THE COMPANY FOR COOPERATIVE INSURANCE

(A SAUDI JOINT STOCK COMPANY)

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

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(A SAUDI JOINT STOCK COMPANY)

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

KPMG Al Fozan & Al Sadhan

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INDEPENDENT AUDITORS' REPORT

To the shareholders of The Company for Cooperative Insurance

SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of The Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at December 31, 2012, and the related statements of income - insurance operations and accumulated surplus and cash flows for insurance operations, statements of comprehensive income and cash flows for shareholders' operations and statement of changes in shareholders' equity for the year then ended and notes 1 to 35 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 International Financial Reporting Standards, the provision of Article 123 of the Regulation for Companies and the Company's By-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

UNQUALIFIED OPINION:

In our opinion the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Company as at 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 with the requirements of the Regulation for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

EMPHASIS OF MATTER:

We draw attention to the fact that these financial statements are prepared in accordance with IFRS and not in accordance with the Accounting Standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

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February 10, 2013

KPMG Certified Public Accountants KPMG Al Fozan & Al Sadhan C.R. 46

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31

	Notes	2012	2011
		SR '000	
ASSETS - INSURANCE OPERATIONS			
Property and equipment, net	4	**235,787**	176,817
Investment property		**9,861**	9,861
Investments in associates	5	**105,487**	103,317
Available for sale investments	6	**1,702,569**	1,899,487
Prepaid expenses and other assets	7	**284,534**	188,438
Deferred policy acquisition costs	8	**179,493**	163,461
Reinsurers' share of outstanding claims, net	8,9	**598,050**	739,421
Reinsurers' share of unearned premium	8	**524,777**	510,517
Receivables, net	10	**1,863,276**	1,317,120
Cash and cash equivalents	12	**473,239**	143,231
Total insurance operations' assets		**5,977,073**	5,251,670
ASSETS - SHAREHOLDERS			
Due from insurance operations		**35,597**	74,914
Accrued investment income		**9,536**	4,825
Investments in associates	5	**53,790**	52,619
Available for sale investments	6	**1,944,067**	1,814,301
Statutory deposit	11	**75,000**	75,000
Cash and cash equivalents	12	**122,781**	110,524
Total shareholders' assets		**2,240,771**	2,132,183
TOTAL ASSETS		**8,217,844**	7,383,853

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION (Continued)
AS AT DECEMBER 31

	Notes	2012	2011
		SR'000	
LIABILITIES AND SURPLUS - INSURANCE OPERATIONS			
Liabilities - Insurance operations:			
Surplus distribution payable		**27,201**	47,365
Due to shareholders' operations		**35,597**	74,914
Accrued expenses and other liabilities	14	**1,241,171**	870,131
Reserve for takaful activities		**13,730**	15,043
Reserve for discontinued operations	15	**11,402**	6,982
Outstanding claims	8,16	**1,161,282**	1,228,592
Unearned commission income	8	**68,751**	72,802
Unearned premiums	8	**2,969,711**	2,405,640
Reinsurers' balances payable		**381,591**	491,691
Total insurance operations' liabilities		**5,910,436**	5,213,160
Surplus - Insurance operations:			
Fair value reserve on investments		**66,637**	38,510
Total liabilities and surplus - Insurance operations		**5,977,073**	5,251,670
LIABILITIES AND EQUITY - SHAREHOLDERS			
Liabilities - Shareholders:			
Accrued expenses and other liabilities		**858**	627
Dividends payable		**5,368**	4,448
Zakat	17	**91,607**	78,250
Total liabilities - Shareholders		**97,833**	83,325
Shareholders' equity:			
Share capital	18	**750,000**	750,000
Legal reserve	19	**651,756**	587,812
Fair value reserve on investments		**198,418**	160,159
Retained earnings		**542,764**	550,887
Total Shareholders' equity		**2,142,938**	2,048,858
Total Shareholders' liabilities and equity		**2,240,771**	2,132,183
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**8,217,844**	7,383,853

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
YEARS ENDED DECEMBER 31

	Notes	2012	2011
		SR'000	
REVENUES			
Gross premiums written		**5,634,638**	4,431,153
Less: Reinsurance ceded		**(1,133,638)**	(995,218)
Net premiums written	8	**4,501,000**	3,435,935
Changes in unearned premiums		**(549,811)**	(337,872)
Net premiums earned	8	**3,951,189**	3,098,063
Reinsurance commissions	8	**241,425**	143,981
Investment income, net	21	**57,538**	43,943
Other income		**5,973**	7,205
Total revenues		**4,256,125**	3,293,192
COSTS AND EXPENSES			
Gross claims paid		**3,661,876**	3,119,295
Less: Reinsurance share		**(504,228)**	(802,869)
Net claims paid	8	**3,157,648**	2,316,426
Changes in outstanding claims		**74,061**	(221,126)
Net claims incurred	8	**3,231,709**	2,095,300
Policy acquisition costs	8	**360,035**	322,328
Excess of loss expenses		**70,224**	91,518
Changes in reserves for Takaful activities		**(1,313)**	(195)
Other underwriting expenses		**82,492**	76,364
Impairment charges for investments	6	**3,541**	1,657
Operating and selling expenses	22	**187,765**	179,886
Other general and administrative expenses	22	**49,658**	52,684
Total costs and expenses		**3,984,111**	2,819,542
Surplus from insurance operations		**272,014**	473,650
Shareholders' appropriation from surplus	1	**(244,813)**	(426,285)
Surplus from insurance operations after shareholders' appropriation		**27,201**	47,365
Distribution of surplus	1	**(27,201)**	(47,365)
ACCUMULATED SURPLUS, END OF THE YEAR		**-**	-

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS
YEARS ENDED DECEMBER 31

	Notes	2012	2011
		SR'000	
Appropriation of surplus from insurance operations	1	**244,813**	426,285
Investment income, net	21	**110,503**	48,790
Other income		**360**	1,088
Other expenses		**(1,061)**	(1,040)
Impairment charges for investments	6	**(3,144)**	(1,234)
Income from operations before Zakat		**351,471**	473,889
Zakat	17	**(31,750)**	(34,829)
Net income for the year		**319,721**	439,060
Other comprehensive income:			
Change in fair value of investments		**38,259**	(7,106)
Comprehensive income for the year		**357,980**	431,954
Earnings per share:			
Basic and diluted earnings per share (SR)	23	**4.26**	5.85
Weighted average number of shares in issue		**75,000,000**	75,000,000

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	Share capital	Legal reserve	Fair value reserve on investments	Retained earnings	Total
				SR '000		
Balance at January 1, 2011		500,000	500,000	167,265	601,739	1,769,004
Dividends	13	-	-	-	(150,000)	(150,000)
Issuance of Bonus Shares		250,000	-	-	(250,000)	-
Board of Directors' remuneration	25	-	-	-	(2,100)	(2,100)
Net income for the year		-	-		439,060	439,060
Other comprehensive loss for the year		-	-	(7,106)	-	(7,106)
Transfer to legal reserve		-	87,812	-	(87,812)	-
Balance at December 31, 2011		750,000	587,812	160,159	550,887	2,048,858
Balance at January 1, 2012		**750,000**	**587,812**	**160,159**	**550,887**	**2,048,858**
Dividends	13	-	-	-	**(262,500)**	**(262,500)**
Board of Directors' remuneration	25	-	-	-	**(1,400)**	**(1,400)**
Net income for the year		-	-	-	**319,721**	**319,721**
Other comprehensive income for the year		-	-	**38,259**	-	**38,259**
Transfer to legal reserve		-	**63,944**	-	**(63,944)**	-
Balance at December 31, 2012		**750,000**	**651,756**	**198,418**	**542,764**	**2,142,938**

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS
YEARS ENDED DECEMBER 31

	2012	2011
	SR'000	
Cash flows from operating activities:		
Surplus from insurance operations after shareholders' appropriation	**27,201**	47,365
Adjustments to reconcile surplus from insurance operations after shareholders' appropriation to net cash from operating activities:		
Shareholders' appropriation from surplus	**244,813**	426,285
Depreciation	**14,132**	16,055
Impairment charges for investments	**3,541**	1,657
Bond premium amortization, net	**-**	937
Gain on sale of investments	**(13,737)**	(10,864)
Share of profit from investments in associates, net	**(10,581)**	(8,132)
Operating surplus after shareholders' appropriations and before changes in operating assets and liabilities	**265,369**	473,303
Changes in operating assets and liabilities:		
Receivables, net	**(546,156)**	(29,863)
Reinsurers' share of outstanding claims	**141,371**	237,967
Reinsurers' share of unearned premium	**(14,260)**	136,420
Deferred policy acquisition costs	**(16,032)**	(7,532)
Prepaid expenses and others assets	**(96,096)**	21,855
Reinsurers' balances payable	**(110,100)**	(272,200)
Unearned premium income	**564,071**	201,452
Unearned commission income	**(4,051)**	10,533
Outstanding claims	**(67,310)**	(459,093)
Reserve for discontinued operations	**4,420**	(2,343)
Reserve for Takaful activities	**(1,313)**	(195)
Accrued expenses and other liabilities	**371,040**	14,894
Due to shareholders	**(284,130)**	(361,523)
Net cash from / (used in) operating activities	**206,823**	(36,325)
Cash flows from investing activities:		
Proceeds from sale and matured investments	**883,276**	2,239,901
Purchase of investments	**(648,624)**	(2,114,147)
Property and equipment, net	**(73,102)**	(46,015)
Dividends received from investments in associates	**9,000**	4,000
Net cash from investing activities	**170,550**	83,739
Cash flows from financing activities		
Surplus paid to policyholders	**(47,365)**	(52,561)
Net cash used in financing activities	**(47,365)**	(52,561)
Net change in cash and cash equivalents	**330,008**	(5,147)
Cash and cash equivalents, beginning of year	**143,231**	148,378
Cash and cash equivalents, end of year	**473,239**	143,231
Non-cash supplemental information:		
Change in fair value of investments	**28,127**	(771)

The accompanying notes 1 to 35 form an integral part of these financial statements.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS - SHAREHOLDERS
YEARS ENDED DECEMBER 31

	2012	2011
	SR'000	
Cash flows from operating activities:		
Net income for the year	**319,721**	439,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Appropriation of surplus from insurance operations	**(244,813)**	(426,285)
Gain on sale of investments	**(70,010)**	(18,453)
Bond discount accretion	**-**	39
Impairment charges for investments	**3,144**	1,234
Share of profit from investments in associates, net	**(12,276)**	(8,488)
Operating loss before changes in operating assets and liabilities	**(4,234)**	(12,893)
Changes in operating assets and liabilities:		
Accrued investment income	**(4,711)**	488
Due from insurance operations	**284,130**	361,523
Accrued expenses and other liabilities	**231**	(29)
Zakat	**13,357**	20,473
Net cash from operating activities	**288,773**	369,562
Cash flows from investing activities:		
Statutory deposit	**-**	(25,000)
Proceeds from sale and matured investments	**1,144,623**	1,338,084
Purchase of investments	**(1,169,342)**	(1,444,530)
Dividends received from investments in associates	**11,183**	7,397
Net cash used in investing activities	**(13,536)**	(124,049)
Cash flows from financing activities:		
Dividends paid	**(261,580)**	(149,802)
Board of Directors' remuneration	**(1,400)**	(2,100)
Net cash used in financing activities	**(262,980)**	(151,902)
Net change in cash and cash equivalents	**12,257**	93,611
Cash and cash equivalents, beginning of year	**110,524**	16,913
Cash and cash equivalents, end of year	**122,781**	110,524
Non-cash supplemental information:		
Change in fair value of investments	**38,259**	(7,106)

The accompanying notes 1 to 35 form an integral part of these financial statements.

1. GENERAL

The Company for Cooperative Insurance (the "Company") is a Saudi joint stock company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/5 and incorporated on January 18, 1986 corresponding to Jumad Awal 8, 1406H under Commercial Registration No. 1010061695. The Company's head office is located on King Fahad Road, P.O. Box 86959, Riyadh 11632, Kingdom of Saudi Arabia.

The Company is listed on Tadawul. The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation, takaful and casualty insurance.

On July 31, 2003 corresponding to Jumad Thani 2, 1424H the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On December 1, 2004 corresponding to Shawal 18, 1425H, the Saudi Arabian Monetary Agency ("SAMA") as the principal agency responsible for the application and administration of the Insurance Law and its implementing regulations, granted the Company a license to transact insurance activities in Saudi Arabia.

The Company conducts the business and advances funds to the insurance operations as required. On January 20, 2004, the Company amended its Articles of Association giving authority to the Board of Directors to determine the disposition of the surplus from insurance operations.

On March 20, 2004, the Board of Directors approved the disposition of the surplus from insurance operations in accordance with the implementing regulations issued by the SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%.

2. BASIS OF PREPARATION

a) Statement of compliance

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

The Company's Articles of Association require that separate accounts be maintained for Insurance and Shareholders' operations. Income and expenses clearly attributable to either activity are recorded in the respective accounts. All common expenses are allocated to the operations consistently on the basis determined and approved by the management.

b) Basis of measurement

These financial statements are prepared under the historical cost basis except for the measurement of fair value of available for sale investments.

c) Functional and presentation currency

These financial statements have been presented in Saudi Riyals, which is also the functional currency of the Company. All financial information presented in Saudi Riyal has been rounded to the nearest thousand, except where otherwise indicated.

2. BASIS OF PREPARATION (Continued)

d) Fiscal year

The Company follows a fiscal year ending December 31.

e) Critical accounting judgments, estimates and assumptions

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

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

Further details of the specific estimate and judgments made by management are given in the accounting policies. Following are the critical areas of estimation and judgments:

(i) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The Company acquires services of independent actuary to determine such claims.

(ii) Impairment of available-for-sale equity financial assets

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

(iii) Impairment of receivables

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2011 except for the adoption of IFRS 7 – Financial Instruments: Disclosure (amendment) which had no financial impact on the financial statements of the Company.

The significant accounting policies used in preparing these financial statements are set out below:

a) Revenue Recognition

Recognition of premium and commission revenue

Premiums and commission are taken into statement of income over the terms of the policies to which they relate on a pro-rata basis. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents the premium written during the last three months of the current financial year.

Investment income

Investment income is recognized on an effective yield basis taking account of the principal outstanding and the commission rate applicable. Income from investments is principally earned from bonds, sukuks, local and foreign equity funds and investments in shares.

Dividend income

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

b) Insurance contracts

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

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.

c) Claims

Gross claims consists of benefits and claims paid to policyholders and third parties, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Claims (Continued)

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of income - insurance operations for that year.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

d) Salvage and subrogation reimbursement

Some insurance contracts permit the Company to sell (usually damaged) asset acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the outstanding claims liability. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the outstanding claims liability. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

e) Reinsurance

In the ordinary course of business, the Company cedes insurance premium and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of insurance operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Reinsurance (Continued)

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

f) Deferred policy acquisition costs

Commissions and other costs of acquiring insurance contracts that are primarily related to securing new contracts and renewing existing contracts are capitalized as an intangible asset and are subsequently amortized over the life of the contract on a basis consistent with the term of the related policy coverage.

g) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance 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 income - insurance operations initially by writing off 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.

h) Insurance contracts with discretionary participation feature (DPF)

Premiums that have participated in the earnings of a financial year (January-December) qualify discretionarily for surplus distribution. However, in the case of marine cargo, the earned portion is the premium written between October of the previous year up to September of the current year while the unearned portion is the premium written during the last three months of the current financial year. Some policies with certain conditions are excluded from the distribution including those policies with a loss ratio of equal to or greater than 60%.

Distribution of surplus is calculated based on the earned premium after paid and outstanding claims have been deducted from each policy held by an insured in as much as the said earned premium relates to the given financial year

Surplus is paid to both, direct clients through the Company's regional offices, or to indirect clients via Brokers, Agents, and Banks. The regulations provide that the payment to the client, Broker, Agent, or Bank of the share of the surplus is subject to the settlement of all due outstanding premiums, irrespective of the year to which such premium relates.

This provision stipulates the offset of any client's, Broker, Agent, or Bank's share of surplus against such due outstanding premiums.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Receivables

Accounts receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of income - insurance operations. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Receivables arising from reinsurance contracts and administrative service plan are also classified in this category along with premium receivables and are reviewed for impairment as part of the impairment review of receivables.

j) Investments

All investments excluding those held at fair value through profit and loss (if any) are initially recognized at cost, being the fair value of the consideration given including transaction cost associated with the investment.

The Company classifies its principal investments as Available for Sale (AFS).

AFS financials assets are non-derivative financial assets that are either designated in this category or not classified as held for trading or held to maturity. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction cost and subsequently measured at fair value. Cumulative changes in fair value of investments are shown as a separate component in the insurance operations' surplus or shareholders' equity. Realized gains or losses on sale of these investments are reported in the related statements of income - insurance operations or statement of comprehensive income - shareholders. Dividends, commission income and foreign currency gain/loss on AFS investments are recognized at the related statements of income - insurance operations or statement of comprehensive income – shareholders, as part of the net investment income / loss.

Any permanent decline in value of investments is adjusted for and reported in the related statement of income - insurance operations statement of comprehensive income – shareholders, as impairment charges. Fair values of investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values..

k) Derivative financial instruments

Any changes in the fair values of derivatives that are held for trading purposes are taken directly to the statement of income - insurance operations or statement of comprehensive income - shareholders and are included in other assets, if positive, or in other liabilities, if negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and other pricing models, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Investments in associates

Associates represent companies where 20% to 50% of the outstanding shares are owned by the Company or the Company has significant influence but not control over the associate's operation. Investments in associates are accounted for using the equity method and are initially recognized at cost.

The Company's share of its associates' post acquisition profits or losses is recognized in the related statement of income - insurance operations or statement of comprehensive income – shareholders, using the most recent available financial statements. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the Company's financial position date, adjustments are made for the effects of significant transactions or events, if any, that occurs between the date of the investee financial statements and the Company's financial position date.

m) De-recognition of financial instruments

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

n) Offsetting

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

o) 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 are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

p) Impairment of financial assets

An assessment is made at each financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets (including insurance receivables) may be impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amounts as follows:

- For assets carried at fair value, impairment is the significant or prolong decline in the fair value from the cost.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Impairment of financial assets (Continued)

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

For presentation purposes, the resulting reserve is carried in the respective category within the statement of financial position and the related statement of income - insurance operations or statement of comprehensive income – shareholders are adjusted.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
  - adverse changes in the payment status of issuers or debtors in the Company; or
  - national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

q) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Years
Buildings	33
Furniture and fixtures	10
Computer equipment	4
Vehicles	4

The assets' residual values and useful lives are reviewed at each financial position date 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 and are included in the statement of income - insurance operations under other operating income.

r) Investment property

Investment property represents a land that is held for capital appreciation purposes. Land is stated at cost less any recognized impairment loss, if any.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, land – are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

t) Employees' end-of-service benefits

Employees' end-of-service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labor Regulations on termination of their employment contracts. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of Saudi Arabia. The Company also maintains an employees' savings plan that allows specific saving percentages from employees' salaries, with contributions by the Company.

u) Provisions

A provision for incurred liabilities is recognized when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

v) Zakat

The Company is subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). Zakat is accrued and charged to the statement of comprehensive income - shareholders.

w) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks including call and time deposits with less than three months maturity from the date of acquisition.

x) Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income - insurance operations or statement of comprehensive income - shareholders. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

y) Operating segments

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

- Medical - for health insurance.
- Motor insurance.
- Property & Casualty - for property and casualty, engineering, marine, aviation, energy and general accidents insurance.

Operating segments do not include shareholders' operations of the Company.

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

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

z) Seasonality of operations

There are no seasonal changes that affect insurance operations.

4. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Furniture and fixtures	Computer equipment	Vehicles	Capital Work in progress	**Total 2012**	Total 2011
				SR'000				
Cost:								
January 1	**90,192**	**16,304**	**56,678**	**68,820**	**766**	**47,654**	**280,414**	234,399
Additions	**-**	**-**	**4,607**	**10,676**	**120**	**57,759**	**73,162**	46,015
Disposals	**-**	**-**	**(626)**	**(5,105)**	**-**	**-**	**(5,731)**	-
December 31	**90,192**	**16,304**	**60,659**	**74,391**	**886**	**105,413**	**347,845**	280,414
Accumulated Depreciation:								
January 1	**-**	**1,475**	**47,575**	**53,821**	**726**	**-**	**103,597**	87,542
Charge for the year	**-**	**493**	**4,612**	**8,982**	**45**	**-**	**14,132**	16,055
Eliminated on disposals	**-**	**-**	**(579)**	**(5,092)**	**-**	**-**	**(5,671)**	-
December 31	**-**	**1,968**	**51,608**	**57,711**	**771**	**-**	**112,058**	103,597
Net book value								
December 31, 2012	**90,192**	**14,336**	**9,051**	**16,680**	**115**	**105,413**	**235,787**	-
December 31, 2011	90,192	14,829	9,103	14,999	40	47,654	-	176,817

5. INVESTMENTS IN ASSOCIATES

i) Insurance Operations:

	2012	2011
	SR'000	
Balance, January 1	**103,317**	99,655
Share of profit, net (note 21)	**10,581**	8,132
Dividends received	**(9,000)**	(4,000)
Unrealized gain / (loss) on investments	**589**	(470)
Balance, December 31	**105,487**	103,317

The Company's interest in its associates, all of which are unquoted is as follows; not adjusted for the percentage ownership:

a) The Cooperative Real Estate & Investment Co.

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SR'000		
September 30, 2012	**Saudi Arabia**	**324,211**	**23,393**	**19,353**	**20,050**	**33%**
September 30, 2011	Saudi Arabia	324,190	24,299	18,737	19,809	33%

b) Najm Insurance Services

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit/ (Loss)	% Interest Held
				SR'000		
September 30, 2012	**Saudi Arabia**	**66,967**	**29,023**	**29,266**	**4,759**	**8%**
September 30, 2011	Saudi Arabia	47,913	31,417	19,437	(137)	8%

The Company has 8% interest in Najm Insurance Services. The Company has significant influence over the financial and operating policy decision by way of representation on its board of directors.

5. INVESTMENTS IN ASSOCIATES (Continued)

ii) Shareholders:

	2012	2011
	SR'000	
Balance, January 1	**52,619**	52,959
Share of profit, net (note 21)	**12,276**	8,488
Dividends received	**(11,183)**	(7,397)
Unrealized gain / (loss) on investments	**78**	(1,431)
Balance, December 31	**53,790**	52,619

The Company's interests in its associates, all of which are unquoted are as follows; not adjusted for the percentage ownership:

a) United Insurance Company

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SR'000		
November 30, 2012	Bahrain	**160,095**	**66,495**	**48,714**	**17,885**	**50%**
November 30, 2011	Bahrain	158,603	61,690	39,502	15,532	50%

b) Waseel Application Services Provider

As of	Country of Incorporation	Assets	Liabilities	Revenue	Profit	% Interest Held
				SR'000		
November 30, 2012	Saudi Arabia	**15,989**	**2,892**	**12,788**	**7,039**	**45%**
November 30, 2011	Saudi Arabia	9,472	1,832	8,157	4,244	45%

6. AVAILABLE FOR SALE INVESTMENTS

i) Insurance operations:

Available for sale investments of the insurance operations are comprised of the following:

	2012	2011
	SR'000	
Local / Regional Money Market and Fixed Income Investments	**1,409,674**	1,634,332
Local / Regional Equity and Equity Funds	**220,249**	200,485
Foreign Equity and Equity Funds	**72,646**	64,670
Total	**1,702,569**	1,899,487

Movements in available for sale investments are as follows:

	Quoted securities	Unquoted securities	Total
		SR'000	
As at January 1, 2011	516,770	-	516,770
Purchases / transfers	1,664,244	26,038	1,690,282
Disposals	(301,583)	-	(301,583)
Impairment charges on investments	(1,657)	-	(1,657)
Changes in fair value of investments	(4,325)	-	(4,325)
As at December 31, 2011	1,873,449	26,038	1,899,487
As of January 1, 2012	**1,873,449**	**26,038**	**1,899,487**
Purchases	**622,487**	**26,137**	**648,624**
Disposals	**(817,364)**	**(52,175)**	**(869,539)**
Impairment charges on investments	**(3,541)**	**-**	**(3,541)**
Changes in fair value of investments	**27,538**	**-**	**27,538**
As at December 31, 2012	**1,702,569**	**-**	**1,702,569**

The above available for sale investments include impaired investments of SR 50.65 million (2011: SR 51.43 million).

6. AVAILABLE FOR SALE INVESTMENTS (Continued)

ii) Shareholders:

Shareholders' available for sale investments are comprised of the following:

	2012	2011
	SR'000	
Local / Regional Money Market and Fixed Income Investments	**884,256**	676,298
Local / Regional Equity and Equity Funds	**213,008**	317,086
Foreign Money Market and Fixed Income Investments	**329,116**	312,125
Foreign Equity and Equity Funds	**517,687**	508,792
Total	**1,944,067**	1,814,301

Movements in available for sale investments are as follows:

	Quoted securities	Unquoted securities	Total
		SR'000	
As at January 1, 2011	957,837	256,562	1,214,399
Purchases / transfers	1,165,822	20,896	1,186,718
Disposals	(530,105)	(40,702)	(570,807)
Impairment charges on investments	(1,234)	-	(1,234)
Changes in fair value of investments	(15,745)	970	(14,775)
As at December 31, 2011	1,576,575	237,726	1,814,301
As at January 1, 2012	**1,576,575**	**237,726**	**1,814,301**
Purchases / transfers	**1,154,572**	**14,770**	**1,169,342**
Disposals	**(1,012,301)**	**(62,312)**	**(1,074,613)**
Impairment charges on investments	**(3,144)**	**-**	**(3,144)**
Changes in fair value of investments	**21,308**	**16,873**	**38,181**
As at December 31, 2012	**1,737,010**	**207,057**	**1,944,067**

The above available for sale investments include impaired investments of SR 160.76 million (2011: SR 207.75 million).

7. PREPAID EXPENSES AND OTHER ASSETS

Insurance operations	**2012**	2011
	SR'000	
Prepaid expenses	**67,470**	55,066
Other assets	**217, 064**	133,372
Total prepaid expenses and other assets	**284,534**	188,438

8. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS

a) Deferred policy acquisition costs

	2012	2011
	SR'000	
Balance, January 1	**163,461**	155,929
Capitalised during the year	**376,067**	329,860
Amortized during the year	**(360,035)**	(322,328)
Balance, December 31	**179,493**	163,461

b) Unearned commission income

	2012	2011
	SR'000	
Balance, January 1	**72,802**	62,269
Commission received during the year	**237,374**	154,514
Commission earned during the year	**(241,425)**	(143,981)
Balance, December 31	**68,751**	72,802

c) Unearned premiums

	2012	2011
	SR'000	
Balance, net January 1	**1,895,123**	1,557,251
Net premiums written	**4,501,000**	3,435,935
Net premiums earned	**(3,951,189)**	(3,098,063)
Balance, net December 31	**2,444,934**	1,895,123
Add: Reinsurer share of unearned premium	**524,777**	510,517
Unearned premiums - gross	**2,969,711**	2,405,640

8. MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED COMMISSION INCOME, UNEARNED PREMIUMS AND OUTSTANDING CLAIMS (Continued)

d) Outstanding claims

	2012			2011		
	Gross	**Due from reinsurers**	**Net**	Gross	Due from reinsurers	Net
		SR'000			SR'000	
Outstanding claims	**1,143,777**	**(739,421)**	**404,356**	1,499,194	(977,388)	521,806
Salvage and subrogation	**(82,923)**	**-**	**(82,923)**	(22,018)	-	(22,018)
Incurred but not reported	**167,738**	**-**	**167,738**	210,509	-	210,509
Balance, January 1	**1,228,592**	**(739,421)**	**489,171**	1,687,685	(977,388)	710,297
Claims paid	**(3,661,876)**	**504,228**	**(3,157,648)**	(3,119,295)	802,869	(2,316,426)
Claims incurred	**3,594,566**	**(362,857)**	**3,231,709**	2,660,202	(564,902)	2,095,300
Balance, December 31	**1,161,282**	**(598,050)**	**563,232**	1,228,592	(739,421)	489,171
Outstanding claims	**982,033**	**(598,050)**	**383,983**	1,143,777	(739,421)	404,356
Salvage and subrogation	**(164,857)**	**-**	**(164,857)**	(82,923)	-	(82,923)
Incurred but not reported	**344,106**	**-**	**344,106**	167,738	-	167,738
Total	**1,161,282**	**(598,050)**	**563,232**	1,228,592	(739,421)	489,171

9. REINSURERS' SHARE OF OUTSTANDING CLAIMS, NET

Reinsurers' share of outstanding claims is comprised of net amounts due from the following:

	2012	2011
	SR'000	
Reinsurers' share of insurance liabilities	**599,231**	740,598
Impairment provision	**(1,181)**	(1,177)
	598,050	739,421

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

Amounts due from reinsurers relating to claims already paid by the Company are included in receivables, net (Note 10).

10. RECEIVABLES, NET

Receivables of insurance operations are comprised of net amounts due from the following:

	2012	2011
	SR'000	
Policyholders	**1,579,286**	1,185,317
Agents	**275,178**	183,396
Related party (Note 25)	**2,258**	3,678
	1,856,722	1,372,391
Reinsurers' balance receivable	**85,597**	66,192
Administrative service plan	**24,184**	14,690
	1,966,503	1,453,273
Provision for doubtful debts	**(103,227)**	(136,153)
Total	**1,863,276**	1,317,120

As at December 31, 2012, receivables at nominal value of SR 103 million (2011: SR 136 million) were impaired. Movement in the allowance for impairment of receivables was as follows:

	2012	2011
	SR'000	
Balance, January 1	**136,153**	146,091
Reversal for the year	**(32,926)**	(9,938)
Balance, December 31	**103,227**	136,153

As at December 31, 2012, the ageing of unimpaired receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	30 - 60 days	60 - 90 days	Above 90 days	Past due and Impaired
			SR'000				
2012	**1,996,503**	**827,682**	**259,776**	**368,599**	**79,663**	**214,333**	**216,450**
2011	1,453,273	762,384	130,114	116,594	234,870	56,924	152,387

Receivables comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia as well as insurance companies and reinsurance companies mainly in Europe. Receivables include an amount of SR 235 million (2011: SR 190 million) due in foreign currencies, mainly in US dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of the transaction. Arrangements with reinsurers normally require settlement within a certain agreed period.

With the exception of balances amounting to SR 663 million (2011: SR 403 million) due from companies wholly or significantly owned by the Government and one major reinsurer of SR 16.5 million (2011: SR 13 million), no individual or company balances constitute more than 11% (2011: 12%) of the receivables as at December 31, 2012. In addition, the five largest non-Government customers account for 20% (2011: 21 %) of outstanding accounts receivable as at December 31, 2012.

11. STATUTORY DEPOSIT

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its Share capital, amounting to SR 75 million in a bank designated by SAMA. The statutory deposit is maintained with the National Commercial Bank and can be withdrawn only with the consent of SAMA.

12. CASH AND CASH EQUIVALENTS

i) Insurance operations:

	2012	2011
	SR'000	
Cash in hand and at banks	**309,869**	132,685
Call and time deposits	**163,370**	10,546
	473,239	143,231

ii) Shareholders:

	2012	2011
	SR'000	
Cash in hand and at banks	**5,368**	4,448
Call and time deposits	**117,413**	106,076
	122,781	110,524

13. INSURANCE OPERATIONS' SURPLUS AND DIVIDENDS DECLARED

Insurance Operations' surplus

The insurance operations' invests its surplus funds as disclosed in Note 5 and 6. All of these investments are classified as available for sale and measured at market value except for investments in associates. Changes in the fair value of these investments at December 31, 2012 are not considered as part of the net surplus available for distribution to policyholders. At the time such investments are sold or gains and losses are realized, they will be included in the statement of income - insurance operations and accumulated surplus.

Shareholders - dividends

Net income from shareholders' activities is distributed in accordance with the Articles of Association and resolutions of the General Assembly.The dividends paid in 2012 and 2011 for the years ended 2011 and 2010 were SR 262.5 million (SR 3.5 per share) and SR 150 million (SR 2 per share), respectively.

Proposed dividends declared after the fiscal year-end are disclosed in the notes to the financial statements rather than being reported as liabilities within the financial statements.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

Insurance Operations	2012	2011
	SR'000	
Payables to policyholders	**775,735**	449,208
Payable - department of zakat & income tax	**202,143**	188,698
Marketing representative commissions	**49,486**	66,303
Employee end of service benefits	**70,825**	62,275
Accrued expenses	**86,898**	41,065
Savings plan	**8,979**	8,294
Provision for leave encashment	**11,878**	5,342
Other liabilities	**35,227**	48,946
	1,241,171	870,131

15. RESERVE FOR DISCONTINUED OPERATIONS

The reserve for discontinued operations is comprised of the following in relation to one of the Company's divisions which was discontinued during 1998:

	2012	2011
	SR'000	
Outstanding claims	**3,326**	4,758
Reserve for losses	**8,076**	2,224
Total	**11,402**	6,982

The reserve for losses represents an estimate by management of the net losses which will arise from the run off of this business. The movement in the reserve for losses is set out below:

	2012	2011
	SR'000	
Balance, January 1	**2,224**	4,377
Net claims reported during the year	**2,629**	(1,165)
Addition / (reversal) from reserve for losses	**3,223**	(988)
Balance, December 31	**8,076**	2,224

The results of the discontinued operations are as follows:

	2012	2011
	SR'000	
Revenue	-	-
Cost and expenses		
Net claims incurred	**(2,629)**	1,165
Total costs and expenses	**(2,629)**	1,165
Recovery from discontinued operations	**2,629**	(1,165)

16. CLAIMS DEVELOPMENT TABLE

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims.

The Company aims to maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Claims triangulation analysis is by accident years spanning a number of financial years.

2012

Accident year	2007 & Earlier	2008	2009	2010	2011	2012	Total
				SR '000			
Estimate of ultimate claims cost:							
At the end of accident year	9,530,515	1,739,199	1,899,676	2,369,636	2,521,919	3,151,235	-
One year later	9,960,797	1,865,536	2,072,169	2,527,355	2,914,308	-	-
Two years later	9,885,027	1,792,399	2,047,818	2,488,796	-	-	-
Three years later	9,742,529	1,787,189	2,096,026	-	-	-	-
Four years later	9,835,250	1,755,782	-	-	-	-	-
Five years later	9,491,156	-	-	-	-	-	-
Current estimate of cumulative claims	9,491,156	1,755,782	2,096,026	2,488,796	2,914,308	3,151,235	21,897,303
Cumulative payments to date	(9,253,699)	(1,729,148)	(1,876,961)	(2,434,476)	(2,698,584)	(2,743,153)	(20,736,021)
Liability recognized in statement of financial position	237,457	26,634	219,065	54,320	215,724	408,082	**1,161,282**

16. CLAIMS DEVELOPMENT TABLE (Continued)

2011

Accident year	2006 & Earlier	2007	2008	2009	2010	2011	Total
				SR '000			
Estimate of ultimate claims cost:							
At the end of accident year	7,679,360	1,851,155	1,739,199	1,899,676	2,369,636	2,521,919	-
One year later	8,122,121	1,838,676	1,865,536	2,072,169	2,527,355	-	-
Two years later	8,263,866	1,621,161	1,792,399	2,047,818	-	-	-
Three years later	8,146,102	1,596,427	1,787,189	-	-	-	-
Four years later	8,248,000	1,587,250	-	-	-	-	-
Five years later	7,924,742	-	-	-	-	-	-
Current estimate of cumulative claims	7,924,742	1,587,250	1,787,189	2,047,818	2,527,355	2,521,919	18,396,273
Cumulative payments to date	(7,695,282)	(1,567,604)	(1,710,358)	(1,849,583)	(2,315,990)	(2,028,864)	(17,167,681)
Liability recognized in the statement of financial position	229,460	19,646	76,831	198,235	211,365	493,055	1,228,592

17. ZAKAT

The current year's provision is based on the following:

	2012	2011
	SR'000	
Share capital	**750,000**	750,000
Reserves, opening provisions and other adjustments	**1,176,450**	1,082,763
Book value of long term assets	**(1,010,642)**	(935,517)
	915,808	897,246
Zakatable income for the year	**354,173**	495,898
Zakat base	**1,269,981**	1,393,144

As the zakat base for the year is higher than the zakatable income, the zakat for the year is calculated at 2.5% on the zakat base for the year.

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

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

	2012	2011
	SR'000	
Balance, January 1	**78,250**	57,777
Provided during the year	**31,750**	34,829
Payments during the year	**(18,393)**	(14,356)
Balance, December 31	**91,607**	78,250

Status of Assessment

The Company has filed Zakat returns with the Department of Zakat and Income tax (DZIT) for the years from 2005 to 2011 but the final assessments have not been raised yet.

Status of Appeal

The Company has filed an appeal against the assessment of DZIT for the year 2005-2006 which is still pending.

18. SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SR 750 million at December 31, 2012 (2011: SR 750 million) consisting of 75 million shares of SR 10 each.

	2012		
	Authorized and issued		**Paid up**
	No. of Shares	**SR'000**	
Held by the public	**40,027,805**	**400,278**	**400,278**
Public Pension Agency	**17,842,611**	**178,426**	**178,426**
General Organization for Social Insurance	**17,129,584**	**171,296**	**171,296**
	75,000,000	**750,000**	**750,000**

	2011		
	Authorized and issued		Paid up
	No. of Shares	SR'000	
Held by the public	40,027,805	400,278	400,278
Public Pension Agency	17,842,611	178,426	178,426
General Organization for Social Insurance	17,129,584	171,296	171,296
	75,000,000	750,000	750,000

19. LEGAL RESERVE

In accordance with the Company's Articles of Association and in compliance with Article 70 (2g) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of its net income each year to the legal reserve until it has built up a reserve equal to the capital. The legal reserve is not available for distribution to shareholders until liquidation of the Company.

20. GROSS PREMIUMS AND HOLD-HARMLESS AGREEMENTS

The Company receives premiums from certain clients whereby substantial risk is ceded to re-insurers by the clients' brokers. The Company maintains hold-harmless agreements with these clients, whereby the Company is released from any responsibilities, liabilities or obligations that could result from these risks. In addition, these agreements hold the Company harmless against re-insurer insolvency and errors and omissions for the brokers' share of the cover. The amounts ceded under these agreements for the year ended December 31, 2012 totalled SR 222 million (2011: SR 185 million).

21. INVESTMENT INCOME, NET

	2012	2011
Insurance Operations	**SR'000**	
Available for sale:		
- Dividend income	**13,891**	3,142
- Commission income	**21,824**	1,861
- Foreign currency exchange	**(3)**	6
- Realized gain on sale (Note 29)	**13,737**	10,864
- Investment fees	**(2,492)**	(1,711)
Share of profit from investments in associates, net	**10,581**	8,132
Held to maturity:		
- Commission income	**-**	22,323
- Investment fees	**-**	(674)
Total investment income	**57,538**	43,943

	2012	2011
Shareholders		
Available for sale:		
- Dividend income	**8,293**	8,970
- Commission income	**23,185**	10,513
- Foreign currency exchange	**1,083**	89
- Realized gain on sale (Note 29)	**70,010**	18,454
- Investment fees	**(4,344)**	(4,395)
Share of profit from investments in associates, net	**12,276**	8,488
Held to maturity:		
- Commission income	**-**	6,752
- Investment fees	**-**	(81)
Total investment income	**110,503**	48,790

22. GENERAL, ADMINISTRATIVE AND SELLING AND MARKETING EXPENSES

a) Operating and selling expenses are comprised of the following for the years ended December 31:

	2012	2011
	SR'000	
Salaries and benefits	**173,642**	149,698
Advertising	**18,044**	15,356
Rent	**6,181**	6,324
Depreciation	**3,201**	4,284
Insurance, utilities and maintenance	**3,982**	3,239
Training and education	**3,543**	2,192
Communications	**3,038**	1,961
Office supplies and printing	**2,006**	1,947
Reversal of provision for doubtful receivables	**(32,926)**	(9,938)
Others	**7,054**	4,823
	187,765	179,886

b) Other general and administrative expenses are comprised of the following for the years ended December 31:

	2012	2011
	SR'000	
Depreciation	**10,058**	10,637
Rent	**4,883**	8,869
Training and education	**6,943**	5,660
Insurance, utilities and maintenance	**6,211**	5,532
Professional fees	**8,764**	4,603
Communications	**1,396**	3,847
Office supplies and printing	**3,604**	1,894
Others	**7,799**	11,642
	49,658	52,684

23. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2012 and 2011 have been calculated by dividing the net income for the year by 75 million shares.

24. REINSURANCE ASSETS

The reinsurers' share of insurance liabilities includes reinsurers' share of unearned premium and outstanding claims amounting to SR 1,123 million (2011: SR 1,250 million). The Company's accounting policies prohibit recognition of reinsurance gains on purchase of retroactive reinsurance contracts and require the recognition of the gain on a systematic and rational basis consistent with the development of the underlying reinsured liabilities. At year end, SR 86 million has been recognized (2011: SR 66 million) in the reinsurance balance. There are no assets arising from life reinsurance contracts held by the Company, as there has been no single event that has led to losses that qualify for reimbursement under the reinsurance covers. Amounts due from reinsurers in respect of claims already paid by the Company on the contracts that are reinsured are included in other receivables.

25. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of the major related party transactions during the year and the related balances at December 31:

	Amount of transactions for the year ended SR'000		Balance receivable / (payable) as at SR'000	
	2012	2011	**2012**	2011
Major shareholders				
Amount of claims to hospitals	**54,829**	57,500	**(2,497)**	(1,351)
Medical insurance premiums	**30,295**	31,122	**2,015**	2,777
Rent expenses	**6,709**	3,216	**(855)**	-
Stationery	**977**	474	**-**	-
Associates				
Insurance premiums	**446**	1,699	**243**	901
Rent expenses	**9,362**	11,430	**-**	-

In accordance with the Company's Articles of Association, the Board of Directors is entitled each year to remuneration up to 10% of the remaining profit from shareholders' operations, as defined, based on a decision by the General Assembly. Such remuneration will reflect in the statement of shareholders' equity when approved by the General Assembly.

25. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Remuneration and compensation of BOD Members and Top Executives

The following table shows the annual salaries, remuneration and allowances obtained by the Board members and five top executives for the year ended December 31, 2012 and 2011.

2012	**BOD members (Executives)**	**BOD members (Non-Executive) (SR'000)**	**Top Executives including the CEO and COO**
Salaries and compensation	**-**	**-**	**5,512**
Allowances	**72**	**351**	**1,758**
Annual remuneration	**330**	**2,370**	**3,186**
Total	**402**	**2,721**	**10,456**

2011	BOD members (Executives)	BOD members (Non-Executive) (SR'000)	Top Executives including the CEO and COO
Salaries and compensation	-	-	4,180
Allowances	160	888	1,602
Annual remuneration	200	1,595	5,269
Total	360	2,483	11,051

26. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables and accrued expenses.

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

The fair value of derivatives held by the Company as of December 31, 2012 and 2011 are immaterial to the Company's financial statements.

26. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy

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

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below presents the financial instruments at their fair values as at December 31, 2012 and 2011 and based on the fair value hierarchy:

	(SR'000)			
2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale financial assets				
- Policyholders	**1,361,944**	**-**	**340,625**	**1,702,569**
- Shareholders	**1,137,166**	**524,846**	**282,055**	**1,944,067**
Total	**2,499,110**	**524,846**	**622,680**	**3,646,636**
2011				
Available for sale financial assets				
- Policyholders	1,498,149	-	401,338	1,899,487
- Shareholders	1,048,357	478,218	287,726	1,814,301
Total	2,546,506	478,218	689,064	3,713,788

27. OPERATING SEGMENTS

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker. Operating segments do not include shareholders' operations of the Company.

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

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premium receivable and depreciation on the property and equipments) are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

	For the year ended December 31, 2012 (Audited)			
Operating Segments	**Medical**	**Motor**	**Property & casualty**	**Total**
		SR' 000		
Gross premiums written				
- Compulsory	2,806,465	-	-	-
- Non - Compulsory	713,522	-	-	-
Total Gross premiums written	3,519,987	1,167,739	946,912	5,634,638
Net premiums written	3,266,251	1,090,213	144,536	4,501,000
Net premiums earned	2,715,130	1,080,301	155,758	3,951,189
Reinsurance commissions	112,836	19,329	109,260	241,425
Net claims incurred	(2,447,109)	(732,063)	(52,537)	(3,231,709)
Policy acquisition costs	(145,858)	(163,387)	(50,790)	(360,035)
Excess of loss expenses	(37,209)	(14,440)	(18,575)	(70,224)
Changes in reserve for Takaful activities	1,313	-	-	1,313
Other underwriting expenses	(65,442)	(9,781)	(7,269)	(82,492)
General, administrative, selling and marketing expenses	(97,976)	(75,989)	(63,458)	(237,423)
Profit from Insurance Operations	35,685	103,970	72,389	212,044
Investment income, net				53,997
Other income, net				5,973
Surplus from Insurance Operations				272,014

27. OPERATING SEGMENTS (Continued)

	For the year ended December 31, 2011 (Audited)			
Operating Segments	Medical	Motor	Property & casualty	Total
		SR' 000		
Gross premiums written				
- Compulsory	2,035,183	-	-	-
- Non - Compulsory	468,957	-	-	-
Total Gross premiums written	2,504,140	1,114,690	812,323	4,431,153
Net premiums written	2,241,307	1,053,640	140,988	3,435,935
Net premiums earned	1,940,788	1,022,878	134,397	3,098,063
Reinsurance commissions	46,599	14,732	82,650	143,981
Net claims incurred	(1,391,568)	(661,580)	(42,152)	(2,095,300)
Policy acquisition costs	(116,809)	(165,517)	(40,002)	(322,328)
Excess of loss expenses	(70,465)	(6,321)	(14,732)	(91,518)
Changes in reserve for Takaful activities	195	-	-	195
Other underwriting expenses	(53,803)	(9,140)	(13,421)	(76,364)
General, administrative, selling and marketing expenses	(104,635)	(78,826)	(49,109)	(232,570)
Profit from Insurance Operations	250,302	116,226	57,631	424,159
Investment income, net				42,286
Other income, net				7,205
Surplus from Insurance Operations				473,650

27. OPERATING SEGMENTS (Continued)

	As at December 31, 2012			
	Medical	Motor	Property & casualty	Total
Assets - Insurance operations	SR '000			
Reinsurers' share of unearned premium	132,158	37,475	355,144	524,777
Reinsurers' share of outstanding claims, net	10,671	13,237	574,142	598,050
Deferred policy acquisition costs	71,560	83,984	23,949	179,493
Investments	-	-	-	1,817,917
Receivables, net	-	-	-	1,863,276
Unallocated assets	-	-	-	993,560
Total assets				5,977,073
Liabilities and surplus - Insurance operations				
Unearned premium income	1,947,081	560,458	462,172	2,969,711
Outstanding claims	471,118	19,795	670,369	1,161,282
Unearned commission income	8,602	10,939	49,210	68,751
Reserve for Takaful activities	13,730	-	-	13,730
Unallocated liabilities and surplus	-	-	-	1,763,599
Total liabilities and surplus				5,977,073

	As at December 31, 2011			
	Medical	Motor	Property & casualty	Total
Assets - Insurance operations	SR '000			
Reinsurers' share of unearned premium	143,720	29,569	337,228	510,517
Reinsurers' share of outstanding claims, net	59,455	15,815	664,151	739,421
Deferred policy acquisition cost	47,552	84,303	31,606	163,461
Investments	-	-	-	2,012,665
Receivables, net	-	-	-	1,317,120
Unallocated assets	-	-	-	508,486
Total assets				5,251,670
Liabilities and surplus - Insurance operations				
Unearned premium income	1,407,522	542,641	455,477	2,405,640
Outstanding claims	326,500	147,539	754,553	1,228,592
Unearned commission income	8,528	9,279	54,995	72,802
Reserve for Takaful activities	15,043	-	-	15,043
Unallocated liabilities and surplus	-	-	-	1,529,593
Total liabilities and surplus				5,251,670

28. RISK MANAGEMENT

(a) Insurance risk

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

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

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

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

The insurance claim liabilities are sensitive to the various assumptions mentioned in note 2. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognized, while significant enough deterioration in estimates is immediately recognized to make the liabilities adequate.

(b) Reinsurance risk

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

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

Reinsurers are selected using the following parameters and guidelines set by the Company's Board of Directors and Reinsurance Committee. The criteria may be summarized as follows:

28. RISK MANAGEMENT (Continued)

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

The exception to this rule is in respect of local companies who do not carry any such credit rating. This, however, is limited to those companies registered and approved by the Local Insurance Regulators.

Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company and matched against a list of requirements pre-set by the Company's Board of Directors and Reinsurance Committee before approving them for exchange of reinsurance business.

Except as described in Note 20, reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. As shown in Note 8, the Company has reduced its claims payable by the expected recoveries from reinsurers as at December 31, 2012 to SR 598 million (2011: SR 739 million). No single reinsurer accounts for more than 42.4% of these expected recoveries at December 31, 2012 (2011: 40%).

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The major concentration lies in medical.

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For flood or earthquake risk, a complete city is classified as a single location. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

Since the Company operates majorly in Saudia Arabia only, hence, all the insurance risks relate to policies written in Saudia Arabia.

28. RISK MANAGEMENT (Continued)

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the balance sheet date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims and technical reserves are given under note 3(c).

Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of balance sheet date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. However, the sensitivity to changes in claim liabilities net of reinsurance by 10 percent is analysed separately for each class of business while keeping all other assumptions constant.

28. RISK MANAGEMENT (Continued)

	Profit before tax		Shareholders equity	
Impact of change in claim liabilities by + / - 10%	**2012**	2011	**2012**	2011
Medical	**46,045**	26,705	**44,894**	26,037
Motor	**656**	13,172	**639**	12,843
Property and casualty	**9,623**	9,040	**9,382**	8,814
	56,324	48,917	**54,915**	47,694

(c) Market Risk and Asset Liability Management

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market commission rates or the market price of securities or the instrument, change in market sentiments, speculative activities, supply and demand for securities and liquidity in the market.

The Board of directors of the Company ensure that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of Investment Committee team. The team prepares forecast showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through the proper selection of securities. Company maintains diversified portfolio and perform regular monitoring of developments in related markets. In addition, the key factors that affect stock and bond market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: currency risk, commission rate risk and other price risk.

Currency Risk

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

Almost all instruments under bonds portfolio are denominated in currencies pegged to the US Dollar leaving minimal exposure to currency risk.

The geographical concentration of the Company's investments is set out below:

Insurance Operations	**2012**	2011
	SR'000	
Local / Regional	**1,629,923**	1,834,817
United States of America	**46,879**	42,845
Europe	**17,920**	14,787
Far East	**5,451**	5,523
Rest of the world	**2,396**	1,515
	1,702,569	1,899,487

28. RISK MANAGEMENT (Continued)

Shareholders Operations	2012	2011
	SR'000	
Local / Regional	**1,097,264**	993,384
United States of America	**241,792**	253,351
Europe	**514,693**	454,666
Far East	**62,296**	69,835
Rest of the world	**28,022**	43,065
	1,944,067	1,814,301

Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations.

Commission Rate Risk

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates in the currencies in which its cash and cash equivalents and investments are denominated.

An increase of 100 basis points in interest yields would result in a change in the loss for the year of SR 45.30 million (2011: loss of SR 47.12 million).

A decrease of 100 basis points in interest yields would result in a change in the gain loss for the year of SR 45.30 million (2011: gain of SR 47.12 million).

The commission and non commission bearing investments of the Company and their maturities as at December 31 are as follows:

	Less than 1 year	1 to 5 years	Over 5 years	Non- commission bearing	Total
Insurance Operations			SR'000		
2012	**25,000**	**550,699**	**50,000**	**1,076,870**	**1,702,569**
2011	126,038	691,666	50,300	1,031,483	1,899,487
Shareholders					
2012	**30,870**	**427,161**	**363,354**	**1,122,682**	**1,944,067**
2011	73,488	254,778	259,410	1,226,625	1,814,301

28. RISK MANAGEMENT (Continued)

Other Price Risk

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

The Company's investments amounting to SR 2.2 billion (2011: SR 2.3 billion) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

The impact of hypothetical change of a 10% increase and 10% decrease in the market prices of investments on Company's profit and equity would be as follows:

	Fair value	Price change	Effect on profit and loss	Effect on shareholders' equity
31 December 2012	**+ / - 10%**	**219,955**	**-**	**214,456**
31 December 2011	+ / - 10%	225,811	-	220,166

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2012. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

(d) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Approximately 99% (2011: approximately 99%) of the Company's underwriting activities are carried out in Saudi Arabia.

For all classes of financial assets held by the Company, other than those relating to reinsurance contracts as described in (b) above, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the financial position date.

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

28. RISK MANAGEMENT (Continued)

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

	2012	2011
	SR'000	
ASSETS - INSURANCE OPERATIONS		
Bank / call and time deposits	**472,982**	143,163
Receivables, net	**1,863,276**	1,317,120
Investments Available for Sale	**625,699**	868,004
Reinsurers' share of outstanding claims, net	**598,050**	739,421
Other assets	**231,201**	133,372
	3,791,208	3,201,080

	2012	2011
	SR'000	
ASSETS - SHAREHOLDERS		
Bank / call and time deposits	**122,781**	110,524
Investments Available for Sale	**821,385**	587,676
Accrued investment income	**9,536**	4,825
Statutory deposit	**75,000**	75,000
	1,028,702	778,025

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet obligation and commitments associated with financial liabilities. The Company has a proper cash management system, where daily cash collection and redemption is strictly monitored and reconciled at the end of the day. At the time of investment, particular emphasis is focused on the selection of those companies which are actively traded. The Company manages this risk by maintaining maturities of financial assets and financial liabilities and investing a major portion of the Company's assets in highly liquid financial assets.

The table below summarizes the maturities of the Company's undiscounted contractual obligations. As the Company does not have any interest bearing liabilities, further, majority of the assets and liabilities are short term (less than one year), the amounts in the table match the balance sheet:

28. RISK MANAGEMENT (Continued)

Maturity Profile

	2012 SR '000			2011 SR '000		
LIABILITIES INSURANCE OPERATIONS	**Less than one year**	**No term**	**Total**	Less than one year	No term	Total
Reinsurers' balances payable	**381,591**	**-**	**381,591**	491,691	-	491,691
Outstanding claims	**1,161,282**	**-**	**1,161,282**	1,228,592	-	1,228,592
Reserve for discontinued operations	**11,402**	**-**	**11,402**	6,982	-	6,982
Reserve for Takaful activities	**13,730**	**-**	**13,730**	15,043	-	15,043
Accrued expenses and other liabilities	**968,203**	**70,825**	**1,039,028**	619,158	62,275	681,433
Surplus distribution payable	**27,201**	**-**	**27,201**	47,365	-	47,365
	2,563,409	**70,825**	**2,634,234**	2,408,831	62,275	2,471,106

	2012 SR '000			2011 SR '000		
LIABILITIES SHAREHOLDERS	**Less than one year**	**No term**	**Total**	Less than one year	No term	Total
Dividends payable	**5,368**	**-**	**5,368**	4,448	-	4,448
Accrued expenses and other liabilities	**858**	**-**	**858**	627	-	627
	6,226	**-**	**6,226**	5,075	-	5,075

To manage the liquidity risk arising from financial liabilities mentioned above, the Company holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

(f) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Senior Management ensures that the Company's staff has adequate training and experience and fosters effective communication related to operational risk management.

29. REALIZED GAIN / (LOSS) ON FINANCIAL ASSETS, NET

	2012	2011
	SR'000	
INSURANCE OPERATIONS		
Realized gains on financial assets - available for sale		
- Equity securities	**13,325**	10,864
- Debt Securities	**412**	-
Impairment of financial assets – equity securities	**(3,541)**	(1,657)
Total net realized on financial assets	**10,196**	9,207
SHAREHOLDERS		
Realized gains on financial assets - available for sale		
- Equity securities	**64,560**	10,132
- Debt securities	**7,706**	8,364
Realized losses on financial assets - available for sale		
- Equity securities	**(2,256)**	(42)
Impairment of financial assets – equity securities	**(3,144)**	(1,234)
Total net realized on financial assets	**66,866**	17,220

30. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital, reserves and retained earnings.

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained. According to the article, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SR 200 million
- Premium Solvency Margin Method
- Claims Solvency Margin Method

31. CREDIT QUALITY OF INVESTMENTS

Policyholders'

Investments	2012 SR'000	Rating	2011 SR'000	Rating
Local / Regional Money Market Investments	**923,555**	**NA**	782,318	NA
Local / Regional Fixed Income Investments	**486,119**	**A**	852,014	A+
Local / Regional Equity Investments	**220,249**	**NA**	200,485	NA
International / Global Equity Investments	**72,646**	**NA**	64,670	NA
Total	**1,702,569**		1,899,487	

Shareholders'

Investments	2012 SR'000	Rating	2011 SR'000	Rating
Local / Regional Money Market Investments	**349,934**	**NA**	478,672	NA
Local / Regional Fixed Income Investments	**534,322**	**A**	315,686	A+
Local / Regional Equity Investments	**213,008**	**NA**	199,026	NA
International / Global Fixed Income Investments	**329,116**	**AA**	312,125	AA
International / Global Equity Investments	**517,687**	**NA**	508,792	NA
Total	**1,944,067**		1,814,301	

32. CONTINGENT LIABILITIES

Contingent Liabilities

a) As at December 31, 2012, the Company was contingently liable for letters of credit and guarantees amounting to SR 144 million (December 31, 2011 - SR 38 million) occurring in the normal course of business.

b) The Company, in common with significant majority of insurers, is subject to litigation in the normal course of its business. The Company based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

33. RECLASSIFICATION

Comparative figures for certain account heads have been re-classified to confirm to the current year's presentation.

34. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

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

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

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

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the requirements of IAS 27 *Consolidated and Separate Financial Statements* that address the accounting for consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

IFRS 12 – Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 *Interests in Joint Ventures* and IAS 28 *Investment in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgments made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Company concludes that it does not control an entity, the information used to make that judgment will be transparent to users of the financial statements to make their own assessment of the financial impact were the Company to reach a different conclusion regarding consolidation.

34. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (Continued)

The Company will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved or has sponsored. However, the standard will not have any impact on the financial position or performance of the Company.

IFRS 13 – Fair Value measurement

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

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

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits – Amendments

The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income. The effective date of the standard is 1 January 2013.
The adoption of these amendments will require the Company to recognise :

- A service cost and a net interest income or expense in profit or loss

- The re-measurements of the pension assets and liabilities, i.e., actuarial gains and losses in the other comprehensive income.

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

34. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (Continued)

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Company by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Company as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Company's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements May 2012

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

IAS 1 Presentation of Financial Statements

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

IAS 32 Financial Instruments Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 28th Rabi ul Awal 1434H corresponding to 9th February 2013.