

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITORS' REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

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

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

**SCOPE OF AUDIT**

We have audited the accompanying statement of financial position of Al Alamiya for Cooperative Insurance Company – a Saudi Joint Stock Company (“the Company”) as at December 31, 2012 and the related statements of insurance operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' operations cash flows for the year then ended and the notes 1 to 32 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 and the provisions of Article 123 of the Saudi Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements 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:

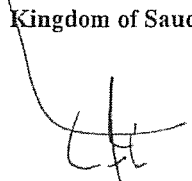
1. Present fairly, in all material respects, the financial position of the Company as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
2. Comply with the requirements of the Regulations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

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

**EMPHASIS OF A MATTER**

These financial statements have been prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

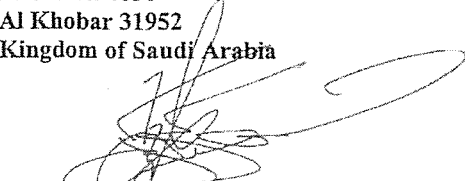
**Deloitte & Touche**  
**Bakr Abulkhair & Co.**  
**P. O. Box 182**  
**Dammam 31411**  
**Kingdom of Saudi Arabia**

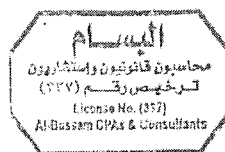
  
**Nasser M. Al-Sagga**  
**Certified Public Accountant**  
**License No. 322**



3 Rabi II, 1434H  
February 13, 2013

**Al Bassam**  
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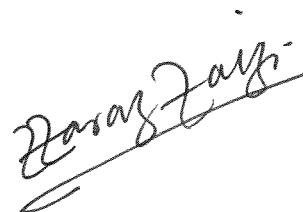
**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2012**

	Note	2012 SR	2011 SR
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	6	57,783,343	44,007,199
Investments	13(a)	2,473,079	2,473,079
Premiums and insurance balances receivable	7	73,056,437	91,363,256
Reinsurers' share of unearned premiums	8	38,856,217	36,425,889
Reinsurers' share of outstanding claims	9	84,476,906	90,373,628
Deferred policy acquisition costs	10	4,689,699	5,997,709
Prepayments and other assets	11	4,597,146	1,768,509
Due from related parties		29,378,370	25,504,866
Due from shareholders' operations		27,656,454	32,048,462
Property and equipment	12	1,139,897	986,969
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>324,107,548</b>	<b>330,949,566</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	6	30,878,826	24,455,671
Time deposits		90,742,725	118,205,017
Other assets	11	430,127	69,398
Available for sale investments	13(b)	27,185,887	-
Due from insurance operations-current account		4,433,778	11,386,827
Statutory deposit	14	20,000,000	20,000,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>173,671,343</b>	<b>174,116,913</b>
<b>TOTAL ASSETS</b>		<b>497,778,891</b>	<b>505,066,479</b>



The accompanying notes 1 to 32 form an integral part of these financial statements.



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF FINANCIAL POSITION (Continued)**  
**AS AT DECEMBER 31, 2012**

	Note	2012 SR	2011 SR
<b>INSURANCE OPERATIONS' LIABILITIES</b>			
Accounts payable		15,342,280	11,035,157
Reinsurance balances payable		28,759,017	31,839,236
Unearned reinsurance commission income	17	7,839,134	4,544,143
Gross unearned premiums	8	103,792,000	90,251,887
Gross outstanding claims	9	134,635,266	151,176,419
Accrued expenses and other liabilities	15	20,279,877	23,902,830
Due to shareholders' operations-current account		4,433,778	11,386,827
Surplus distribution payable		488,001	-
End-of-service indemnities	16	8,538,195	6,813,067
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>324,107,548</b>	<b>330,949,566</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Due to insurance operations		27,656,454	32,048,462
Due to a related party		1,057,010	678,683
Accrued expenses and other liabilities	15	7,541,193	5,074,206
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>36,254,657</b>	<b>37,801,351</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	23	200,000,000	200,000,000
Unrealized gain on available for sale investments		410,936	-
Accumulated losses		(62,994,250)	(63,684,438)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>137,416,686</b>	<b>136,315,562</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>173,671,343</b>	<b>174,116,913</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>497,778,891</b>	<b>505,066,479</b>

*Haraz Zairi*

The accompanying notes 1 to 32 form an integral part of these financial statements.

*[Signature]*

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INSURANCE OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Note	2012 SR	2011 SR
<b>REVENUES</b>			
Gross written premiums	22	248,069,711	227,930,271
Less: Reinsurance premiums ceded	22	(104,619,850)	(96,564,812)
Excess of loss premiums		(12,123,148)	(10,040,321)
<b>NET PREMIUMS WRITTEN</b>		<b>131,326,713</b>	<b>121,325,138</b>
Change in unearned premiums, net	8	(11,109,785)	(7,207,998)
<b>NET PREMIUMS EARNED</b>		<b>120,216,928</b>	<b>114,117,140</b>
Gross claims paid and other expenses	9,22	(115,096,181)	(117,218,449)
Reinsurers' share of gross claims paid	9,22	34,853,071	46,446,833
Change in outstanding claims, net	9	10,644,431	(2,255,836)
<b>NET CLAIMS INCURRED</b>		<b>(69,598,679)</b>	<b>(73,027,452)</b>
Policy acquisition costs	10	(13,211,345)	(16,390,471)
Reinsurance commission income	17,22	21,468,122	19,325,547
Other underwriting expenses		(1,180,667)	(1,833,389)
<b>NET UNDERWRITING RESULT</b>		<b>57,694,359</b>	<b>42,191,375</b>
Operating and administrative salaries	18	(36,852,762)	(31,301,927)
Other general and administrative expenses	19,22	(16,367,331)	(27,825,935)
Special commission income		347,558	96,479
Other income, net		58,185	181,668
<b>INSURANCE OPERATIONS' SURPLUS (DEFICIT)</b>		<b>4,880,009</b>	<b>(16,658,340)</b>
Insurance operations' (surplus) deficit transferred to shareholders' comprehensive income		(4,392,008)	16,658,340
<b>Insurance operations' surplus after shareholders' appropriation</b>		<b>488,001</b>	<b>-</b>

*Zorab Zairi*

The accompanying notes 1 to 32 form an integral part of these financial statements.

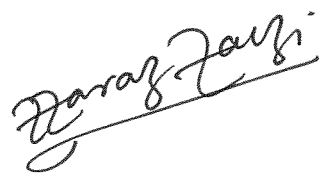
**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Note	2012 SR	2011 SR
Insurance operations' surplus (deficit)		4,392,008	(16,658,340)
Investment income		1,290,860	1,083,466
		<u>5,682,868</u>	<u>(15,574,874)</u>
General and administrative expenses	20	(1,920,037)	(2,432,827)
<b>Net income (loss) for the year</b>		<b>3,762,831</b>	<b>(18,007,701)</b>
<b>Other comprehensive income (expenses)</b>			
Unrealized gain on available for sale investments		410,936	-
Zakat and income tax	21	(3,072,643)	(3,211,797)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<b>1,101,124</b>	<b>(21,219,498)</b>
<b>Earnings (loss) per share for the year</b>	24	<b>0.19</b>	<b>(0.90)</b>
<b>Weighted average number of outstanding shares</b>		<b>20,000,000</b>	<b>20,000,000</b>



The accompanying notes 1 to 32 form an integral part of these financial statements.





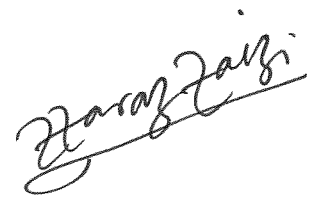
**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Share capital SR	Unrealized gain on available for sale investments SR	Accumulated losses SR	Total SR
January 1, 2011	200,000,000	-	(42,464,940)	157,535,060
Net loss for the year	-	-	(18,007,701)	(18,007,701)
Zakat and income tax	-	-	(3,211,797)	(3,211,797)
December 31, 2011	200,000,000	-	(63,684,438)	136,315,562
Net income for the year	-	-	<b>3,762,831</b>	<b>3,762,831</b>
Unrealized gain for the year	-	<b>410,936</b>	-	<b>410,936</b>
Zakat and income tax	-	-	<b>(3,072,643)</b>	<b>(3,072,643)</b>
December 31, 2012	<b>200,000,000</b>	<b>410,936</b>	<b>(62,994,250)</b>	<b>137,416,686</b>



The accompanying notes 1 to 32 form an integral part of these financial statements.



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	2012 SR	2011 SR
<b>OPERATING ACTIVITIES</b>		
Insurance operations' surplus after shareholders' appropriation	488,001	-
Adjustments to reconcile insurance operations' surplus to net cash provided from operating activities:		
Depreciation	701,006	846,306
End-of-service indemnities	2,276,432	2,013,942
Gain on disposal of property and equipment	-	(159,052)
	3,465,439	2,701,196
Premiums and insurance balances receivable	18,306,819	(25,534,200)
Reinsurers' share of unearned premiums	(2,430,328)	(10,068,889)
Reinsurers' share of outstanding claims	5,896,722	(51,220,000)
Deferred policy acquisition costs	1,308,010	375,911
Prepayments and other assets	(2,828,637)	(233,968)
Due from related parties	(3,873,504)	(9,040,380)
Due from shareholders' operations	4,392,008	(16,658,340)
Due from shareholders' operations-current account	-	727,156
Accounts payable	4,307,123	2,115,126
Reinsurance balances payable	(3,080,219)	22,173,614
Unearned reinsurance commission income	3,294,991	1,495,141
Gross unearned premiums	13,540,113	17,276,887
Gross outstanding claims	(16,541,153)	53,475,836
Accrued expenses and other liabilities	(3,622,953)	8,826,378
Due to shareholders' operations-current account	(6,953,049)	11,386,827
<b>Cash generated from operations</b>	<b>15,181,382</b>	<b>7,798,295</b>
End-of-service indemnities paid	(551,304)	(2,888,664)
<b>Net cash from operating activities</b>	<b>14,630,078</b>	<b>4,909,631</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(853,934)	(374,162)
Proceeds from disposal of property and equipment	-	251,921
Investment	-	(50,000)
<b>Net cash used in investing activities</b>	<b>(853,934)</b>	<b>(172,241)</b>
<b>Net change in cash and cash equivalents</b>	<b>13,776,144</b>	<b>4,737,390</b>
Cash and cash equivalents, January 1	44,007,199	39,269,809
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>57,783,343</b>	<b>44,007,199</b>
<b>Non-cash transaction:</b>		
End-of-service indemnities	-	89,748

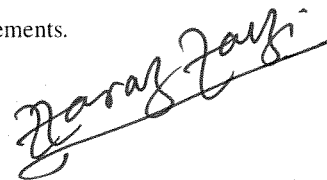
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**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**STATEMENT OF SHAREHOLDERS' OPERATIONS CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	2012 SR	2011 SR
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	3,762,831	(18,007,701)
Adjustments for:		
Changes in assets and liabilities:		
Other assets	(33,328)	71,547
Due from insurance operations-current account	6,953,049	(11,386,827)
Due to a related party	378,327	678,683
Due to insurance operations	(4,392,008)	16,658,340
Due to insurance operations-current account	-	(727,156)
Accrued expenses and other liabilities	(136,173)	857,784
<b>Cash generated from (used in) operations</b>	<b>6,532,698</b>	<b>(11,855,330)</b>
Zakat paid	(469,483)	(2,904,164)
<b>Net cash from (used in) operating activities</b>	<b>6,063,215</b>	<b>(14,759,494)</b>
<b>INVESTING ACTIVITIES</b>		
Time deposits	27,462,292	11,802,061
Available for sale investments	(27,102,352)	-
<b>Net cash from investing activities</b>	<b>359,940</b>	<b>11,802,061</b>
<b>Net change in cash and cash equivalents</b>	<b>6,423,155</b>	<b>(2,957,433)</b>
Cash and cash equivalents, January 1	24,455,671	27,413,104
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>30,878,826</b>	<b>24,455,671</b>
<b>Non-cash transactions:</b>		
Unrealized gain on available for sale investments	410,936	-
Amortization of premium on available for sale investments adjusted against other receivables	327,401	-

The accompanying notes 1 to 32 form an integral part of these financial statements.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**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. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**2.1 Standards affecting the disclosures and presentation in the current year**

The revised standards adopted in the current year, which are effective for annual periods beginning on or after January 1, 2012, have no effect on the disclosures and presentations in the financial statements. Details of those standards adopted in these financial statements but that have had no effect on the amounts reported are set out in note 2.2.

**2.2 Standards adopted with no effect on the financial statements**

The following new and revised Standards have been adopted in these financial statements. Their adoption has no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- a) Amendment to IFRS 1 – 'First-time Adoption of International Financial Reporting Standards' (effective from July 1, 2011):

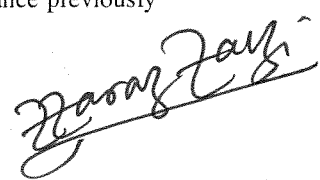
- Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'.
- Additional exemption for entities ceasing to suffer from severe hyperinflation.

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

This amendment is effective from July 1, 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.

- c) Amendment to IAS 12 - 'Income taxes' on deferred tax (effective January 1, 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.



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)**

**2.3 Standards in issue but not yet adopted**

At the date of authorization of these financial statements, the following Standards were in issue but not effective:

		<b>Effective for annual periods beginning on or after</b>
<i>New Standards and interpretation:</i>		
IFRS 9	Financial Instruments	January 1, 2015
IFRS 10	Consolidated financial statements	January 1, 2013
IFRS 11	Joint Venture Arrangement	January 1, 2013
IFRS 12	Disclosure of Interest in other entities	January 1, 2013
IFRS 13	Fair value measurement	January 1, 2013
IFRIC 20	Stripping costs in the production phase of a surface mine	January 1, 2013
<i>Amendments to Standards:</i>		
IAS 1	Presentation of Financial Statements	July 1, 2012
IAS 19	Employee benefits	January 1, 2013
IAS 27	Separate Financial Statements	January 1, 2013
IAS 28	Investments in Associates and Joint Ventures	January 1, 2013
IFRS 7	Financial Instruments: Disclosures	January 1, 2013
	- offsetting Financial Assets and Financial Liabilities	January 1, 2015 (or otherwise when IFRS 9 is first applied)
	- disclosures about the initial application of IFRS 9	
IFRS 10	Consolidated Financial Statements	January 1, 2014
IAS 32	Financial Instruments Presentation-Offsetting financial assets and financial liabilities	January 1, 2014

The Directors anticipate that, where applicable, the above Standards and Interpretations will be adopted in the Company's financial statements for the future periods and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**3. BASIS OF PREPERATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted in the preparation of these financial statements are set out below:

**Accounting convention**

The financial statements are prepared under the historical cost convention except for revaluation of certain financial assets.

**Basis of presentation**

The Company maintains separate books of account for the insurance operations and shareholders. Income and expenses clearly attributable to either activity are recorded in the respective accounts.

**Functional and presentational currency**

The financial statements are presented in Saudi Riyals being the functional currency of the Company.

**Cash and cash equivalents**

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

**Property and equipment**

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of insurance operations on a straight-line basis based on the following estimated useful lives:

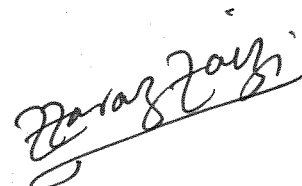
	<u>Years</u>
Furniture, fixtures and office equipment	3
Motor vehicles	3

**Investments**

All investments are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Premiums and discounts resulting from investment transactions are amortized on a systematic basis to their maturities. For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs.

**(a) Available for sale investments**

Investments which are classified as "available for sale" are subsequently measured at fair value. Available for sale investments are those investments that are not held-to-maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognised directly in the statement of shareholders' comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognised in the statements of shareholders' comprehensive income should be included in the statement of shareholders' income for the year. Available for sale investments for which fair value cannot be reliably measured are carried at amortised cost less impairment provision.



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Investments in held to maturity securities**

Investments which have fixed or determined payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of shareholders' income when the investment is derecognized or impaired.

**(c) Investments held for trading**

For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs. Investments in commodity funds are classified as financial instruments held for trading and stated at market value. Changes in market value are credited or debited to the statement of shareholders' comprehensive income.

**Impairment and uncollectibility of financial assets**

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of shareholders' comprehensive income. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between the carrying amount and fair value, less any impairment loss previously recognized in the statement of shareholders' comprehensive income.
- 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.
- For assets carried at amortized cost, impairment is determined based on future cash flows that are discounted at the original effective special commission rate.

**Zakat and income tax**

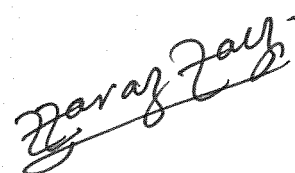
The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis at the year end and is charged to the statement of shareholders' comprehensive income in accordance with Saudi Arabian fiscal regulations. The zakat charge is computed on the Saudi shareholder's share of the zakat base. Income tax is computed on the foreign shareholder's share of adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Deferred income tax, if any, arising from the tax effects of temporary differences between taxable income and financial income are recognized during the year in which such differences arise, and are adjusted when the related temporary differences are reversed. Deferred income tax is determined using tax rates that have been enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilized.

**Provisions**

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



**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Special commission income**

Special commission income from time deposits is recognized on an effective yield basis.

**Accounts payable, accrued expenses and other liabilities**

Accounts payable, accrued expenses and other liabilities are carried at cost which is the fair value of the consideration to be paid in the future for the services received, whether or not billed to the Company.

**Trade date accounting**

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

**Fair values 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, premiums and insurance balances receivable, due from related parties, due from shareholders' operations, investments, reinsurers' share of outstanding claims and other assets and its financial liabilities consist of accounts payables, reinsurance balances payable, gross outstanding claims, due to insurance operations, due to a related party and other liabilities.

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

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

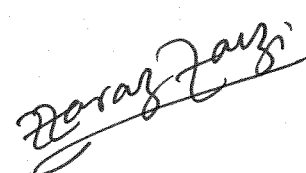
Level 3: valuation techniques for which any significant input is not based on observable market data.

**End-of-service indemnities**

Employees' end-of-service indemnities are accrued based on the completed service and are payable as a lump sum to all employees under the terms and conditions of Saudi Arabian Labor Regulations on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled at the statement of financial position date. End-of-service payments are based on employee's final salaries and allowances and their cumulative years of service, as stipulated by the Saudi Arabian Labor Regulations.

**Foreign currency translation**

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statements of insurance operations and shareholders' comprehensive income.





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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Statutory reserve**

In accordance with Regulations for Companies in Saudi Arabia and its by-laws, the Company shall allocate 20% of the net shareholders' income each year to the statutory reserve until the reserve equals 100% of the share capital.

**Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the 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 are not offset in the statement of insurance operations and statement of shareholders' comprehensive income unless required or permitted by any accounting standard or interpretation.

**Premiums earned and reinsurance commission income**

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

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

- Premiums written in the last three months of the financial year for marine business
- Actual number of days for other lines of business

**Premiums receivable**

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

**Premium deficiency reserve**

The Company carries out an analysis of loss/combined ratios for the expired period. Such ratios are being calculated by taking into account the relevant incurred but not reported provision and then used for the determination of a premium deficiency reserve for each class of business.

**Gross outstanding claims**

Claims consist of amounts payable to policyholders and related loss adjustment expenses, net of salvage and other recoveries, and are charged to the statement of insurance operations as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at reporting date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date. The ultimate liability may be in excess of or less than the amount provided.

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

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Liability adequacy test**

At each reporting date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an unexpired risk provision is created.

**Deferred policy acquisition costs**

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned.

**Reinsurance**

The Company's reinsurance program is affected through proportional, non proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of the risks. The Company cedes insurance risk in the normal course of business for all of its lines of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. 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.

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.

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

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Claims recoverable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are also recognised as a liability and are measured at the amount expected to be recovered.

**Surplus distribution payable**

Surplus distribution payable represents policyholders' share of surplus generated by insurance operations during the year and is calculated at 10% of the total surplus generated.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Leasing**

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

**Operating segments**

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

- Property, which covers fire and allied perils, property all risks.
- Motor, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Engineering, which provides coverage against the Contractors' all risks (CAR), Erection all risks (EAR), Machinery all risks etc.
- Medical, which covers medical costs, medicines, and all other medical services and supplies.
- Marine, which covers marine cargo and marine hull.
- Other classes include casualty which provides coverage against the loss of money, personal accident, workmen's compensation, travel, public liability, employee dishonesty, comprehensive personal insurance and any other classes of insurance not included above.

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

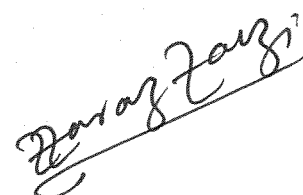
**4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles 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. Further, details of the specific estimates and judgments made by management are given in the accounting policy note.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed as follows.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)**

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

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

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

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

**Impairment losses on receivables**

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

**Deferred policy acquisition costs**

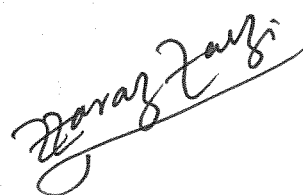
Certain acquisition costs related to the sale of new policies are recorded as deferred policy acquisition costs (DAC) and are amortized in the statement of insurance operations over the related year of policy coverage. If the assumptions relating to future profitability of these policies are not realized,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

**5. ASSETS AND LIABILITIES PURCHASE AGREEMENT AND COMMENCEMENT OF ACTIVITIES**

The Company started its insurance operations on February 13, 2010. The Company's Board of Directors approved on April 14, 2010, to transfer the 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 Saudi Arabian Monetary Agency (SAMA's) letter addressed to the Company on March 24, 2010. The transfer of the 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 letter of November 10, 2008 ("the Letter"), the value of combined goodwill was estimated at SR 64.14 million.

Following the approval on the transfer from the respective authorities in 2012, the management has reissued its financial statements for the period from inception (November 15, 2009) to December 31, 2010 and for the year ended December 31, 2011 to include the effect of the transfer.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**6. CASH AND CASH EQUIVALENTS**

	2012		2011	
	Insurance operations SR	Shareholders' operations SR	Insurance operations SR	Shareholders' operations SR
Cash in hand	42,500	-	77,604	-
Cash at banks - Current accounts	12,460,700	30,878,826	13,873,368	24,455,671
- Time deposits	45,280,143	-	30,056,227	-
	<b>57,783,343</b>	<b>30,878,826</b>	44,007,199	24,455,671

Included in cash and cash equivalents is SR 26.48 million (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**

	2012 SR	2011 SR
Premiums receivable	54,858,452	49,280,584
Receivables from insurance and reinsurance companies	6,337,343	7,991,579
Premiums receivable from related parties (note 22)	27,576,263	54,377,041
	<b>88,772,058</b>	111,649,204
Less: allowance for doubtful debts	(15,715,621)	(20,285,948)
	<b>73,056,437</b>	91,363,256

Allowance for doubtful debts includes SR 3,809,846 (2011: SR 7,240,171) against receivables from related parties.

The aging analysis of premiums and insurance balances receivable as at December 31, 2012 is set out below:

Amounts in SR	Neither past due nor impaired	Past due but not impaired		Total
		91 to 180 days	More than 180 days	
Premiums receivable	23,746,603	12,143,097	18,968,752	54,858,452
Receivables from insurance and reinsurance companies	1,971,740	202,451	4,163,152	6,337,343
Premiums receivable from related parties	16,232,037	5,276,468	6,067,758	27,576,263
	<b>41,950,380</b>	<b>17,622,016</b>	<b>29,199,662</b>	<b>88,772,058</b>

Premiums and insurance balances receivable comprise a large number of customers and related parties mainly within the Kingdom of Saudi Arabia as well as reinsurance companies. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual, company or broker accounts for more than 19% of the premiums and insurance balances receivable as at December 31, 2012 (2011: 33%). In addition, the five largest customers/brokers account for 40% of the premiums and insurance balances receivable as at December 31, 2012 (2011: 46%).

Unimpaired premiums and insurance balances receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**8. MOVEMENT IN UNEARNED PREMIUMS**

	2012 SR	2011 SR
Gross unearned premiums- opening balance	90,251,887	72,975,000
Gross unearned premiums- closing balance	(103,792,000)	(90,251,887)
Movement in unearned premiums, gross	(13,540,113)	(17,276,887)
Reinsurers' share of unearned premiums - opening balance	(36,425,889)	(26,357,000)
Reinsurers' share of unearned premiums - closing balance	38,856,217	36,425,889
Movement in reinsurers' share of unearned premiums	2,430,328	10,068,889
Movement in unearned premiums, net	(11,109,785)	(7,207,998)

**9. CLAIMS**

	2012		
	Gross SR	Reinsurers' share SR	Net SR
Claims paid	115,096,181	(34,853,071)	80,243,110
Claims provided during the year	99,532,472	(66,721,877)	32,810,595
IBNR provided during the year	35,102,794	(17,755,029)	17,347,765
	249,731,447	(119,329,977)	130,401,470
Less: Opening balance:			
Outstanding claims	119,266,419	(74,200,628)	45,065,791
IBNR	31,910,000	(16,173,000)	15,737,000
	151,176,419	(90,373,628)	60,802,791
Incurred during the year	98,555,028	(28,956,349)	69,598,679
<b>As at December 31</b>			
Outstanding claims	99,532,472	(66,721,877)	32,810,595
IBNR	35,102,794	(17,755,029)	17,347,765
	134,635,266	(84,476,906)	50,158,360
Less: Opening balance:			
Outstanding claims	119,266,419	(74,200,628)	45,065,791
IBNR	31,910,000	(16,173,000)	15,737,000
	151,176,419	(90,373,628)	60,802,791
Changes in outstanding claims	(16,541,153)	5,896,722	(10,644,431)

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**9. CLAIMS (Continued)**

	2011		
	Gross	Reinsurers'	Net
	SR	share	SR
		SR	
Claims paid	117,218,449	(46,446,833)	70,771,616
Claims provided during the year	119,266,419	(74,200,628)	45,065,791
IBNR provided during the year	31,910,000	(16,173,000)	15,737,000
	268,394,868	(136,820,461)	131,574,407
Less: Opening balance:			
Outstanding claims	68,382,583	(27,586,628)	40,795,955
IBNR	29,318,000	(11,567,000)	17,751,000
	97,700,583	(39,153,628)	58,546,955
Incurred during the year	170,694,285	(97,666,833)	73,027,452
<b>As at December 31</b>			
Outstanding claims	119,266,419	(74,200,628)	45,065,791
IBNR	31,910,000	(16,173,000)	15,737,000
	151,176,419	(90,373,628)	60,802,791
Less: Opening balance:			
Outstanding claims	68,382,583	(27,586,628)	40,795,955
IBNR	29,318,000	(11,567,000)	17,751,000
	97,700,583	(39,153,628)	58,546,955
Changes in outstanding claims	53,475,836	(51,220,000)	2,255,836

**10. DEFERRED POLICY ACQUISITION COSTS**

	2012	2011
	SR	SR
At January 1	5,997,709	6,373,620
Cost incurred during the year	11,903,335	16,014,560
Charge for the year	(13,211,345)	(16,390,471)
December 31	4,689,699	5,997,709

**11. PREPAYMENTS AND OTHER ASSETS**

	2012		2011	
	Insurance	Shareholders'	Insurance	Shareholders'
	operations	operations	operations	Operations
	SR	SR	SR	SR
Prepaid rent	293,223	-	104,028	-
Employees' housing advances	917,513	-	423,337	-
Other prepaid expenses	402,579	-	354,902	-
Other assets	2,983,831	430,127	886,242	69,398
	4,597,146	430,127	1,768,509	69,398

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**12. PROPERTY AND EQUIPMENT**

	<b>Furniture, fixtures and office equipment SR</b>	<b>Motor vehicles SR</b>	<b>Total SR</b>
<b>Cost:</b>			
January 1, 2011	6,940,216	943,150	7,883,366
Additions	374,162	-	374,162
Disposals	-	(558,700)	(558,700)
December 31, 2011	7,314,378	384,450	7,698,828
Additions	<b>853,934</b>	-	<b>853,934</b>
December 31, 2012	<b>8,168,312</b>	<b>384,450</b>	<b>8,552,762</b>
<b>Depreciation:</b>			
January 1, 2011	5,741,807	589,577	6,331,384
Charged for the year	665,755	180,551	846,306
Disposals	-	(465,831)	(465,831)
December 31, 2011	6,407,562	304,297	6,711,859
Charged for the year	<b>636,582</b>	<b>64,424</b>	<b>701,006</b>
December 31, 2012	<b>7,044,144</b>	<b>368,721</b>	<b>7,412,865</b>
<b>Net book value:</b>			
December 31, 2012	<b>1,124,168</b>	<b>15,729</b>	<b>1,139,897</b>
December 31, 2011	906,816	80,153	986,969

**13. INVESTMENTS**

**a) Insurance operations – Investment**

This includes SR 1,923,079 in respect of Company's share in the capital of Najm for Insurance Services.

**b) Shareholders' operations – Available for sale investments**

	<b>Amortised Cost SR</b>	<b>Market Value SR</b>
<b>Bonds</b>		
Tourism Development Investment Company (TDIC), (100% owned by Abu Dhabi Government)	<b>3,957,442</b>	<b>4,003,125</b>
Abu Dhabi National Energy Company (TAQA), (51% owned by Abu Dhabi Government)	<b>3,846,540</b>	<b>3,851,700</b>
<b>Sukuks</b>		
Saudi Electricity Company	<b>18,970,969</b>	<b>19,331,062</b>
	<b>26,774,951</b>	<b>27,185,887</b>

The effective special commission income ranges between 2.1% to 2.7% in case of Bonds and 2.4% in case of Sukuks.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**14. STATUTORY DEPOSIT**

The statutory deposit represents 10% of the paid-up 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.

**15. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2012		2011	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
	SR	SR	SR	SR
Accrued salaries and benefits	3,348,540	-	2,725,062	600,000
Accrued supervision fees	431,415	-	434,390	-
Board of Directors' remuneration	-	488,000	-	500,000
Provision for zakat and income tax (note 21)	-	6,177,218	-	3,574,058
Withholding tax payable	4,033,317	-	3,501,016	-
Accrued IT related services	2,500,000	-	2,378,496	-
Accrued legal and professional fees	700,000	-	1,872,169	-
Outsourced service charges payable (note 22)	6,900,000	-	7,768,827	-
Other accrued expenses	2,366,605	875,975	5,222,870	400,148
	<b>20,279,877</b>	<b>7,541,193</b>	<b>23,902,830</b>	<b>5,074,206</b>

**16. END-OF-SERVICE INDEMNITIES**

	2012	2011
	SR	SR
At January 1	6,813,067	7,598,041
Charged during the year (note 18)	2,276,432	2,013,942
Transfer from a related party	-	89,748
Paid during the year	(551,304)	(2,888,664)
December 31	<b>8,538,195</b>	<b>6,813,067</b>

**17. UNEARNED REINSURANCE COMMISSION INCOME**

	2012	2011
	SR	SR
At January 1	4,544,143	3,049,002
Reinsurance commission received during the year	24,763,113	20,820,688
Reinsurance commission earned during the year	(21,468,122)	(19,325,547)
December 31	<b>7,839,134</b>	<b>4,544,143</b>

**18. OPERATING AND ADMINISTRATIVE SALARIES – INSURANCE OPERATIONS**

	2012	2011
	SR	SR
Salaries and benefits	34,576,330	29,287,985
End-of-service indemnities (note 16)	2,276,432	2,013,942
	<b>36,852,762</b>	<b>31,301,927</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**19. OTHER GENERAL AND ADMINISTRATIVE EXPENSES – INSURANCE OPERATIONS**

	2012 SR	2011 SR
Outsourced service charges (note 22)	6,900,000	6,976,843
Rent (note 30)	1,745,431	1,487,249
(Reversal)/provision for doubtful debts	(4,570,327)	8,561,721
Depreciation	701,068	846,306
Professional fees	723,926	3,034,109
Business travel and transport	3,967,410	2,286,503
IT related services	4,008,958	1,389,882
Utilities	1,348,583	995,171
Stationery	401,682	218,542
Fees and subscriptions	-	27,925
Promotion and advertising	108,899	1,199,993
Others	1,031,701	801,691
	<b>16,367,331</b>	<b>27,825,935</b>

**20. GENERAL AND ADMINISTRATIVE EXPENSES – SHAREHOLDERS' OPERATIONS**

	2012 SR	2011 SR
Salaries and benefits	350,000	600,000
Remuneration of the Board of Directors (note 22)	488,000	500,000
Legal and professional fees	639,493	900,011
Others	442,544	432,816
	<b>1,920,037</b>	<b>2,432,827</b>

**21. ZAKAT AND INCOME TAX**

**a) Zakat base**

The principal elements of zakat base are as following:

	2012 SR	2011 SR
Non-current assets	21,139,897	20,986,969
Opening shareholders equity	136,315,562	157,535,060
Investments	29,658,966	2,473,079
Net income (loss) for the year before zakat and income tax	3,762,831	(18,007,701)

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

**b) Movement in the provision for zakat and income tax during the year**

The movement in zakat and income tax provision is as follows:

	2012 SR	2011 SR
<b><u>Zakat:</u></b>		
Opening balance	3,574,058	3,266,425
Provision for the year	3,020,566	3,211,797
Paid during the year	(469,483)	(2,904,164)
December 31	<b>6,125,141</b>	<b>3,574,058</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**21. ZAKAT AND INCOME TAX (Continued)**

<u>Income tax:</u>	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Provision for the year	52,077	-
December 31	52,077	-

The charge for the year for zakat and income tax is as follows:

	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Zakat	3,020,566	3,211,797
Income tax	52,077	-
Charged to statement of shareholders' comprehensive income	3,072,643	3,211,797

**Outstanding assessments**

The Company has submitted its zakat and income tax returns up to the year ended December 31, 2011, obtained the required certificates and official receipts. Final assessments for the years 2010 and 2011 are still under review by the DZIT.

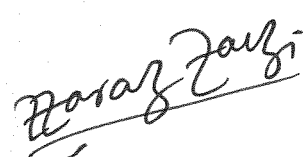
**Deferred tax**

Temporary and permanent differences between financial income and taxable income as determined under Saudi Arabian tax laws, for the year ended December 31, 2012, are not significant and hence no deferred tax has been recognized.

**22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

The following are the details of major transactions with related parties during the year:

<u>Related parties</u>	<u>Nature of transactions</u>	<u>2012</u> <u>SR</u>	<u>2011</u> <u>SR</u>
Shareholders/affiliates	Gross written premiums	93,582,190	90,162,780
	Gross claims paid and other expenses	62,271,678	59,502,432
	Reinsurance premiums ceded	44,330,161	37,003,344
	Reinsurers' share of gross claims paid	9,219,084	13,718,714
	Reinsurance commission income	12,856,578	11,377,881
	Outsourced service charges	6,900,000	6,976,843
	Brand fee	30,100	30,100
Board of Directors	Remuneration and meeting fee	488,000	500,000

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**

Balances due from (due to) related parties are comprised of following:

<b>Related parties</b>	<b>Nature of transactions</b>	<b>2012 SR</b>	<b>2011 SR</b>
Shareholders/affiliates	Premiums receivable	27,576,263	54,377,041
	Gross outstanding claims and expenses	(55,339,134)	(58,161,335)
	Reinsurers' share of gross outstanding claims	24,272,489	26,126,683
	Outsourced service charges payable	(6,900,000)	(7,768,827)
	Brand fee payable	(90,300)	(60,200)
Board of Directors	Remuneration and meeting fee payable	(488,000)	(500,000)

**Compensation of key management personnel**

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

	<b>2012 SR</b>	<b>2011 SR</b>
Salaries and benefits	6,189,071	6,064,035
End-of-service indemnities	152,692	156,766
	<b>6,341,763</b>	<b>6,220,801</b>

**23. SHARE CAPITAL**

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

**24. EARNINGS (LOSS) PER SHARE**

Earnings (loss) per share for the year has been calculated by dividing the net income (loss) for the year before zakat and income tax by the weighted average number of ordinary shares outstanding during the year.

**25. 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 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 at the end of the year.

**26. GEOGRAPHICAL DISTRIBUTION**

All the assets and liabilities of the Company are located in the Kingdom of Saudi Arabia.

*Haraz Zaibi*

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**27. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial assets and liabilities include cash and cash equivalents, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of investments which are carried at cost.

**28. CONTINGENCIES AND COMMITMENTS**

**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 be paid out of any retained earnings from earlier years;
- The payment is restricted to 50% of the profit earned in the first 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 was 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 a 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.

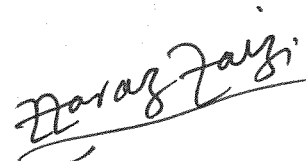
**29. SEGMENTAL INFORMATION**

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 income.

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 and end-of-service indemnities.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**29. SEGMENTAL INFORMATION (Continued)**

**Operating Segments**

For the year ended December 31, 2012	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
<b>Insurance operations</b>							
Gross written premiums	52,372,476	95,454,235	22,203,778	10,295,897	35,282,647	32,460,678	248,069,711
Reinsurance premiums ceded	(46,307,601)	-	(18,177,318)	(2,391,976)	(21,863,681)	(15,879,274)	(104,619,850)
Excess of loss premiums	(2,424,306)	(4,351,521)	(2,447,123)	(350,236)	(1,823,287)	(726,675)	(12,123,148)
Net premiums written	3,640,569	91,102,714	1,579,337	7,553,685	11,595,679	15,854,729	131,326,713
Change in unearned premiums, net	(1,304,770)	(10,040,900)	802,548	652,994	309,444	(1,529,101)	(11,109,785)
Net premiums earned	2,335,799	81,061,814	2,381,885	8,206,679	11,905,123	14,325,628	120,216,928
Gross claims paid and other expenses	(11,468,885)	(70,474,283)	(5,120,949)	(9,800,902)	(11,688,883)	(6,542,279)	(115,096,181)
Reinsurers' share of gross claims paid	10,880,299	3,500,000	3,629,364	4,755,952	6,769,322	5,318,134	34,853,071
Change in outstanding claims, net	(35,100)	12,715,873	4,301	(293,998)	(1,462,984)	(283,661)	10,644,431
Net claims incurred	(623,686)	(54,258,410)	(1,487,284)	(5,338,948)	(6,382,545)	(1,507,806)	(69,598,679)
Policy acquisition costs	(2,065,321)	(5,613,868)	(2,564,987)	(331,612)	(1,940,016)	(695,541)	(13,211,345)
Reinsurance commission income	7,589,258	-	4,861,448	-	7,175,218	1,842,198	21,468,122
	7,236,050	21,189,536	3,191,062	2,536,119	10,757,780	13,964,479	58,875,026
Other underwriting expenses	-	-	-	-	-	-	(1,180,667)
Net underwriting result							57,694,359
Operating and administrative salaries							(36,852,762)
Other general and administrative expenses							(16,367,331)
Special commission income							347,558
Other income, net							58,185
Insurance operations' surplus							<u>4,880,009</u>
<b>As at December 31, 2012</b>	<b>Property SR</b>	<b>Motor SR</b>	<b>Engineering SR</b>	<b>Medical SR</b>	<b>Marine SR</b>	<b>Others SR</b>	<b>Total SR</b>
<b>Insurance operations' assets</b>							
Reinsurers' share of unearned premiums	16,801,832	-	8,814,912	2,096,979	4,920,168	6,222,326	38,856,217
Reinsurers' share of outstanding claims	46,971,330	290,997	12,039,580	2,264,977	15,044,150	7,865,872	84,476,906
Deferred policy acquisition costs	1,017,176	1,731,434	891,155	334,699	469,995	245,240	4,689,699
Unallocated assets	-	-	-	-	-	-	<u>196,084,726</u>
							<u>324,107,548</u>
<b>Insurance operations' liabilities</b>							
Unearned reinsurance commission income	4,068,786	-	1,760,940	-	1,487,985	521,423	7,839,134
Gross unearned premiums	19,207,808	47,042,530	10,359,896	6,363,936	9,105,909	11,711,921	103,792,000
Gross outstanding claims	51,044,490	24,349,757	19,362,806	4,232,958	21,371,786	14,273,469	134,635,266
Unallocated liabilities	-	-	-	-	-	-	<u>77,841,148</u>
							<u>324,107,548</u>

*Haras Jaisi*

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**29. SEGMENTAL INFORMATION (Continued)**

**Operating Segments**

For the year ended December 31, 2011	Property SR	Motor SR	Engineering SR	Medical SR	Marine SR	Others SR	Total SR
<b>Insurance operations</b>							
Gross written premiums	45,167,548	84,054,710	22,899,771	17,505,825	31,660,683	26,641,734	227,930,271
Reinsurance premiums ceded	(40,904,392)	-	(17,161,230)	(7,675,923)	(17,486,425)	(13,336,842)	(96,564,812)
Excess of loss premiums	(1,733,555)	(1,610,681)	(2,260,888)	(303,316)	(3,236,420)	(895,461)	(10,040,321)
Net premiums written	2,529,601	82,444,029	3,477,653	9,526,586	10,937,838	12,409,431	121,325,138
Change in unearned premiums, net	(485,212)	(8,961,919)	2,029,424	(1,843,982)	2,755,742	(702,051)	(7,207,998)
Net premiums earned	2,044,389	73,482,110	5,507,077	7,682,604	13,693,580	11,707,380	114,117,140
Gross claims paid and other expenses	(35,052,649)	(54,447,077)	(7,332,927)	(8,609,914)	(6,680,933)	(5,094,949)	(117,218,449)
Reinsurers' share of gross claims paid	31,994,288	-	4,498,155	4,866,951	1,492,472	3,594,967	46,446,833
Change in outstanding claims, net	(1,688,283)	(743,388)	1,729,982	(39,999)	241,297	(1,755,445)	(2,255,836)
Net claims incurred	(4,746,644)	(55,190,465)	(1,104,790)	(3,782,962)	(4,947,164)	(3,255,427)	(73,027,452)
Policy acquisition costs	(2,354,614)	(8,251,315)	(2,783,683)	(449,118)	(1,505,954)	(1,045,787)	(16,390,471)
Reinsurance commission income	9,097,685	-	3,853,089	-	4,138,084	2,236,689	19,325,547
	4,040,816	10,040,330	5,471,693	3,450,524	11,378,546	9,642,855	44,024,764
Other underwriting expenses	-	-	-	-	-	-	(1,833,389)
Net underwriting result							42,191,375
Operating and administrative salaries							(31,301,927)
Other general and administration expenses							(27,825,935)
Special commission income							96,479
Other income, net							181,668
Insurance operations' deficit							(16,658,340)
<b>As at December 31, 2011</b>	<b>Property SR</b>	<b>Motor SR</b>	<b>Engineering SR</b>	<b>Medical SR</b>	<b>Marine SR</b>	<b>Others SR</b>	<b>Total SR</b>
<b>Insurance operations' assets</b>							
Reinsurers' share of unearned premiums	15,803,625	-	7,504,369	4,369,956	4,099,729	4,648,210	36,425,889
Deferred policy acquisition costs	518,523	3,831,883	874,168	46,317	493,030	233,788	5,997,709
Reinsurers' share of outstanding claims	54,198,358	3,267,967	14,456,255	3,337,967	8,366,216	6,746,865	90,373,628
Unallocated assets	-	-	-	-	-	-	198,152,340
							330,949,566
<b>Insurance operations' liabilities</b>							
Gross unearned premiums	16,904,831	37,001,630	9,851,901	9,289,907	8,594,914	8,608,704	90,251,887
Gross outstanding claims	58,236,418	40,042,600	21,783,782	5,011,950	13,230,868	12,870,801	151,176,419
Unearned reinsurance commission income	1,987,150	-	1,276,720	-	1,230,820	49,453	4,544,143
Unallocated liabilities	-	-	-	-	-	-	84,977,117
							330,949,566

*Haraz Farsi*

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**30. OPERATING LEASE ARRANGEMENTS**

	2012		2011	
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
	SR	SR	SR	SR
Payments under operating leases recognized as an expense during the year	1,745,431	-	1,487,249	-

Operating lease payments represent rentals payable by the Company for the offices. Leases are negotiated for an average term of one year and rental is fixed for the term of the lease.

**31. RISK MANAGEMENT**

**Risk governance**

The management ensures risk is managed to reduce losses and ensure opportunities for profitable growth are taken. The Company operates under a framework through which risk management and control is embedded in its various activities.

**Board of Directors:**

The Board is responsible for the Company's risk management system and defining the Company's risk appetite.

**Executive management:**

Executive management is responsible for implementing systems and controls that manage risk exposures to the risk appetite.

The Risk Committee ensures that material risks are identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

The Company has '3 lines of defence' for the oversight and management of risks as follows:

**1st line – management:**

Setting strategy, performance measurement, establishment and maintenance of internal control and risk management in the business.

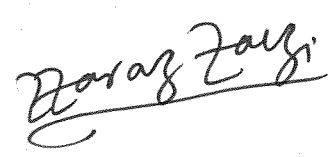
**2nd line – risk oversight:**

- Operating a formal risk management framework within which the Company policies and minimum standards are set;
- Oversight and challenge across the Company

**3rd line – independent assurance (Internal Audit)**

Providing independent and objective assurance of the effectiveness of the Company's systems of internal control established by the first and second lines of defence. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The Company's policy statements set out the minimum standards to be maintained by the Company's operations to manage their risks in a way that is consistent with the risk appetite.





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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**31. RISK MANAGEMENT (Continued)**

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

**Insurance risk management**

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies, procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local market are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The Company observes the credit standards set by SAMA and follows the international reinsurance counterparty best practices. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary. This is done both at the case and portfolio levels.

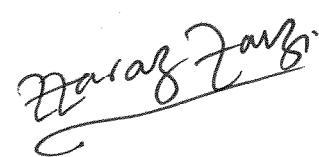
**Frequency and Severity of Claims**

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly property, engineering, motor, casualty, medical and marine classes. These classes of insurance except for long tail engineering policies are generally regarded as annual insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

**Property**

Property insurance contracts, with the main peril being fire, accidental damage and other allied perils resulting therefrom, are underwritten either on a replacement value or on a market value basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties and the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional as well as non-proportional treaties.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**31. RISK MANAGEMENT (Continued)**

**Engineering**

The engineering business includes long term Erection All Risks ("EAR") and Contractor All Risk ("CAR") policies and annual policies for Machinery Break Down ("MBD"), Machinery All Risk, Electronic Data Processing, Business Interruption in conjunction with MBD. The long tail EAR/CAR policies cover various projects for the whole project period. Selection of the risks and proper underwriting are the criteria for this line of business. These are adequately covered under the Engineering proportional and non-proportional treaties.

**Motor**

For motor insurance contracts, the main elements of risk are claims arising out of insured vehicles as well as damage to third parties' properties. Further, death claims compensation are made in accordance with the laws as applicable in the Kingdom of Saudi Arabia.

This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

**Marine**

In marine insurance, the main risk elements are loss or damage to insured cargo due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Reinsurance arrangements have been made with reinsurers through proportional treaties as well as non-proportional treaties.

**Medical**

Medical insurance is compulsory in Saudi Arabia and the coverage and limits are as prescribed by the Council of Cooperative Health Insurance ("CCHI"). Selection of the groups covered, proper pricing and effective claims management are the core areas for profitable underwriting of this line of business. Medical insurance is covered by a separate proportional reinsurance treaty.

**Others**

Other classes include casualty which provides coverage against the loss of money, personal accident, workmen's compensation, travel, public liability, employee dishonesty, comprehensive personal insurance. The extent of loss or damage is the main factor that influences the level of claims.

**Concentration of insurance risk**

The Company does not have insurance contracts covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation.

**Regulatory risk (Non-compliance risk)**

Regulatory Risk is the risk to the Company of not meeting the legal and regulatory requirements in the Kingdom of Saudi Arabia.

The regulatory compliance framework is aligned with the Company's business principles and commitments and sets out the Company's standards and practices to comply with all regulatory requirements. It is our priority that we are adequately capitalised, our operations are prudently managed and lawfully and ethically conducted.

**AL ALAMIYA FOR COOPERATIVE INSURANCE COMPANY**  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**31. RISK MANAGEMENT (Continued)**

**Credit risk**

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

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company's investment portfolio is managed by the investment committee in accordance with the investment policy established by that committee.
- Cash and cash equivalents as well as term deposits are restricted to commercial banks having strong financial positions and credit ratings.

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

	2012		2011	
	Insurance operations SR	Shareholders operations SR	Insurance operations SR	Shareholders operations SR
Cash and cash equivalents	57,783,343	30,878,826	44,007,199	24,455,671
Time deposits	-	90,742,725	-	118,205,017
Investments	2,473,079	27,185,887	2,473,079	-
Premiums and insurance balances receivable	88,772,058	-	111,649,204	-
Reinsurers' share of outstanding claims	84,476,906	-	90,373,628	-
Due from related parties	29,378,370	-	25,504,866	-
Other assets	917,513	430,127	423,337	69,398
	<b>263,801,269</b>	<b>149,237,565</b>	<b>274,431,313</b>	<b>142,730,086</b>

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

*Haraz Zaizi*

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**31. RISK MANAGEMENT (Continued)**

**Maturity profiles**

The table below summarises the maturity profile of the financial assets and liabilities of the Company based on remaining expected undiscounted contractual obligations:

	2012		
	Up to one year SR	More than one year SR	Total SR
<b>INSURANCE OPERATIONS' FINANCIAL ASSETS</b>			
Cash and cash equivalents	57,783,343	-	57,783,343
Investments	-	2,473,079	2,473,079
Premiums and Insurance balances receivable	88,772,058	-	88,772,058
Reinsurance share in outstanding claims	84,476,906	-	84,476,906
Due from related parties	29,378,370	-	29,378,370
Other assets	917,513	-	917,513
	<b>261,328,190</b>	<b>2,473,079</b>	<b>263,801,269</b>
<b>SHAREHOLDERS' FINANCIAL ASSETS</b>			
Cash and cash equivalents	30,878,826	-	30,878,826
Time deposits	90,742,725	-	90,742,725
Other assets	430,127	-	430,127
Available for sale investments	-	27,185,887	27,185,887
	<b>122,051,678</b>	<b>27,185,887</b>	<b>149,237,565</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>383,379,868</b>	<b>29,658,966</b>	<b>413,038,834</b>
	2011		
	Up to one year SR	More than one year SR	Total SR
<b>INSURANCE OPERATIONS' FINANCIAL ASSETS</b>			
Cash and cash equivalents	44,007,199	-	44,007,199
Investments	-	2,473,079	2,473,079
Premiums and Insurance balances receivable	111,649,204	-	111,649,204
Reinsurance share in outstanding claims	90,373,628	-	90,373,628
Due from related parties	25,504,866	-	25,504,866
Other assets	423,337	-	423,337
	<b>271,958,234</b>	<b>2,473,079</b>	<b>274,431,313</b>
<b>SHAREHOLDERS' FINANCIAL ASSETS</b>			
Cash and cash equivalents	24,455,671	-	24,455,671
Time deposits	118,205,017	-	118,205,017
Other assets	69,398	-	69,398
	<b>142,730,086</b>	<b>-</b>	<b>142,730,086</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>414,688,320</b>	<b>2,473,079</b>	<b>417,161,399</b>

*Haraz Zaiz*

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**31. RISK MANAGEMNT (Continued)**

	2012		
	Up to one year SR	More than one year SR	Total SR
<b>INSURANCE OPERATIONS' FINANCIAL LIABILITIES</b>			
Accounts payable	15,342,280	-	15,342,280
Reinsurance balances payable	28,759,017	-	28,759,017
Accrued expenses and other liabilities	15,815,145	-	16,246,560
Gross outstanding claims	134,635,266	-	134,635,266
	<b>194,551,708</b>	<b>-</b>	<b>194,983,123</b>
<b>SHAREHOLDERS' FINANCIAL LIABILITIES</b>			
Accrued expenses and other liabilities	1,363,975	-	1,363,975
	<b>1,363,975</b>	<b>-</b>	<b>1,363,975</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>195,915,683</b>	<b>-</b>	<b>196,347,098</b>
	2011		
	Up to one year SR	More than one year SR	Total SR
<b>INSURANCE OPERATIONS' FINANCIAL LIABILITIES</b>			
Accounts payable	11,035,157	-	11,035,157
Reinsurance balances payable	31,839,236	-	31,839,236
Accrued expenses and other liabilities	19,817,424	-	19,817,424
Gross outstanding claims	151,176,419	-	151,176,419
	<b>213,868,236</b>	<b>-</b>	<b>213,868,236</b>
<b>SHAREHOLDERS' FINANCIAL LIABILITIES</b>			
Accrued expenses and other liabilities	1,500,148	-	1,500,148
	<b>1,500,148</b>	<b>-</b>	<b>1,500,148</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>215,368,384</b>	<b>-</b>	<b>215,368,384</b>

**Liquidity profile**

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

**Foreign currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's assets and liabilities are denominated in Saudi Riyals except investments made during the year amounting to SR 27,185,887 by shareholders for which currency of investment is US\$. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**31. RISK MANAGEMENT (Continued)**

**Commission rate risk**

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the company to cash flow commission risk, whereas fixed commission rate instruments expose the company to fair value interest risk.

The Company is exposed to commission rate risk on certain of its time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of the statement of shareholders' comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders' comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at December 31:

	Change in basis points	Effect on comprehensive income for the year SR
2012	+10	-
2012	-10	-
2011	+10	785
2011	-10	(785)

**Market price risk**

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

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted.

**Capital management**

Capital requirements are set and regulated by SAMA. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholder value.

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

**32. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on February 13, 2013 corresponding to 3 Rabi II, 1434H.

