4,860,735 | - | 4,860,735 |
| **Total insurance operations financial liabilities** | 313,394,574 | - | 313,394,574 |

**As at December 31, 2012**

| | **Less than 12 months** | **More than 12 months** | **Total** |
|---|---|---|---|
| **Shareholders' financial assets** | | | |
| Statutory deposit | **-** | **20,000,000** | **20,000,000** |
| Accrued commission income | **1,167,878** | **-** | **1,167,878** |
| Short term deposits | **26,475,994** | **-** | **26,475,994** |
| Cash and cash equivalents | **60,000,000** | **-** | **60,000,000** |
| Other financial assets | **58,300,506** | **6,500,000** | **64,800,506** |
| **Total shareholders' financial assets** | **145,944,378** | **26,500,000** | **172,444,378** |
| **Shareholders' financial liabilities** | | | |
| Accrued expenses and other liabilities | **2,511,712** | **-** | **2,511,712** |
| **Total shareholders' financial liabilities** | **2,511,712** | **-** | **2,511,712** |

As at December 31, 2011

| | Less than 12 months | More than 12 months | Total |
|---|---|---|---|
| **Shareholders' financial assets** | | | |
| Statutory deposit | - | 20,000,000 | 20,000,000 |
| Accrued commission income | 757,940 | - | 757,940 |
| Short term deposits | 40,000,000 | - | 40,000,000 |
| Cash and cash equivalents | 26,272,575 | - | 26,272,575 |
| Other financial assets | 44,896,722 | 6,500,000 | 51,396,722 |
| **Total shareholders' financial assets** | 111,927,237 | 26,500,000 | 138,427,237 |
| | Less than 12 months | More than 12 months | Total |
| **Shareholders' financial liabilities** | | | |
| Accrued expenses and other liabilities | 838,903 | - | 838,903 |
| **Total shareholders' financial liabilities** | 838,903 | - | 838,903 |

**Market price risk**

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

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

**Commission rate risk**

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on certain of its cash and balances with banks. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its cash and investments are denominated. The effective commission rate at the year end was 1.1% (2011: 0.83%).

All commission bearing financial instruments as at the year end have a maturity of less than 1 year except for bond investment held to maturity.
The sensitivity of the statement of the shareholders' operations is the approximate effect of the assumed changes in commission rates on the Company's loss for the year, based on the floating rate financial assets held a December 31, 2012.

The sensitivity of the statement of shareholders' operations to a decrease in commission rate of 10 basis points (reasonably possible changes), with all other variables held constant, will have an effect of decrease in profits by Saudi Riyal 0.17 million (2011: increase in loss by Saudi Riyal 0.14 million).

**Foreign currency risk**

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

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

## 23 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

**Categories of financial instruments**

**a) Insurance operations**

| | **2012** | 2011 |
|---|---|---|
| **Financial assets** | | |
| Insurance premium receivables | **62,065,879** | 57,259,911 |
| Reinsurers' share of unearned premium | **44,284,121** | 74,893,102 |
| Reinsurers' share of outstanding claims | **46,153,014** | 45,360,562 |
| Accrued commission income | **77,903** | 111,964 |
| Due from affiliates | **1,871,945** | - |
| Cash and cash equivalents | **81,786,405** | 137,715,642 |
| | **236,239,267** | 315,341,181 |
| **Financial liabilities** | | |
| Unearned premium | **91,115,733** | 137,803,035 |
| Outstanding claims | **107,273,881** | 95,090,233 |
| Unearned reinsurance commission | **5,198,133** | 4,860,735 |
| Reinsurance balances payable | **8,197,770** | 52,450,505 |
| Accrued expenses and other liabilities | **27,238,932** | 23,190,066 |
| | **239,024,449** | 313,394,574 |

**b) Shareholders' operations**

| | 2012 | 2011 |
|---|---|---|
| **Financial assets** | | |
| Other financial assets | **64,800,506** | 51,396,722 |
| Accrued income | **1,167,878** | 757,940 |
| Short term deposits | **26,475,994** | 40,000,000 |
| Cash and cash equivalents | **60,000,000** | 26,272,575 |
| | **152,444,378** | 118,427,237 |
| **Financial liabilities** | | |
| Accrued expenses and other liabilities | **2,511,712** | 838,903 |
| | **2,511,712** | 838,903 |

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

The fair values of financial instruments are carried at cost, are not materially different from their carrying values. The Company uses the following hierarchy for determining and disclosing the fair values of available for sale investments as well as advances by a valuation technique

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

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

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

**As at December 31, 2012**

| | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| **Financial instruments** | | | | |
| **Held to maturity** | | | | |
| Debt securities | - | 6,500,000 | - | **6,500,000** |
| **Investments available for sale** | | | | |
| Equity securities | 55,077,428 | - | 2,723,078 | **57,800,506** |
| **Advances** | | | | |
| Loan | - | - | 500,000 | **500,000** |
| **Total** | **55,077,428** | **6,500,000** | **3,223,078** | **64,800,506** |

As at December 31, 2011

| Financial instruments | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| **Held to maturity** | | | | |
| Debt securities | - | 6,500,000 | - | 6,500,000 |
| **Investments available for sale** | | | | |
| Equity securities | 41,623,644 | - | 2,723,078 | 44,346,722 |
| **Advances** | | | | |
| Loan | - | - | 550,000 | 550,000 |
| Total | 41,623,644 | 6,500,000 | 3,273,078 | 51,396,722 |

During the year, there were no transfers into or out of level 3.

## 24. Earnings per share

Basic and diluted earnings per share from shareholders' operations is calculated by dividing net income for the year by weighted average number of ordinary shares outstanding during the year.

Basic and diluted earnings per share from shareholders' comprehensive operations is calculated by dividing total comprehensive income for the year by weighted average number of ordinary shares outstanding during the year.

## 25. Contingencies

During 2011, one of the Company's agents filed a law suit of Saudi Riyal 74.7 million against the Company towards unsubstantiated amounts and damages as a result of alleged breach of agreement. Management, after seeking legal opinion believes that the outcome of this case in plaintiff's favour is remote as there is no valid base for this case, accordingly no provision has been made.

## 26. Comparative figures

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

## 27. Approval of the financial statements

The financial statements have been approved by the Board of Directors on February 18, 2013.