CONDENSED INTERIM FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REVIEW REPORT

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

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Deloitte & Touche Bakr Abulkhair & Co. **Deloitte.** 

### Al Bassam

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REVIEW REPORT TO THE SHAREHOLDERS OF AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

#### SCOPE OF REVIEW:

We have reviewed the accompanying condensed interim statement of financial position of Al Alamiya for Cooperative Insurance Company (a Saudi joint stock company) ("the Company") as at June 30, 2012, and the related condensed interim statements of insurance operations and shareholders' comprehensive income for the three and six months then ended and statements of changes in shareholders' equity, insurance operations' cash flows and shareholders' operations' cash flows for the six months then ended and the notes 1 to 17 which form an integral part of these condensed interim financial statements. These condensed interim financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34) and submitted to us together with all the information and explanations which we required.

We conducted our review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

#### **CONCLUSION:**

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed interim financial statements for them to be in conformity with International Accounting Standard 34 - Interim Financial Reporting (IAS 34).

# INDEPENDENT AUDITORS' REVIEW REPORT (Continued) TO THE SHAREHOLDERS OF AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

#### **EMPHASIS OF A MATTER:**

We draw attention to the fact that these condensed interim financial statements are prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting (IAS 34) and not in accordance with the Standard on Interim Financial Reporting issued by SOCPA.

Deloitte & Touche Bakr Abulkhair & Co. P. O. Box 182 Dammam 31411 Kingdom of Saudi Arabia

Nasser M. Al-Sagga Certified Public Accountant License No. 322

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Consultants
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Kingdom of Saudi Arabia

The ship A Al-Bassam Certified Public Accountant License No. 337

21 Sha'ban, 1433 July 11, 2012

> محاسبون قانونيون واستشارهون ترخيص رقسم (۲۳۷) (Conso No. (337) Al-Bassam CPAs & Consultants

## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2012

INSURANCE OPERATIONS' ASSETS	Note	June 30, 2012 SR (Un-audited)	December 31, 2011 SR (Audited)
Cash and cash equivalents	6	40,140,389	44,007,199
Investment		2,473,079	2,473,079
Premiums and insurance balances receivable	7,8	91,112,873	91,363,256
Reinsurers' share of unearned premiums	•	39,951,217	36,425,889
Reinsurers' share of outstanding claims		78,960,677	90,373,628
Deferred policy acquisition costs		6,140,693	5,997,709
Prepayments and other assets		2,824,462	1,768,509
Due from related parties		30,837,502	25,504,866
Due from shareholders' operations		28,787,666	32,048,462
Property and equipment		1,288,625	986,969
TOTAL INSURANCE OPERATIONS' ASSETS		322,517,183	330,949,566
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	29,384,780	24,455,671
Time deposits		90,554,578	118,205,017
Other assets		521,141	69,398
Investments		26,935,898	-
Due from insurance operations-current account		5,963,317	11,386,827
Statutory deposit	9 .	20,000,000	20,000,000
TOTAL SHAREHOLDERS' ASSETS		173,359,714	174,116,913
TOTAL ASSETS		495,876,897	505,066,479

Chief Financial Officer

Tommy Laupsa

Managing Director Michael William Jakeman

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## CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (Continued) AS AT JUNE 30, 2012

	Note	June 30, 2012 SR	December 31, 2011 SR
INSURANCE OPERATIONS' LIABILITIES		(Un-audited)	(Audited)
		<del> </del>	11.025.155
Accounts payable	0	6,171,471	11,035,157
Reinsurance balances payable	8	36,907,725	31,839,236
Unearned reinsurance commission income		8,216,011	4,544,143
Gross unearned premiums	0	100,811,000	90,251,887
Gross outstanding claims	8	126,895,141	151,176,419
Accrued expenses and other liabilities	8	29,675,227	23,902,830
Due to shareholders' operations-current account		5,963,317	11,386,827
Surplus distribution payable	•	362,311	-
End-of-service indemnities	8 _	7,514,980	6,813,067
TOTAL INSURANCE OPERATIONS' LIABILITIES	_	322,517,183	330,949,566
SHAREHOLDERS' LIABILITIES AND EQUITY SHAREHOLDERS' LIABILITIES			
Due to insurance operations		28,787,666	32,048,462
Due to a related party		938,176	678,683
Accrued expenses and other liabilities	8 _	6,201,797	5,074,206
TOTAL SHAREHOLDERS' LIABILITIES	_	35,927,639	37,801,351
SHAREHOLDERS' EQUITY Share capital Unrealized loss on available for sale investments	10	200,000,000 (8,493)	200,000,000
Accumulated losses	_	(62,559,432)	(63,684,438)
TOTAL SHAREHOLDERS' EQUITY	_	137,432,075	136,315,562
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY	_	173,359,714	174,116,913
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	_	495,876,897	505,066,479

Chief Financial Officer

Tommy Laupsa

THE TOP COOPERATE

Managing Director Michael William Jakeman

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## CONDENSED INTERIM STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

	Note	Three months ended June 30, 2012 SR	Three months ended June 30, 2011 SR	Six months ended June 30, 2012 SR	Six months ended June 30, 2011 SR
		(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
REVENUES Gross written premiums Less: Reinsurance premiums ceded Excess of loss premiums	8 8	64,956,496 (23,700,292) (2,149,670)	52,708,557 (21,492,276) (1,584,761)	120,150,203 (51,281,034) (5,201,332)	111,802,271 (43,445,858) (4,074,649)
NET PREMIUMS WRITTEN Changes in unearned premiums, net		39,106,534 (7,645,996)	29,631,520 (1,696,000)	63,667,837 (7,033,785)	64,281,764 (5,017,000)
NET PREMIUMS EARNED		31,460,538	27,935,520	56,634,052	59,264,764
Gross claims paid and other expenses Reinsurers' share of gross claims paid Changes in outstanding claims, net	8	(35,399,701) 14,666,270 5,449,372	(37,016,811) 14,733,727 1,888,487	(62,288,698) 21,628,768 12,868,327	(55,322,799) 19,205,109 (5,681,735)
NET CLAIMS INCURRED	_	(15,284,059)	(20,394,597)	(27,791,603)	(41,799,425)
Policy acquisition costs Reinsurance commission income Other underwriting expenses	8	(3,883,074) 5,235,734 (230,590)	(4,049,502) 3,637,745 (241,024)	(7,349,535) 9,336,104 (589,140)	(8,642,519) 7,938,868 (554,430)
NET UNDERWRITING RESULT		17,298,549	6,888,142	30,239,878	16,207,258
Operating and administrative salaries Other general and administrative		(9,708,994)	(6,072,996)	(17,764,478)	(13,244,047)
expenses Special commission income Other income (expenses), net	8	(5,812,360) 75,809 41,224	(7,670,874) 24,466 21,399	(8,979,139) 124,796 2,050	(12,143,252) 43,047 (496)
INSURANCE OPERATIONS' SURPLUS (DEFICIT)		1,894,228	(6,809,863)	3,623,107	(9,137,490)
Insurance operations' (surplus) deficit transferred to shareholders' comprehensive income	_	(1,704,805)	6,809,863	(3,260,796)	9,137,490
Insurance operations' surplus after shareholders' appropriation	=	189,423	-	362,311	_

Chief Financial Officer Tommy Laupsa 11227 101211 111747 1142 111747 1142 111747 1142 11174 1142 1174 1

Managing Director Michael William Jakeman

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## CONDENSED INTERIM STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

	Note	Three months ended June 30, 2012 SR	Three months ended June 30, 2011 SR	Six months ended June 30, 2012 SR	Six months ended June 30, 2011 SR
		(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
Insurance operations' surplus (deficit) Special commission income		1,704,805 330,382	(6,809,863) 278,635	3,260,796 560,169	(9,137,490) 592,877
General and administrative expenses	8	2,035,187 (1,139,649)	(6,531,228) (571,783)	3,820,965 (1,569,332)	(8,544,613) (1,233,378)
Net income (loss) for the period		895,538	(7,103,011)	2,251,633	(9,777,991)
Other comprehensive expenses					
Unrealized loss on available for sale investments Zakat and income tax		(8,493) (490,045)	- (797,380)	(8,493) (1,126,627)	(1,599,893)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		397,000	(7,900,391)	1,116,513	(11,377,884)
Earnings (loss) per share for the period	14	0.04	(0.36)	0.11	(0.49)
Weighted average number of outstanding shares	_	20,000,000	20,000,000	20,000,000	20,000,000

Chief Financial Officer

Tommy Laupsa

Managing Director
Michael William Jakeman

### CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Share capital SR	Unrealized loss on available for sale investment SR	Accumulated losses SR	Total SR
January 1, 2011 (audited)	200,000,000	-	(42,464,940)	157,535,060
Net loss for the period	-	-	(9,777,991)	(9,777,991)
Zakat and income tax	-		(1,599,893)	(1,599,893)
June 30, 2011 (un-audited)	200,000,000		(53,842,824)	146,157,176
January 1, 2012 (audited)	200,000,000	-	(63,684,438)	136,315,562
Net income for the period	-	-	2,251,633	2,251,633
Unrealized loss on available for				
sale investments	_	(8,493)	_	(8,493)
Zakat and income tax			(1,126,627)	(1,126,627)
June 30, 2012 (un-audited)	200,000,000	(8,493)	(62,559,432)	137,432,075

Chief Financial Officer

Tommy Laupsa

**Managing Director** Michael William Jakeman

### AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY

(A SAUDI JOINT STOCK COMPANY)

CONDENSED INTERIM STATEMENT OF INSURANCE OPERATIONS' CASH FLOW	<b>VS</b>
CONDENSED INTERIM STATEMENT OF INSURANCE OPERATIONS' CASH FLOW FOR THE SIX MONTHS ENDED JUNE 1879, 2012	

FOR THE SIX MONTHS ENDED JUNE 39, 2012		
August of the state of the stat	Six months ended June 30, 2012 SR	Six months ended June 30, 2011 SR (Un-audited)
OPERATING ACTIVITIES	(On-audited)	(On-audited)
Insurance operations' surplus after shareholders' appropriation	362,311	-
Adjustments to reconcile insurance operations' surplus to net cash provided from operating activities:  Depreciation End-of-service indemnities	321,657 1,026,252	410,470 962,500
Gain on sale of property and equipment	(38,062)	
Premiums and insurance balances receivable Reinsurance share of unearned premiums	1,672,158 250,383 (3,525,328)	1,372,970 (18,753,415) (3,773,000)
Reinsurers' share of outstanding claims	11,412,951	(60,632,000)
Deferred policy acquisition costs	(142,984)	(437,096)
Prepayments and other assets	(1,055,953)	(2,299,471)
Due from related parties	(5,332,636)	(3,311,178)
Due from shareholders' operations	3,260,796	(9,137,490) (3,272,368)
Due from shareholders' operations-current account Accounts payable	(4,863,686)	(3,272,300)
Reinsurance balances payable	5,068,489	1,370,088
Unearned reinsurance commission income	3,671,868	11,641,216
Gross unearned premiums	10,559,113	2,369,822
Gross outstanding claims	(24,281,278)	8,790,000
Accrued expenses and other liabilities	5,772,397	66,313,735
Due to shareholders' operations-current account	(5,423,510)	3,033,352
Cash used in operations	(2,957,220)	(6,724,835)
End-of-service indemnities paid	(324,339)	(1,001,013)
Net cash used in operating activities	(3,281,559)	(7,725,848)
INVESTING ACTIVITIES Purchase of property and equipment Proceeds from sale of property and equipment Investment	(664,433) 79,182	(1,100)
Net cash used in investing activities	(585,251)	(51,100)
Net cash used in investing activities	(303,231)	(31,100)
Net change in cash and cash equivalents	(3,866,810)	(7,776,948)
Cash and cash equivalents, January 1	44,007,199	39,269,809
CASH AND CASH EQUIVALENTS, JUNE 30	40,140,389	31,492,861
Non-cash transaction:		
End-of-service indemnities	-	89,748
Cha-or-set vice indentitities		33,

## CONDENSED INTERIM STATEMENT OF SHAREHOLDERS' OPERATIONS' CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2012

	Six months ended June 30, 2012 SR	Six months ended June 30, 2011 SR
	(Un-audited)	(Un-audited)
OPERATING ACTIVITIES  Net income (loss) for the period  Adjustments for:	2,251,633	(9,777,991)
Changes in assets and liabilities: Other assets Due from insurance operations-current account Due to a related party Due to insurance operations Due to insurance operations-current account Accrued expenses and other liabilities	(451,743) 5,423,510 259,493 (3,260,796)	(281,545) - 9,137,490 3,272,368 965,606
Cash generated from operations	4,692,544	3,315,928
Zakat paid	(469,483)	(2,904,164)
Net cash from operating activities	4,223,061	411,764
INVESTING ACTIVITIES Time deposits Investments	27,650,439 (26,944,391)	(10,411,887)
Net cash from (used in) investing activities	706,048	(10,411,887)
Net change in cash and cash equivalents	4,929,109	(10,000,123)
Cash and cash equivalents, January 1	24,455,671	27,413,104
CASH AND CASH EQUIVALENTS, JUNE 30	29,384,780	17,412,981
Non-cash transaction:		
Unrealized loss on available for sale investments	(8,493)	

Chief Financial Officer

Tommy Laupsa

**Managing Director** Michael William Jakeman

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## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

#### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Al Alamiya for Cooperative Insurance Company ("the Company") is a Saudi joint stock company registered on 29 Dhu-al Qu'dah, 1430H (November 17, 2009) under commercial registration number 4030194978.

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 26 Dhu Al Hijjah, 1430H (December 13, 2009), the Company received the license from Saudi Arabian Monetary Agency ("SAMA") to transact insurance business in the Kingdom of Saudi Arabia.

The Company's principal place of business is in Riyadh, Kingdom of Saudi Arabia.

#### 2. ASSET PURCHASE AGREEMENT AND TRANSFER OF INSURANCE PORTFOLIO

The Company started its insurance operations on February 13, 2010. The Company's Board of Directors approved on April 14, 2010, to transfer insurance portfolio and net assets of Royal & Sun Alliance Insurance (Middle East) Limited E.C. – Saudi Arabia Operations and Al Alamiya for Commerce and Services Limited, to the Company after completing the related procedures as required under the SAMA's letter addressed to the Company on March 24, 2010. The transfer of insurance portfolio and net assets has been approved by the shareholders at their General Assembly Meeting.

The Company entered into a purchase agreement whereby it has purchased the insurance business operations in the Kingdom of Saudi Arabia of Royal & Sun Alliance Insurance (Middle East) Limited E.C. – Saudi Arabian Operations and Al Alamiya for Commerce and Services Limited. The purchase price was based on a valuation study conducted in accordance with the due diligence and valuation guidelines issued by SAMA. In accordance with the SAMA's letter of November 10, 2008 ("the letter"), the value of combined goodwill was estimated at SR 64.14 million.

#### 3. BASIS OF PRESENTATION

### Statement of compliance

The condensed interim financial statements for the three and six months ended June 30, 2012 have been prepared in accordance with International Accounting Standard No. 34 – Interim Financial Reporting. The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual reissued financial statements for the year ended December 31, 2011. In management's opinion, the condensed interim financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim period presented.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The accounting policies used in the preparation of these condensed interim financial statements are consistent that those used in the preparation of the annual reissued financial statements as of and for the year ended unber 31, 2011, except for the adoption of amendments and revisions to existing standards as mentioned which had no significant financial impact on the condensed interim financial statements of the

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

#### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Amendment to IFRS 7 - Financial instruments: Transfers of financial assets:

This amendment is effective from 1 July 2011 and requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset, the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities.

b) Amendment to IAS 12, Income taxes' on deferred tax (effective 1 January 2012):

Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment Property". Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which has been withdrawn.

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

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

The Company's management is currently evaluating the impact of adopting these Standards and Interpretations on the financial statements of the Company and the timing of initial application.

### 5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION OF UNCERTAINITY

The preparation of the condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the reissued financial statements as at and for the year ended December 31, 2011.

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

#### 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	Insurance Operations		Shareholders	s' Operations
	June 30, December 31,		June 30,	December 31,
	2012	2011	2012	2011
_	SR	SR	SR	SR
	(Un-audited)	(Audited)	(Un-audited)	(Audited)
Cash in hand	46,137	77,604	-	-
Cash at banks- Current accounts	5,001,161	13,873,368	29,384,780	24,455,671
- Time deposits	35,093,091	30,056,227		
_	40,140,389	44,007,199	29,384,780	24,455,671

Included in cash and cash equivalents is SR 15.2 million (December 31, 2011: SR 34.64 million) associated with the portfolio transfer process which is currently held in the name of a related party on behalf of the Company.

#### 7. PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	June 30, 2012 SR	December 31, 2011 SR
	(Un-audited)	(Audited)
Premiums receivable Receivables from insurance and reinsurance companies Receivables from related parties	60,275,415 10,578,772 37,219,204	49,280,584 7,991,579 54,377,041
Less: allowance for doubtful debts	108,073,391 (16,960,518)	111,649,204 (20,285,948)
	91,112,873	91,363,256

Allowance for doubtful debts includes SR 6,116,269 (December 31, 2011: SR 7,240,171) against receivables from related parties.

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## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

#### 8. RELATED PARTY TRANSACTIONS

The significant transactions with related parties and the related approximate amounts are as follows:

		Six months ended June 30, 2012	Six months ended June 30, 2011
Related parties	Nature of transactions	SR	SR
		(Un-audited)	(Un-audited)
Shareholders/affiliates	Gross written premiums	40,662,658	33,460,289
	Gross claims paid and other expenses	37,365,410	28,579,649
	Reinsurance premiums ceded	26,272,153	9,925,270
	Reinsurers' share of gross claims paid	4,650,437	3,793,590
	Reinsurance commission income	7,899,041	3,034,203
	Outsourced service charges	4,079,270	3,167,500
	Brand fee	15,050	15,050
Board of Directors	Remuneration and meeting fee	244,000	375,000
Balances due from (to)	related parties are comprised the followi	ng:	
Related parties	Nature of transactions	June 30, 2012 SR	December 31, 2011 SR
		(Un-audited)	(Audited)
Shareholders/affiliates	Gross written premiums Gross claims paid and other expenses Reinsurers' share of gross outstanding	37,219,204 (53,478,650)	54,377,041 (58,161,335)
	claims	21,728,823	26,126,683
	Outsourced service charges	(11,848,097)	(7,768,827)
	Brand fee	(75,250)	(60,200)
Board of Directors	Remuneration and meeting fee	(744,000)	(500,000)

### Compensation of key management personnel

The remuneration of key management personnel during the period were as follows:



Six months ended	Six months ended
June 30,	June 30,
2012	2011
SR_	SR
(Un-audited)	(Un-audited)
2,210,977	3,073,548
43,992	36,852
2,254,969	3,110,400

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

## 9. STATUTORY DEPOSIT

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Statutory deposit represents 10% of the paid-up share capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. SAMA is entitled to the earnings of this statutory deposit and it cannot be withdrawn without its consent.

#### 10. SHARE CAPITAL

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

#### 11. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company is required to establish a statutory reserve by the appropriating 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution. No appropriation has been made because the Company has accumulated losses as at the end of the period.

#### 12. CONTINGENCIES

#### Goodwill

The Company entered into a purchase agreement whereby it has purchased the insurance business operations in the Kingdom of Saudi Arabia of Royal & Sun Alliance Insurance (Middle East) Limited E.C – Saudi Arabian Operations and Al Alamiya for Commerce and Services Limited. The purchase price was based on a valuation study conducted in accordance with the due diligence and valuation guidelines issued by SAMA. In accordance with the SAMA letter of November 10, 2008 ("the letter"), the value of combined goodwill was estimated at SR 64.14 million. The amount will be paid in accordance with SAMA's instructions therein which include among other matters, the following conditions:

- The Company shall maintain solvency ratios and minimum capital requirements as per the guidelines prescribed by SAMA in this respect;
- No payment of goodwill will be made in the year when the Company reports a loss and the goodwill shall not paid out of any retained earnings from earlier years;
- The payment is restricted to 50% of the profit earned in the current year; and
- Limitation will be placed by SAMA on the period during which payments can be made.

In view of the accumulated losses and the requirements set by SAMA in this respect as illustrated above, and the fact that the Company is not in a position to make the initial payment of goodwill, the goodwill has not been recorded as a liability and hence was reflected as a contingent liability in the financial statements pending compliance with SAMA requirements in this respect and their approval for payment.

Legal proceedings

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

#### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

#### 13. SEGMENTAL INFORMATION

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

Segment results do not include operating and administrative salaries, other general and administrative expenses, special commission income and other (expenses) income, net.

Segment assets do not include cash and cash equivalents, investments, premiums and insurance balances receivable, prepayments and other assets, due from related parties, due from shareholders operations, and property and equipment.

Segment liabilities do not include accounts payable, reinsurance balances payable, accrued expenses and other liabilities, due to insurance operations and end-of-service indemnities.

#### **Operating segments**

For the three months ended June 30, 2012	Property SR (Un-audited)	Motor SR (Un-audited)	Engineering SR (Un-audited)	Medical SR (Un-audited)	Marine SR (Un-audited)	Others SR (Un-audited)	Total SR (Un-audited)
Insurance operations Gross written premiums	7,465,925	28,514,715	4,793,952	5,577,944	9,550,905	9,053,055	64,956,496
Reinsurance premiums ceded Excess of loss premiums	(6,277,237) (472,378)	(1,175,288)	(3,922,060) (352,828)	,	(6,708,633) 30,034	(3,354,396) (175,810)	(23,700,292) (2,149,670)
Net premiums written Change in unearned premiums, net	716,310 60,999	27,339,427 (6,640,933)	519,064 397,002	2,136,578 (380,997)	2,872,306 336,997	5,522,849 (1,419,064)	39,106,534 (7,645,996)
Net premiums earned	777,309	20,698,494	916,066	1,755,581	3,209,303	4,103,785	31,460,538
Gross claims paid and other expenses Reinsurers' share of gross claims	(4,312,957)	(20,029,516)	(1,655,984)	(2,703,973)	(4,100,959)	(2,596,312)	(35,399,701)
paid Change in outstanding claims, net	3,829,794 377,096	3,249,968 5,109,949	1,012,690 770,991	1,229,988 (179,998)	3,236,667 (915,991)	2,107,163 287,325	14,666,270 5,449,372
Net claims incurred	(106,067)	(11,669,599)	127,697	(1,653,983)	(1,780,283)	(201,824)	(15,284,059)
Policy acquisition costs Reinsurance commission income	(653,332) 1,848,902	(1,629,615)	(815,523) 1,237,581	(106,772)	(406,996) 1,722,660	(270,836) 426,591	(3,883,074) 5,235,734
Other underwriting expenses	1,866,812	7,399,280	1,465,821	(5,174)	2,744,684	4,057,716	17,529,139 (230,590)
Net underwriting result							17,298,549
Operating and administrative salaries Other general and administration		A DESCRIPTION OF THE PARTY OF T	Made				(9,708,994)
expenses Special commission income	3		West of				(5,812,360) 75,809
Other income, net Insurance operations' surplus	A.	J. Met war	Circus E				1,894,228

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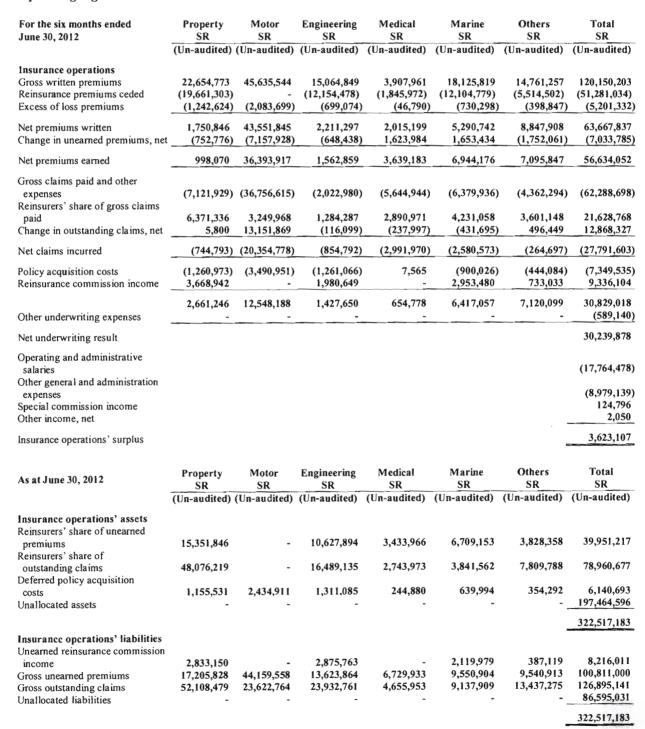


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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

#### 13. SEGMENTAL INFORMATION (Continued)

#### Operating segments



## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

### 13. SEGMENTAL INFORMATION (Continued)

### **Operating segments**

For the three months ended June 30, 2011	Property SR (Un-audited)	Motor SR (Un-audited)	Engineering SR (Un-audited)	Medical SR (Un-audited)	Marine SR (Un-audited)	Others SR (Un-audited)	Total SR (Un-audited)
Insurance operations Gross written premiums Reinsurance premiums ceded Excess of loss premiums	8,520,914 (7,382,326) (313,063)	(236,570)	8,829,912 (7,130,329) (570,944)	4,716,953 (2,751,972) (83,224)	6,661,933 (2,260,477) (155,831)	5,329,946 (1,967,172) (225,129)	52,708,557 (21,492,276) (1,584,761)
Net premiums written Change in unearned premiums, net	825,525 (186,048)	18,412,329 (338,996)	(352,202)	1,881,757 (88,999)	4,245,625 (483,995)	3,137,645 (245,760)	29,631,520 (1,696,000)
Net premiums earned	639,477	18,073,333	776,437	1,792,758	3,761,630	2,891,885	27,935,520
Gross claims paid and other expenses Reinsurers' share of gross claims	(11,547,885)	(16,865,012)	(2,792,972)	(1,689,983)	(1,456,985)	(2,663,974)	(37,016,811)
paid Change in outstanding claims, net	10,279,371 (552,895)	4,473,956	1,675,383 (1,855,481)	624,993 _(16,001)	67,000 (392,796)	2,086,980 231,704	14,733,727 1,888,487
Net claims incurred	(1,821,409)	(12,391,056)	(2,973,070)	(1,080,991)	(1,782,781)	(345,290)	(20,394,597)
Policy acquisition costs Reinsurance commission income	(624,247) 1,821,168	(2,120,838)	(587,596) 899,951	(137,672)	(237,858) 237,727	(341,291) 678,899	(4,049,502) 3,637,745
Other underwriting expenses	14,989	3,561,439	(1,884,278)	574,095	1,978,718	2,884,203	7,129,166 (241,024)
Net underwriting result Operating and administrative salaries							6,888,142 (6,072,996)
Other general and administration expenses Special commission income Other income, net						-	(7,670,874) 24,466 21,399
Insurance operations' deficit						-	(6,809,863)





### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

### 13. SEGMENTAL INFORMATION (Continued)

Operating segments



For the six months ended June 30, 2011	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)	(Un-audited)
Insurance operations Gross written premiums	18,652,813	43,239,957	15,080,849	6,972,930 (2,978,970)	14,486,855	13,368,867 (6,062,132)	111,802,271
Reinsurance premiums ceded Excess of loss premiums	(15,829,642) (715,645)		(11,311,987) (1,110,931)	(118,963)	(7,263,127) (727,997)	(478,162)	(43,445,858) (4,074,649)
•							
Net premiums written Change in unearned premiums, net	2,107,526 (970,040)	42,317,006 (7,122,937)	2,657,931 748,787	3,874,997 (267,998)	6,495,73 l 3,946,960	6,828,573 (1,351,772)	64,281,764 (5,017,000)
Net premiums earned	1,137,486	35,194,069	3,406,718	3,606,999	10,442,691	5,476,801	59,264,764
Gross claims paid and other expenses Reinsurers' share of gross claims	(13,908,861)	(26,667,086)	(3,667,963)	(3,908,961)	(3,239,968)	(3,929,960)	(55,322,799)
paid	12,157,379	-	2,290,777	1,474,985	321,997	2,959,971	19,205,109
Change in outstanding claims, net	(3,511,265)	237,603	(2,520,475)	(39,000)	186,099	(34,697)	(5,681,735)
urredNet claims inc	(5,262,747)	(26,429,483)	(3,897,661)	(2,472,976)	(2,731,872)	(1,004,686)	(41,799,425)
Policy acquisition costs Reinsurance commission income	(1,331,898) 3,822,108	(4,264,488)	(1,348,924) 1,624,824	(274,015) (12,000)	(722,991) 1,239,023	(700,203) 1,264,913	(8,642,519) 7,938,868
Other underwriting expenses	(1,635,051)	4,500,098	(215,043)	848,008	8,226,851	5,036,825	16,761,688 (554,430)
Net underwriting result							16,207,258
Operating and administrative Salaries							(13,244,047)
Other general and administration Expenses Special commission income Other expenses, net							(12,143,252) 43,047 (496)
•						-	(9,137,490)
Insurance operations' deficit						-	(7,137,770)
As at December 31, 2011	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Insurance operations' assets Reinsurers' share of unearned	15,803,625		7,504,369	4,369,956	4,099,729	4,648,210	36,425,889
premiums Reinsurers' share of	13,803,623	-	7,304,309	4,509,750	4,077,727	4,040,210	30,723,007
outstanding claims	54,198,358	3,267,967	14,456,255	3,337,967	8,366,216	6,746,865	90,373,628
Deferred policy acquisition costs Unallocated assets	518,523	3,831,883	874,168	46,317	493,030	233,788	5,997,709 198,152,340
							330,949,566
Insurance operations' liabilities Unearned reinsurance commission							<u> </u>
income	1,987,150	-	1,276,720	0.200.007	1,230,820	49,453	4,544,143
Gross unearned premiums Gross outstanding claims Unallocated liabilities	16,904,831 58,236,418	37,001,630 40,042,600	9,851,901 21,783,782	9,289,907 5,011,950	8,594,914 13,230,868	8,608,704 12,870,801	90,251,887 151,176,419 84,977,117
							330,949,566

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

#### 14. EARNINGS (LOSS) PER SHARE FOR THE PERIOD

Earnings (loss) per share for the period is calculated by dividing the net income (loss) for the period by weighted average number of ordinary shares outstanding during the period.

#### 15. GEOGRAPHICAL DISTRIBUTION

All the assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for an investment held in Abu Dhabi.

#### 16. RESULTS OF THE INTERIM PERIOD

The results of the interim period are not an indication of the results of the full statutory financial year.

#### 17. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements have been approved by the Board of Directors on July 11, 2012 corresponding to 21 Sha'ban, 1433.