SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)

Financial Statements
For the year ended 31 December 2012
together with the Independent auditors' report

Aldar Audit Bureau
Abdullah AlBasri & Co.

KPMG Al Fozan & Al Sadhan

INDPENDENT AUDITORS' REPORT ON FINANACIAL STATEMENTS TO THE SHAREHOLDERS OF SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY (A Saudi Joint Stock Company)

Scope of audit

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

Unqualified opinion:

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

- present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and

- comply with the requirements of the Regulations for Companies and the Company's Bye-laws in so far as they affect the preparation and presentation of the financial statements.

Emphasis of a matter

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

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Date: 18 February 2013
Corresponding to: 8 Rabi Al-Thani 1434

ALDAR AUDIT BUREAU Professional Partnership Co. Head Office Riyadh Licence No. 323/11/36 Certified Accountants Abdullah Al Basri & Co.

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

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
(Amount in Saudi Riyals)

	Note	31 December 2012	31 December 2011
ASSETS - INSURANCE OPERATIONS			
Cash and cash equivalents	*4*	**65,479,976**	118,055,360
Premiums receivable, net	*11*	**63,395,494**	61,083,979
Reinsurers' balance receivable, net		**9,735,595**	24,679,216
Reinsurers' share of outstanding claims and other technical reserves	*9(b)*	**37,611,190**	32,128,970
Reinsurers' share of unearned premium	*10(b)*	**13,562,340**	27,294,892
Deferred policy acquisition cost	*12*	**7,027,284**	10,117,495
Prepayments and other assets		**9,669,101**	6,114,363
Property and equipment, net	*7*	**3,486,781**	4,819,063
Total assets - insurance operations		**209,967,761**	284,293,338
ASSETS - SHAREHOLDERS' OPERATIONS			
Cash and cash equivalents	*4*	**49,940,289**	34,655,033
Statutory deposit	*14*	**20,918,419**	20,778,852
Investments – available for sale	*6*	**40,145,978**	43,702,108
Loan receivable	*6(c)*	**500,000**	500,000
Due from insurance operations		**4,901,022**	15,386,473
Prepayments and other assets		**19,111**	426,614
Total assets - shareholders' operations		**116,424,819**	115,449,080
Total Assets		**326,392,580**	399,742,418
LIABILITIES - INSURANCE OPERATIONS			
Unearned premium reserve	*10(b)*	**67,695,866**	83,486,109
Reinsurers' balances payable		**3,404,068**	35,603,651
Accrued expenses and other liabilities		**37,484,048**	40,305,391
Outstanding claims and other technical reserves	*9*	**90,709,402**	104,267,446
Unearned commission income		**3,282,388**	3,334,401
End-of-service indemnities		**2,490,967**	1,909,867
Due to shareholders' operations		**4,901,022**	15,386,473
Total liabilities - insurance operations		**209,967,761**	284,293,338
LIABILITIES - SHAREHOLDERS' OPERATIONS			
Accrued expenses and other liabilities		**387,025**	97,525
Zakat payable	*8(b)*	**9,935,141**	8,242,480
Total liabilities - shareholders' operations		**10,322,166**	8,340,005
TOTAL LIABILITIES		**220,289,927**	292,633,343
SHAREHOLDERS' EQUITY			
Share capital	*15*	**200,000,000**	200,000,000
Accumulated deficit		**(105,306,937)**	(97,977,041)
Fair value reserve on investment	*6*	**11,409,590**	5,086,116
Total shareholders' equity		**106,102,653**	107,109,075
Total Liabilities and Shareholders' Equity		**326,392,580**	399,742,418

The accompanying notes 1 to 22 form an integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER
(Amount in Saudi Riyals)

	Note	2012	2011
Gross insurance premiums written		**182,260,854**	228,895,175
Gross inward reinsurance premiums written		**1,267,062**	2,430,529
Total gross written premium	10(a)	**183,527,916**	231,325,704
Reinsurance premiums ceded	10(a)	**(45,394,384)**	(60,888,610)
Net written premiums	10(a)	**138,133,532**	170,437,094
Changes in unearned premiums	10(a)	**15,790,243**	(3,385,387)
Changes in reinsurance unearned premiums	10(a)	**(13,732,552)**	5,537,757
Net earned premiums		**140,191,223**	172,589,464
Reinsurance commission		**8,422,282**	9,399,632
Policy fee		**227,934**	221,472
Underwriting revenue		**148,841,439**	182,210,568
Gross claims paid	9(a)	**(141,976,091)**	(165,257,802)
Reinsurance share of claims paid	9(a)	**30,422,378**	60,708,967
Net claim paid	9(a)	**(111,553,713)**	(104,548,835)
Net changes in outstanding claim reserve	9(a)	**9,554,458**	(9,957,725)
Net changes in other technical reserve	9(a)	**9,485,806**	(9,233,003)
Net claims incurred		**(92,513,449)**	(123,739,563)
Policy acquisition costs	12	**(24,202,526)**	(27,310,625)
Other underwriting expenses, net		**(5,665,692)**	(4,621,713)
Reversal of / (addition to) impairment allowance against doubtful receivables		**5,246,810**	(15,087,357)
Underwriting expenses		**(117,134,857)**	(170,759,258)
Underwriting results		**31,706,582**	11,451,310
General and administration expenses	13	**(37,316,234)**	(39,349,566)
Loss on disposal of property and equipment	7(b)	**(57,162)**	--
Loss from insurance operations		**(5,666,814)**	(27,898,256)
Other income	4(b)	**471,275**	224,692
Net loss from insurance operations		**(5,195,539)**	(27,673,564)
Other comprehensive income		**--**	--
Total comprehensive loss from insurance operations		**(5,195,539)**	(27,673,564)
Transfer of comprehensive loss to shareholders' operations		**5,195,539**	27,673,564
Net results for the year after transfer of comprehensive loss to shareholders' operations		**--**	--

The accompanying notes 1 to 22 form integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER
(Amount in Saudi Riyals)

	Note	2012	2011
INCOME			
Commission income	*4(b)*	**610,231**	288,022
Dividend income from investments		**1,528,929**	1,521,521
Gain / (loss) on sale of investments		**253,944**	(756,131)
		2,393,104	1,053,412
EXPENSES			
Transfer of deficit from insurance operations		**(5,195,539)**	(27,673,564)
General and administration expenses	*13*	**(1,941,384)**	(1,312,521)
NET LOSS FOR THE YEAR BEFORE ZAKAT		**(4,743,819)**	(27,932,673)
Zakat		**(2,586,077)**	(2,129,138)
NET LOSS FOR THE YEAR		**(7,329,896)**	(30,061,811)
Other comprehensive income:			
Changes in fair value of available for sale investments, net		**6,323,474**	2,328,609
Total comprehensive loss for the year		**(1,006,422)**	(27,733,202)
Basic and diluted loss per share		**(0.37)**	(1.50)
Weighted average number of shares in issue		**20,000,000**	20,000,000

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The accompanying notes 1 to 22 form integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER
(Amount in Saudi Riyals)

	Share capital	Accumulated deficit	Fair value reserve on Investment	Total
Balance at 1 January 2011	200,000,000	(67,915,230)	2,757,507	134,842,277
Loss for the year	--	(30,061,811)	--	(30,061,811)
Other comprehensive income for the year	--	--	2,328,609	2,328,609
Balance at 31 December 2011	**200,000,000**	**(97,977,041)**	**5,086,116**	**107,109,075**
Loss for the year	--	**(7,329,896)**	--	**(7,329,896)**
Other comprehensive income for the year	--	--	**6,323,474**	**6,323,474**
Balance at 31December 2012	**200,000,000**	**(105,306,937)**	**11,409,590**	**106,102,653**

The accompanying notes 1 to 22 form integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER
(Amount in Saudi Riyals)

	2012	2011
Operating Activities		
Net results for the year	--	--
Adjustments for non cash items:		
Transfer to shareholders' operations	**(5,195,539)**	(27,673,564)
Depreciation	**1,938,525**	1,869,931
Provision for employees' end of service indemnities	**977,627**	635,756
(Reversal) / charge of impairment allowance against doubtful receivables	**(5,246,810)**	15,087,357
Loss on sale of property and equipment	**57,162**	--
Changes in operating assets and liabilities:		
Premiums receivable	**3,233,702**	12,482,273
Deferred policy acquisition costs, net	**3,090,211**	(2,171,845)
Prepayments and other assets	**(3,554,738)**	(648,481)
Unearned premium reserves, net	**(2,057,691)**	(2,152,369)
Unearned commission income	**(52,013)**	--
Reinsurers' balances payable	**(32,199,583)**	5,678,213
Accrued and other liabilities	**(2,821,343)**	4,374,104
Outstanding claims and other technical reserves, net	**(19,040,264)**	19,190,726
Reinsurance balance receivable	**14,645,214**	--
Due to shareholders' operations	**(5,289,912)**	44,549,733
Employees' end of service benefits paid	**(396,527)**	(169,994)
Net cash (used in) / from operating activities	**(51,911,979)**	71,051,840
Investing Activities		
Purchase of property and equipment	**(688,405)**	(2,724,914)
Consideration received from sale of property and equipment	**25,000**	--
Net cash used in investing activities	**(663,405)**	(2,724,914)
Net changes in cash and cash equivalents	**(52,575,384)**	68,326,926
Cash and cash equivalents, beginning of the year	**118,055,360**	49,728,434
Cash and cash equivalents, end of the year	**65,479,976**	118,055,360

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The accompanying notes 1 to 22 form integral part of these financial statements.

SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER
(Amount in Saudi Riyals)

	2012	2011
Operating Activities		
Net loss before zakat	**(4,743,819)**	(27,932,673)
Adjustments for non cash items:		
Transfer from insurance operations	**5,195,539**	27,673,564
(Gain)/ loss on sale of investments	**(253,944)**	756,131
Changes in operating assets and liabilities:		
Accrued expenses and other liabilities	**289,500**	(316,156)
Prepayments and other assets	**407,503**	977,358
Due from insurance operations	**5,289,912**	(44,549,733)
Zakat paid	**(893,416)**	(622,512)
Net cash from / (used) in operating activities	**5,291,275**	(44,014,021)
Investing Activities		
Statutory deposit	**(139,567)**	(152,336)
Redemption of investments – available for sale	**10,133,548**	43,093,981
Net cash from investing activities	**9,993,981**	42,941,645
Net changes in cash and cash equivalents	**15,285,256**	(1,072,376)
Cash and cash equivalents, beginning of the year	**34,655,033**	35,727,409
Cash and cash equivalents, end of the year	**49,940,289**	34,655,033
Non – cash supplemental information:		
Change in fair value of investments – available for sale	**6,323,474**	2,328,609

The accompanying notes 1 to 22 form integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Sanad Cooperative Insurance & Reinsurance Company ("the Company") is a Saudi Joint Stock Company incorporated under Ministerial Resolution dated Jumada Al Thani 15, 1428 H, (corresponding to 30 June 2007). The Company is registered in the Kingdom of Saudi Arabia under commercial registration number 1010235409 dated Jumad Al Thani 23, 1428 H (corresponding to 8 July 2007). The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 21 July 2007.

The Registered Office address of the Company is located at Dareen Center, Al Ahsa Street, Riyadh, 11417, Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for the available-for-sale investments which are measured at fair value and going concern concept.

As at 31 December 2012, the Company's solvency margin is below the limit prescribed by Saudi Arabian Monetary Agency (SAMA). However, based on Company's negotiations with SAMA, future business prospects and improvement in net results of the Company the management believes that the going concern assumption is valid and has therefore prepared the financial statements on a going concern basis.

2.2 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board.

As required by Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Insurance Operations and Shareholders' Operations. Assets, liabilities, revenues and expenses clearly attributable to each operation are recorded in their respective books. All common expenses are allocated to the operations consistently on the basis determined and approved by the Board of Directors.

2.3 Functional and presentation currency

The financial statements have been presented in Saudi Riyals, which is the functional and presentation currency of the Company.

2.4 Use of estimates and judgements

The preparation of annual financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual financial statements and the reported amounts of revenues and expenses during the reporting period.

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. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. BASIS OF PREPARATION (Continued)

2.4 Use of estimates and judgements (continued)

Details of the key estimates and judgments made by management pertain to:

- Impairment and uncollectibility of financial assets (note 3.10)
- Outstanding claims and other technical reserves (note 3.3)
- Fair value of investments (note 3.11)
- Unearned premium reserve (note 3.1)
- End of service indemnities (note 3.18)
- Useful life of property and equipment (note 3.14)

2.5 Prospective changes in accounting standards

Following are the Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards and interpretations at a future date when they become effective:

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

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

IFRS 9 Financial Instruments

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

IFRS 13 – Fair Value measurement

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

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). Adoption of the standard is not expected to have a material impact on the financial position or performance of the Company. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

2. BASIS OF PREPARATION (Continued)

2.5 *Prospective changes in accounting standards (continued)*

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

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Company by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default. These amendments become effective for annual periods beginning on or after 1 January 2014.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except for the adoption of Amendments to IFRS 7 – Financial instruments disclosures, which did not have any material effect on the financial performance or position of the Company.

The significant accounting policies adopted by the Company are described below

3.1 *Revenue Recognition*

Recognition of premium and commission revenue:

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

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 insurance coverage. The change in the provision for unearned premiums is taken to the "statement of comprehensive income - insurance operations", over the period of risk.

The underwriting results represents premiums earned and fee and commission income less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts subject to reinsurance, less provision for any anticipated future losses on continuing policies.

Investment income:

- Return on investments, profit and loss sharing accounts and bank deposits are recognised using effective interest rate method.
- Profit or loss on sale of investments is recognised on at the time of sale.
- Dividend income is recognised when right to receive such dividend is established

3.2 *Insurance contract*

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Claims

Claims, comprising amounts payable to policy holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the reporting date.

Outstanding claims and other technical reserves:

The Company generally estimates its claims based on previous experience. In addition a provision based on management's judgment is maintained for the cost of settling claims "incurred but not reported" and "unallocated loss adjustment expense reserve" at the reporting date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following period is included in the underwriting account for that period. The Company acquires services of independent actuary to determine such claims.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately.

3.4 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 as premiums are earned. Amortisation is recorded as exposure in the "statement of c omprehensive income - insurance operations".

3.5 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from Reinsurance Company. 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 period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the "statement of comprehensive income - 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 expire or when the contract is transferred to another party.

3.6 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 income and an unexpired risk provision is created. The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 *Investments*

All investments are initially recognized at fair value, including acquisition charges associated with the investment. Premiums are amortized and discounts accrued using the effective yield method and are taken to the "statement of comprehensive income – shareholders' operations".

Following initial recognition of investment securities, the subsequent period-end reporting values are determined on the basis as set out in the following paragraph:

Available for sale:

Investments which are classified as "available for sale" are initially recorded at cost including transaction cost and 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 gain or loss arising from a change in its fair value is recognized directly in shareholders' equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognized in the shareholders" equity should be included in the "statement of comprehensive income – shareholders' operations" for the period. For securities 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 deduction for transaction costs. Fair value of investment in mutual funds is determined by reference to declared net asset values.

For an unquoted equity investment, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows. In the absence of any such alternatives available these are carried at cost.

3.8 *Receivables*

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

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

3.9 *Provisions*

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Impairment and un-collectibility of financial assets

An assessment is made at each reporting 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 comprehensive income - shareholders' operations". Impairment is determined as follows:

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

ii. 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.

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

i. Significant financial difficulty of the issuer or debtor;

ii. A breach of contract, such as a default or delinquency in payments;

iii. I t becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

iv. The disappearance of an active market for that financial asset because of financial difficulties; or

v. Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
- adverse changes in the payment status of issuers or debtors in the Company; or
- national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

3.11 Fair values

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

For financial assets where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument, which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets.

If the fair value cannot be measured reliably, these financial assets are measured at cost, being the fair value of the consideration paid for the acquisition of the asset. All transaction costs directly attributable to the acquisition are also included in the cost of the assets.

3.12 Offsetting

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 De-recognition of financial instruments

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

3.14 Property and equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Expenditure for repair and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalized. Depreciation is charged to the "statement of comprehensive income – insurance operations" on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are:

	Years
Furniture	10
Computers and office equipments	4
Motor vehicles	4
Leasehold improvements	3
Intangible - Software	4

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

3.15 Leases

Operating lease payments are recognised as an expense in the statements of comprehensive income on a straight-line basis over the lease term.

3.16 Foreign currencies

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

3.17 Zakat and income tax

Zakat is computed on the Saudi shareholders' share of equity or net adjusted income using the basis defined under the Zakat regulations in the Kingdom of Saudi Arabia. Income taxes are computed on the foreign shareholders' share of net adjusted income.

Zakat and income tax is accrued and charged to the statement of comprehensive income – shareholders' operations.

3.18 End-of-service indemnities

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Statutory reserve

In accordance with its Articles of Association, the Company shall allocate 20% of its net income each year to the statutory reserve until it has built up a reserve equal to the share capital. In view of the accumulated losses, no such transfer has been made.

3.20 Segment reporting

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

- The health care products provide medical cover to policyholders.
- Motor Insurance provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Marine insurance, which is made up of marine cargo, including inland transit, open cover and marine hull products.
- Engineering insurance, which is made up of erection all risk, machinery breakdown, contractors' all risk, contractors' plant and equipment and other product lines.
- Others, which are made up of property insurance, general accident insurance and casualty insurance, which includes an array of products ranging from fire to fidelity guarantee to public liability coverage.

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

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

3.21 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.22 Cash and cash equivalent

Cash and cash equivalent include cash at banks in current accounts and murabaha deposits with original maturity of three months or less.

(Amount in Saudi Riyals)

4 CASH AND CASH EQUIVALENTS

	2012	
	Insurance Operations	**Shareholders' Operations**
Cash in hand	**25,001**	--
Bank balances	**35,454,975**	**9,940,289**
Murabaha deposits	**30,000,000**	**40,000,000**
	65,479,976	**49,940,289**

	2011	
	Insurance Operations	Shareholders' Operations
Cash in hand	25,343	--
Bank balances	68,030,017	10,655,033
Murabaha deposits	50,000,000	24,000,000
	118,055,360	34,655,033

a) Murabaha deposits are maintained with financial institutions. Murabaha deposits for Insurance operations are due to mature on 5 February 2013 and those for shareholders' operations are due to mature on 1 April 2013. These earn commission ranging from 1% to 1.50% as at 31 December 2012 (31 December 2011: 1.2%).

b) During the year the Company has earned commission income of SR 471,275 (31 December 2011: SR 224,692) in insurance operations and SR 610,231 (31 December 2011: SR 288,022) in shareholders' operations respectively on the Murabaha deposits.

5 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are mutually agreed and are approved by the Company's management. The related parties of the Company are as follows:

Nature of relationship	**Name of related party**
10% founding shareholder and common directorship	- Saudi Continental Insurance Company
90% shareholder in Saudi Continental Insurance Company and have a common directorship	- Aggad Investment Company
Common directorship and control	- Alesayi Motors - Arabian Tiles Company - Medical Supplies and Services Company Limited (MEDISERV) - National Advanced Systems Company Limited (NASCO) - United Motors Company - Public Telecommunication Company Limited - The Arab Palestinian Investment Company Limited (APIC) - Riyadh Pharma

(Amount in Saudi Riyals)

5 RELATED PARTY TRANSACTIONS (Continued)

a) *Transactions with related parties:*

Details of significant transactions carried out during the year with related parties are as follows:

	2012		2011	
Name of related party	**Gross written premium**	**Gross claims paid**	Gross written premium	Gross claims paid
Aggad Investment Company	**714,698**	**272,563**	332,471	226,375
Arabian Tiles Company	**910,717**	**832,982**	940,154	513,500
Medical Supplies and Services Company Limited (MEDISERV)	**2,204,601**	**2,782,961**	1,826,438	1,543,866
National Advanced Systems Company Limited (NASCO)	**4,208,710**	**2,953,093**	4,990,393	2,892,051
United Motors Company	**14,490,450**	**8,983,489**	8,835,736	9,720,951

b) *Balances with related parties:*

Details of significant receivables from and payables to the related parties are as follows:

	2012		2011	
Related party	**Premiums receivable**	**Outstanding claims**	Premiums receivable / (Premium received in advance)	Outstanding claims
Aggad Investment Company	**145,219**	**134,874**	(3,888)	110,832
Arabian Tiles Company	**863,451**	**268,828**	1,014,199	461,479
Medical Supplies and Services Company Limited (MEDISERV)	**1,040,606**	**2,348,997**	858,402	707,376
National Advanced Systems Company Limited (NASCO)	**2,344,863**	**4,428,705**	2,837,545	1,609,594
United Motors Company	**4,100,196**	**3,461,209**	(190,046)	2,057,796

c) *Compensation of key management personnel:*

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

	2012	2011
Salaries and other short term benefits	**4,374,158**	5,573,034
End of service benefit	**223,513**	186,617
	4,597,671	5,759,651

(Amount in Saudi Riyals)

6 INVESTMENTS

a) Investment in available for sale securities comprise of the following securities:

	2012		
	Cost	**Market value**	**Unrealised gain**
Quoted			
Mutual Funds	**6,625,998**	**6,947,506**	**321,508**
Global Sukuk Fund deposits	**9,450,000**	**10,996,789**	**1,546,789**
Equities	**10,737,312**	**20,278,605**	**9,541,293**
	26,813,310	**38,222,900**	**11,409,590**
Unquoted			
Equities *(c)*	**1,923,078**	**1,923,078**	**--**
	28,736,388	**40,145,978**	**11,409,590**

	2011		
	Cost	Market value	Unrealised gain
Quoted			
Mutual Funds	19,948,332	21,169,030	1,220,698
Equities	16,744,582	20,610,000	3,865,418
	36,692,914	41,779,030	5,086,116
Unquoted			
Equities *(c)*	1,923,078	1,923,078	--
	38,615,992	43,702,108	5,086,116

b) Movement in available for sale investments is as follows:

	2012	2011
Balance at the beginning of the year	**43,702,108**	85,223,611
Disposals during the year	**(9,879,604)**	(43,850,112)
Net change in fair value	**6,323,474**	2,328,609
Balance at the end of the year	**40,145,978**	43,702,108

c) This represents a 7.69% (31 December 2011: 7.69%) equity holding in the unquoted share capital of "Najm Insurance Services Company." As the fair value is not readily available, this investment has been carried at cost and reviewed by management for impairment. A commission free loan of SR 500,000 (31 December 2011: SR 500,000) with unspecific repayment period has also been advanced to Najm Insurance Services Company.

d) The sector wise analysis of available for sale investments by counter-party is as follows:

	2012	2011
Financial institutions	**17,944,295**	25,554,030
Telecommunication	**9,228,605**	7,800,000
Cement	**11,050,000**	8,425,000
Services	**1,923,078**	1,923,078
	40,145,978	43,702,108

(Amount in Saudi Riyals)

7 PROPERTY AND EQUIPMENT, NET

a) Following is the movement in property and equipment during the year:

2012

	Software	Computers	Furniture	Leasehold improvements	Motor vehicles	Total
Cost:						
Balance at the beginning of the year	2,006,746	2,695,990	2,164,079	3,230,548	356,000	10,453,363
Additions during the year	11,100	235,124	42,213	399,968	--	688,405
Disposals during the year	--	(23,211)	(127,903)	--	--	(151,114)
Balance at the end of the year	2,017,846	2,907,903	2,078,389	3,630,516	356,000	10,990,654
Accumulated depreciation:						
Balance at the beginning of the year	1,127,328	1,825,395	583,050	1,897,820	200,707	5,634,300
Charge during the year	454,479	466,371	205,507	746,252	65,916	1,938,525
Elimination on disposal	--	(22,243)	(46,709)	--	--	(68,952)
Balance at the end of the year	1,581,807	2,269,523	741,848	2,644,072	266,623	7,503,873
Net book value at 31 December 2012	436,039	638,380	1,336,541	986,444	89,377	3,486,781

2011

	Software	Computers	Furniture	Leasehold improvements	Motor vehicles	Total
Cost:						
Balance at the beginning of the year	1,557,636	2,174,465	1,646,317	1,994,031	356,000	7,728,449
Additions during the year	449,110	521,525	517,762	1,236,517	--	2,724,914
Balance at the end of the year	2,006,746	2,695,990	2,164,079	3,230,548	356,000	10,453,363
Accumulated depreciation:						
Balance at the beginning of the year	653,397	1,204,049	395,487	1,399,729	111,707	3,764,369
Charge during the year	473,931	621,346	187,563	498,091	89,000	1,869,931
Balance at the end of the year	1,127,328	1,825,395	583,050	1,897,820	200,707	5,634,300
Net book value at 31 December 2011	879,418	870,595	1,581,029	1,332,728	155,293	4,819,063

b) During the year the Company has incurred loss of SR 57,162 (31 December 2011: Nil) on disposal of property and equipments.

(Amount in Saudi Riyals)

8. ZAKAT AND INCOME TAX

a) *Zakat:*

The provision for zakat of SR 2,586,077 (31 December 201: SR 2,129,138) has been made for the year ended 31 December 2012. The provision for zakat charge relating to Saudi shareholders is based on the following:

	2012	2011
Share capital	**200,000,000**	200,000,000
Accumulated loss	**(87,115,806)**	(59,183,133)
Loss for the year	**(4,743,820)**	(27,932,673)
Property and equipment, net	**(3,068,367)**	(4,819,063)
Equity investments	**(22,201,657)**	(22,533,078)
Provision for end-of-service indemnity	**581,100**	635,756
Other provisions	**22,535,326**	1,091,932
	105,986,776	87,259,741
Saudi Shareholders' share of zakat base @ 97.6%	**103,443,093**	85,165,507
Zakat charge for the year @ 2.5%	**2,586,077**	2,129,138

b) *Movements in zakat provision:*

	2012	2011
Balance at beginning of the year	**8,242,480**	6,735,854
Zakat charge for the year	**2,586,077**	2,129,138
Payments made during the year	**(893,416)**	(622,512)
Balance at end of the year	**9,935,141**	8,242,480

c) *Income Tax:*

No income tax has been provided due to negative tax base. For the year ended 31 December 2012, the Company has incurred adjusted tax losses which may be carried forward to future years without limitation of time.

d) *Status of assessments:*

The Company has filed tax and zakat declaration for the years e nded upto 31 December 2011. T he Company has filed an appeal against Department of Zakat and Income Tax (DZIT) assessment of additional zakat amounting to SR 1.1 million, arising from disallowance of certain investments from zakat base for 2011. The Company has booked the additional zakat provision in the Statement of Comprehensive Income – Shareholders' operations.

شركة
مساهمة عامة
س.ت ١٠١٠٢٣٥٤٠٩

(Amount in Saudi Riyals)

9. CLAIMS AND TECHNICAL RESERVES

a) *Incurred claims:*

	2012		
	Gross	**Reinsurers' Share**	**Net**
Gross claims paid during the year	**141,976,091**	**(30,422,378)**	**111,553,713**
Changes in outstanding claims reserves	**(6,517,005)**	**(3,037,453)**	**(9,554,458)**
Changes in other technical reserves	**(7,041,039)**	**(2,444,767)**	**(9,485,806)**
	128,418,047	**(35,904,598)**	**92,513,449**

	2011		
	Gross	Reinsurers' Share	Net
Claims paid during the year	165,257,802	(60,708,967)	104,548,835
Changes in outstanding claims reserves	(7,495,653)	17,453,378	9,957,725
Changes in other technical reserves	10,609,893	(1,376,890)	9,233,003
	168,372,042	(44,632,479)	123,739,563

b) *Outstanding claims and other technical reserves:*

	2012		
	Gross	**Reinsurers' Share**	**Net**
Outstanding claim reserves	**64,285,225**	**(28,200,117)**	**36,085,108**
Incurred But Not Reported (IBNR) reserve	**23,808,330**	**(9,411,073)**	**14,397,257**
Other technical reserves	**2,615,847**	**--**	**2,615,847**
	90,709,402	**(37,611,190)**	**53,098,212**

	2011		
	Gross	Reinsurers' Share	Net
Outstanding claim reserves	70,802,230	(25,162,664)	45,639,566
Incurred But Not Reported reserve	27,545,912	(6,966,306)	20,579,606
Other technical reserves	5,919,304	--	5,919,304
	104,267,446	(32,128,970)	72,138,476

10. PREMIUMS

a) *Earned premium:*

	2012		
	Gross	**Reinsurers' Share**	**Net**
Total gross written premium	**183,527,916**	**(45,394,384)**	**138,133,532**
Changes in unearned premium	**15,790,243**	**(13,732,552)**	**2,057,691**
	199,318,159	**(59,126,936)**	**140,191,223**

(Amount in Saudi Riyals)

10. PREMIUMS (Continued)

a) ***Earned premium(continued):***

	2011		
	Gross	Reinsurers' Share	Net
Total gross written premium	231,325,704	(60,888,610)	170,437,094
Changes in unearned premium	(3,385,387)	5,537,757	2,152,370
	227,940,317	(55,350,853)	172,589,464

b) ***Unearned premium reserves:***

	2012		
	Gross	**Reinsurers' share**	**Net**
Balance as at the beginning of the year	**83,486,109**	**(27,294,892)**	**56,191,217**
Total gross written premium	**183,527,916**	**(45,394,384)**	**138,133,532**
Premium earned	**(199,318,159)**	**59,126,936**	**(140,191,223)**
Balance as at the end of the year	**67,695,866**	**(13,562,340)**	**54,133,526**

	2011		
	Gross	Reinsurers' Share	Net
Balance as at the beginning of the year	80,100,722	(21,757,136)	58,343,586
Total gross written premium	231,325,704	(60,888,610)	170,437,094
Premium earned	(227,940,317)	55,350,854	(172,589,463)
Balance as at the end of the year	83,486,109	(27,294,892)	56,191,217

11. PREMIUM RECEIVABLES, NET

	2012	2011
Premiums receivable	**88,033,474**	89,866,512
Less: Allowance for impairment	**(24,637,980)**	(28,782,533)
	63,395,494	61,083,979

	Total	**Neither past due nor impaired**	**Past due but not impaired**	**Past due and impaired**
31 December 2012	**88,033,474**	**24,922,401**	**38,473,093**	**24,637,980**
31 December 2011	89,866,512	18,793,884	42,290,095	28,782,533

The Company classifies receivable balances as 'past due and impaired' on a case to case basis, impairment against which is recorded in the statement of comprehensive results for insurance operations. The Company does not obtain collateral against premium receivables. Amounts which are neither past due nor considered impaired by management, in respect of premium receivables, are from individuals and unrated corporate policy holders.

(Amount in Saudi Riyals)

12. DEFERRED POLICY ACQUISITION COSTS

	2012	2011
Balance as at the beginning of the year	**10,117,495**	8,797,102
Incurred during the year	**21,112,315**	28,631,018
Amortized during the year	**(24,202,526)**	(27,310,625)
Balance as at the end of the year	**7,027,284**	10,117,495

13. GENERAL AND ADMINISTRATION EXPENSES

Insurance Operations	2012	2011
Employee costs	**28,231,155**	28,778,803
Office rent	**2,985,054**	2,994,498
Depreciation	**1,938,525**	1,869,930
Legal and professional fees	**1,270,493**	1,460,543
Recruitment expenses	**130,457**	883,885
Information technology and communications	**711,366**	750,219
Marketing, advertising and promotions	**358,183**	603,336
Travel and lodging	**461,632**	501,327
Office supplies , printing and stationery	**332,050**	455,636
Others	**897,319**	1,051,389
	37,316,234	39,349,566

Shareholders' Operations	2012	2011
Executive committee expenses	**922,500**	699,770
Employee costs	**490,350**	157,147
Regulatory and other fees	**220,000**	220,000
Travel and lodging	**153,564**	104,093
Information technology and communications	**95,750**	110,511
Legal and professional fees	**19,500**	21,000
Others	**39,720**	--
	1,941,384	1,312,521

14. STATUTORY DEPOSIT

As required by Saudi Arabian Insurance Regulations, the Company is required to deposit 10% of its paid up capital, amounting to SR 20 million (31 December 2011: SR 20 million), within three months from the date of the issuance of the license in a bank designated by SAMA. The statutory deposit is maintained with the local bank and can be withdrawn only with the consent of SAMA.

15. SHARE CAPITAL

The authorized and issued capital of the Company as at 31 December 2012 is SAR 200 million (31 December 2011: SR 200 million) consisting of 20 million (31 December 2011: 20 million) shares of SAR 10 each.

شركة
مساهمة عامة

(Amount in Saudi Riyals)

16. OPERATING SEGMENTS

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities, assets and liabilities as stated below Segment results do not include general and administration expenses and other income.

Segment assets do not include property and equipment, prepayments and other assets, premiums receivable, reinsurances' balance receivables and cash and cash equivalents. Accordingly they are included in unallocated assets.

Segment liabilities do not include due to shareholders operations, end-of-service indemnities, reinsurers' balances payable, accrued expenses and other liabilities.

All unallocated assets and liabilities are reported to chief operating decision maker as unallocated assets and liabilities and are monitored on a centralized basis.

All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

a) *Statement of results for insurance operations:*

	2012					
	Medical	**Motor**	**Marine**	**Engineering**	**Others**	**Total**
Total gross written premiums	68,245,527	74,401,896	14,076,129	11,935,124	14,869,240	183,527,916
Reinsurance premiums ceded	(11,220,397)	(2,020,326)	(10,887,552)	(10,625,834)	(10,640,275)	(45,394,384)
Net written premiums	57,025,130	72,381,570	3,188,577	1,309,290	4,228,965	138,133,532
Net changes in unearned premiums	7,648,387	(6,290,394)	73,931	563,436	62,331	2,057,691
Net earned premiums	64,673,517	66,091,176	3,262,508	1,872,726	4,291,296	140,191,223
Reinsurance commission	--	--	3,187,298	2,964,506	2,270,478	8,422,282
Policy fee	13,400	125,949	54,055	4,310	30,220	227,934
Underwriting revenue	64,686,917	66,217,125	6,503,861	4,841,542	6,591,994	148,841,439
Gross claims paid	(73,469,708)	(53,144,909)	(8,238,500)	(2,459,336)	(4,663,638)	(141,976,091)
Reinsurance share of claims paid	20,217,255	521,280	3,728,586	2,303,320	3,651,937	30,422,378
Net claims paid	(53,252,453)	(52,623,629)	(4,509,914)	(156,016)	(1,011,701)	(111,553,713)
Net changes in outstanding claims and other technical reserves	23,103,100	(2,385,479)	(1,278,099)	(540,129)	140,871	19,040,264
Net claims incurred	(30,149,353)	(55,009,108)	(5,788,013)	(696,145)	(870,830)	(92,513,449)
Policy acquisition costs	(7,838,683)	(10,319,317)	(1,617,974)	(2,020,996)	(2,405,556)	(24,202,526)
Other underwriting expenses, net	(2,823,773)	(587,123)	(692,633)	(712,318)	(849,845)	(5,665,692)
Reversal of impairment allowance against doubtful receivables	4,860,080	386,730	--	--	--	5,246,810
Underwriting expenses	(35,951,729)	(65,528,818)	(8,098,620)	(3,429,459)	(4,126,231)	(117,134,857)
Underwriting results	28,735,188	688,307	(1,594,759)	1,412,083	2,465,763	31,706,582
Unallocated expenses						(37,373,396)
Unallocated income						471,275
Net Deficit from insurance operations						(5,195,539)

(Amount in Saudi Riyals)

16. SEGMENTAL INFORMATION (Continued)

a) *Statement of results for insurance operations (continued)*:

	2011					
	Medical	Motor	Marine	Engineering	Others	Total
Total gross written premiums	129,833,990	63,894,533	10,258,685	10,482,343	16,856,153	231,325,704
Reinsurance premiums ceded	(28,312,247)	(2,103,162)	(6,903,656)	(9,738,890)	(13,830,655)	(60,888,610)
Net written premiums	101,521,743	61,791,371	3,355029	743,453	3,025,498	170,437,094
Net changes in unearned premiums	1,994,326	595,097	(175,809)	(320,402)	59,158	2,152,370
Net earned premiums	103,516,069	62,386,468	3,179,220	423,051	3,084,656	172,589,464
Reinsurance commission	--	--	2,962,723	2,620,794	3,816,115	9,399,632
Policy fee	20,700	96,458	62,469	4,675	37,170	221,472
Underwriting revenue	103,536,769	62,482,926	6,204,412	3,048,520	6,937,941	182,210,568
Gross claims paid	(80,791,645)	(44,206,227)	(4,860,326)	(3,041,325)	(32,358,279)	(165,257,802)
Reinsurance share of claims paid	18,283,836	4,823,230	4,188,815	2,845,175	30,567,911	60,708,967
Net claims paid	(62,507,809)	(39,382,997)	(671,511)	(196,150)	(1,790,368)	(104,548,835)
Net changes in outstanding claims and other technical reserves	(13,506,770)	(6,666,929)	178,737	25,373	778,861	(19,190,728)
Net claims incurred	(76,014,579)	(46,049,926)	(492,774)	(170,777)	(1,011,507)	(123,739,563)
Policy acquisition costs	(10,400,458)	(10,514,017)	(1,755,431)	(1,791,639)	(2,849,080)	(27,310,625)
Other underwriting expenses, net	(3,158,352)	(457,864)	(201,184)	(280,639)	(523,674)	(4,621,713)
Reversal of impairment allowance against doubtful receivables	(13,081,716)	(2,005,641)	--	--	--	(15,087,357)
Underwriting expenses	(102,655,105)	(59,027,448)	(2,449,389)	(2,243,055)	(4,384,261)	(170,759,258)
Underwriting results	881,664	3,455,478	3,755,023	805,465	2,553,680	11,451,310
Unallocated expenses						(39,349,566)
Unallocated income						224,692
Net Deficit from insurance operations						(27,673,564)

شركة مساهمة عامة

(Amount in Saudi Riyals)

16. SEGMENTAL INFORMATION (Continued)

b) *Insurance operation assets and liabilities:*

	At 31 December 2012					
	Medical	**Motor**	**Marine**	**Engineering**	**Others**	**Total**
Assets – insurance operations						
Reinsurers' share of outstanding claims and other technical reserves	**14,344,401**	**4,937,249**	**5,009,030**	**7,498,132**	**5,822,378**	**37,611,190**
Reinsurers' share of unearned premium	**1,733,029**	**--**	**2,497,098**	**5,087,342**	**4,244,871**	**13,562,340**
Deferred policy acquisition cost	**1,104,460**	**3,888,894**	**389,745**	**835,848**	**808,337**	**7,027,284**
	17,181,890	**8,826,143**	**7,895,873**	**13,421,322**	**10,875,586**	**58,200,814**
Unallocated assets						**151,766,947**
Total assets - insurance operations						**209,967,761**
Liabilities – insurance operations						
Unearned premium reserves	**25,542,582**	**27,439,460**	**3,275,384**	**5,441,480**	**5,996,960**	**67,695,866**
Outstanding claims and other technical reserves	**35,059,512**	**33,436,689**	**6,912,409**	**8,369,304**	**6,931,488**	**90,709,402**
Unearned commission income	**--**	**--**	**779,059**	**1,338,964**	**1,164,365**	**3,282,388**
	60,602,094	**60,876,149**	**10,966,852**	**15,149,748**	**14,092,813**	**161,687,656**
Unallocated liabilities						**48,280,105**
Total liabilities - insurance operations						**209,967,761**

	At 31 December 2011					
	Medical	Motor	Marine	Engineering	Others	Total
Assets – insurance operations						
Reinsurers' share of outstanding claims and other technical reserves	13,381,438	4,817,964	3,890,929	4,331,404	5,707,235	32,128,970
Reinsurers' share of unearned premium	15,068,256	--	1,787,868	5,637,942	4,800,826	27,294,892
Deferred policy acquisition cost	4,421,036	3,379,981	348,494	909,743	1,058,241	10,117,495
Allocated assets	32,870,730	8,197,945	6,027,291	10,879,089	11,566,302	69,541,357
Unallocated assets						214,751,981
Total assets - insurance operations						284,293,338
Liabilities – insurance operations						
Unearned premium reserves	46,526,196	21,149,066	2,640,085	6,555,516	6,615,246	83,486,109
Outstanding claims and other technical reserves	57,199,649	30,931,925	4,516,209	4,662,447	6,957,216	104,267,446
Unearned commission income	--	--	571,115	1,431,824	1,331,462	3,334,401
Allocated liabilities	103,725,845	52,080,991	7,727,409	12,649,787	14,903,924	191,087,956
Unallocated liabilities						93,205,382
Total liabilities - insurance operations						284,293,338

(Amount in Saudi Riyals)

16. SEGMENTAL INFORMATION (Continued)

c) *Gross outstanding claims and other technical reserves:*

	At 31 December 2012					
	Medical	**Motor**	**Marine**	**Engineering**	**Others**	**Total**
Outstanding claim reserves	**22,785,934**	**26,238,939**	**4,819,580**	**6,363,181**	**4,077,591**	**64,285,225**
Incurred But Not Reported reserve	**11,343,460**	**6,222,926**	**1,863,494**	**1,741,136**	**2,637,314**	**23,808,330**
Other technical reserves	**930,118**	**974,824**	**229,335**	**264,987**	**216,583**	**2,615,847**
	35,059,512	**33,436,689**	**6,912,409**	**8,369,304**	**6,931,488**	**90,709,402**

	At 31 December 2011					
	Medical	Motor	Marine	Engineering	Others	Total
Outstanding claim reserves	38,299,062	20,900,744	3,018,730	3,051,818	5,531,876	70,802,230
Incurred But Not Reported reserve	17,234,578	5,851,033	1,497,479	1,537,482	1,425,340	27,545,912
Other technical reserves	1,666,009	4,180,148	--	73,147	--	5,919,304
	57,199,649	30,931,925	4,516,209	4,662,447	6,957,216	104,267,446

17. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Investments on the balance sheet are carried at fair value. The Company is of the view that the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are essentially short term in nature.

The Company's accounting policy on fair value measurements of its investments is discussed in note 3.7 to these financial statements.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

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

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Total
Quoted investments			
Equities	20,278,605	--	20,278,605
Other quoted investments	--	17,944,295	17,944,295
	20,278,605	17,944,295	38,222,900

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Risk governance

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

Risk management structure

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

Board of directors

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

Senior management

Senior management is responsible for the day to day operations towards achieving the strategic goals within pre-determined parameters approved by the Board of Directors.

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

a) ***Insurance risk:***

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

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

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

a) *Insurance risk (Continued):*

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

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

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

Frequency and severity of claims

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

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. The table below sets out the concentration of the claims and premium liabilities (in percentage terms) by class of business at balance sheet date:

Class	2012				2011			
	Outstanding claims and other technical reserves		**Unearned premium reserves**		Outstanding claims and other technical reserves		Unearned premium reserves	
	Gross (%)	**Net (%)**	**Gross (%)**	**Net (%)**	Gross (%)	Net (%)	Gross (%)	Net (%)
Medical	**39**	**39**	**38**	**44**	55	57	56	56
Motor	**37**	**53**	**41**	**51**	30	40	25	37
Marine	**8**	**4**	**5**	**1**	4	1	3	2
Engineering	**9**	**2**	**8**	**1**	4	--	8	2
Others	**7**	**2**	**8**	**3**	7	2	8	3

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

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

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

a) *Insurance risk (Continued):*

Sources of uncertainty in estimation of future claim payments

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

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred But Not Reported (IBNR) at the reporting date.

Process used to decide on assumptions

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve as a result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of reporting date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

a) *Insurance risk (Continued):*

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the yearend are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. However, a hypothetical 10 percent change in net outstanding claims and other technical reserves would impact the net results and shareholders' equity as follows:

	Net results		Shareholders' equity	
Impact of + 10 percent	**2012**	2011	**2012**	2011
Medical	**2,071,511**	4,381,821	**2,011,023**	4,253,872
Motor	**2,849,944**	2,611,396	**2,766,726**	2,535,143
Marine	**190,338**	62,528	**184,780**	60,702
Engineering	**87,117**	33,104	**84,573**	32,137
Others	**110,911**	124,998	**107,672**	121,348
	5,309,821	7,213,847	**5,154,774**	7,003,202
Impact of - 10 percent				
Medical	**(2,071,511)**	(4,381,821)	**(2,011,023)**	(4,253,872)
Motor	**(2,849,944)**	(2,611,396)	**(2,766,726)**	(2,535,143)
Marine	**(190,338)**	(62,528)	**(184,780)**	(60,702)
Engineering	**(87,117)**	(33,104)	**(84,573)**	(32,137)
Others	**(110,911)**	(124,998)	**(107,672)**	(121,348)
	(5,309,821)	(7,213,847)	**(5,154,774)**	(7,003,202)

Claim development

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

Accident year	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Estimate of ultimate claim loss						
- At end of accident year	4,082,592	90,784,794	237,726,795	165,208,719	158,769,666	**656,572,566**
- One year later	4,404,489	84,757,395	221,855,015	137,708,659	--	**448,725,558**
- Two year later	3,804,215	83,281,810	218,054,031	--	--	**305,140,056**
- Three year later	--	84,231,233	--	--	--	**84,231,233**
- Four year later	--	--	--	--	--	--
Current estimate of cumulative claims	--	84,231,233	218,054,031	137,708,659	158,769,666	**598,763,589**
Cumulative payments to date	--	81,871,773	212,854,133	127,424,369	85,903,912	**508,054,187**
Gross liability recognized in the statement of financial position	--	2,359,460	5,199,898	10,284,290	72,865,754	**90,709,402**

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

b) *Reinsurance risk:*

In order to minimize financial exposure arising from large claims, the Company, in the normal course of business, has entered into agreements for reinsurance purposes. The medical policies for the 2011/2012 underwriting year were reinsured to the extent of 50% by Swiss Re. During the year 2012 this arrangement was terminated, however new excess of loss protection arrangement with Axis Re was made. Motor policies are protected by an excess of loss treaty. Marine, Engineering and other policies have been reinsured on a quota share, surplus and facultative basis. The major reinsurers for lines of business other than medical are Scor Global P&C SE, Hannover Retakaful and Saudi Re Company.

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

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

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

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

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

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. As shown in Note 9(b) the Company has reduced its outstanding claims and other technical reserves by the expected recoveries from reinsurers as of 31 December 2012 by SR 37,611,190 (31 December 2011: SR 27,311,006).

c) *Market risk:*

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

The Company is exposed to market risk with respect to its available for sale investments. These investments are sensitive to the various factors that affect market movements. As part of Company's investment strategy and to reduce market risk, the Company maintains diversified portfolio and performs regular monitoring of developments in related markets.

In addition, the key factors that affect market movements are monitored, including analysis of the operational and financial performance of investees.

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

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

c) *Market risk (continued):*

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

Commission rate risk

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

At the reporting date, the commission rate profile of Company's commission-bearing financial instruments is as follows:

	Carrying Amount	
	2012	2011
Fixed rate instruments		
Murabaha deposits:		
Insurance operations	**30,000,000**	50,000,000
Shareholders' operations	**40,000,000**	24,000,000
Statutory deposit – Shareholders' operations	**20,918,419**	20,778,852
	90,918,419	94,778,852

Presently, the Company does not hold any variable return bearing instruments that expose the Company to commission rate risk.

The Company does not have any commission based financial liabilities as at 31 December 2012.

The information about Company's exposure to commission rate risk, with respect to financial assets, is based on contractual re-pricing or maturity dates whichever is earlier is as follows:

	2012					
	Commission bearing					
Insurance Operations:	Yield	< 1 Year	1-5 Years	> 5 Years	Non-Commission bearing	Total
Cash and cash equivalent	1.2%	30,000,000	--	--	35,479,976	65,479,976
Premiums receivable, net	--	--	--	--	63,395,494	63,395,494
Reinsurers' balance receivable, net	--	--	--	--	9,735,595	9,735,595
Reinsurers' share of outstanding claims and other technical reserves	--	--	--	--	37,611,190	37,611,190
Other assets	--	--	--	--	6,878,670	6,878,670
Total insurance operations' financial assets		**30,000,000**	--	--	**153,100,925**	**183,100,925**

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

c) *Market risk (continued):*

Commission rate risk (continued)

	2012					
	Commission bearing					
Insurance Operations:	**Yield**	**< 1 Year**	**1-5 Years**	**> 5 Years**	**Non-Commission bearing**	**Total**
Shareholders' Operations:						
Cash and cash equivalents	1.0%	40,000,000	--	--	9,940,289	49,940,289
Statutory deposit	1.5%	20,918,419	--	--	--	20,918,419
Investments – available for sale	--	--	--	--	40,145,978	40,145,978
Loan receivable	--	--	--	--	500,000	500,000
Other Assets	--	--	--	--	19,111	19,111
Total shareholders' operations financial assets		**60,918,419**	--	--	**50,605,378**	**111,523,797**
Total financial assets		**90,918,419**	--	--	**203,706,303**	**294,624,722**

	2011					
	Commission bearing					
Insurance Operations:	Yield	< 1 Year	1-5 Years	> 5 Years	Non-Commission bearing	Total
Cash and cash equivalents	1.2%	50,000,000	--	--	68,055,360	118,055,360
Premiums receivable, net	--	--	--	--	61,083,979	61,083,979
Reinsurers' balance receivable, net	--	--	--	--	24,679,216	24,679,216
Reinsurers' share of outstanding claims and other technical reserves	--	--	--	--	32,128,970	32,128,970
Other assets	--	--	--	--	3,899,086	3,899,086
Total insurance operations' financial assets		50,000,000	--	--	189,846,611	239,846,611
Shareholders' Operations:						
Cash and cash equivalents	1.2%	24,000,000	--	--	10,655,033	34,655,033
Statutory deposit	1.2%	20,778,852	--	--	--	20,778,852
Investments – available for sale	--	--	--	--	43,702,108	43,702,108
Loan receivable	--	--	--	--	500,000	500,000
Other Assets	--	--	--	--	426,614	426,614
Total shareholders' operations financial assets		44,778,852	--	--	55,283,755	100,062,607
Total financial assets		94,778,852	--	--	245,130,366	339,909,218

Price Risk

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

The Company's available for sale quoted investments amounting to SAR 38.2 million (31 December 2011: SR 41.8 million) are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its investment portfolio and by actively monitoring the developments in markets.

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

c) *Market risk (continued):*

Price Risk (continued)

A hypothetical 10 percent change in market prices of available for sale quoted investments would impact the net results and shareholders' equity as follows:

	Price change	Fair value	Effect on net results	Effect on shareholders' equity
31 December 2012	10% increase	**3,822,290**	--	**3,710,679**
	10% decrease	**(3,822,290)**	--	**(3,710,679)**
31 December 2011	10% increase	4,177,903	--	4,055,908
	10% decrease	(4,177,903)	--	(4,055,908)

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

d) *Credit risk:*

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

The Company's underwriting activities are all carried out in Saudi Arabia.

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

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

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

	2012	2011
Insurance Operations:		
Cash and cash equivalents	**65,479,976**	118,055,360
Premiums receivables, net	**63,395,494**	61,083,979
Reinsurers' balance receivable, net	**9,735,595**	24,679,216
Reinsurers' share of outstanding claims and other technical reserves	**37,611,190**	32,128,970
Other assets	**6,878,670**	3,899,086
Total insurance operations financial assets exposed to credit risk	**183,100,925**	239,846,611

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

d) *Credit risk (continued):*

	2012	2011
Shareholders' Operations:		
Cash and cash equivalents	**49,940,289**	34,655,033
Statutory deposit	**20,918,419**	20,778,852
Investments – available for sale	**17,944,295**	21,169,030
Loans receivable	**500,000**	500,000
Other assets	**19,111**	426,614
Total shareholders' operations financial assets exposed to credit risk	**89,322,114**	77,529,529
Total financial assets exposed to credit risk	**272,423,039**	317,376,140
Shareholders' operations - financial assets not exposed to credit risks	**22,201,683**	22,533,078
Total financial assets	**294,624,722**	339,909,218

Credit quality

The credit quality of Company's bank balances and deposits can be assessed with reference to external credit rating as follows:

	2012		2011	
Rating	**Insurance operations**	**Shareholders' operations**	Insurance operations	Shareholders' operations
AA negative				
- Cash and cash equivalents	**65,479,976**	**49,940,289**	118,030,017	34,655,033
A positive				
- Statutory deposit	--	**20,918,419**	--	20,778,852

The credit quality of Company's quoted available for sale investment, excluding equity investment, can be assessed with reference to external credit ratings as follows:

Rating	2012	2011
AA positive – investment in global sukuk fund deposits	**10,996,789**	10,245,408
A positive – investment in mutual funds	**6,947,506**	10,923,622
Total investments exposed to credit risk	**17,944,295**	21,169,030

Concentration of credit risk

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

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

d) *Credit risk (continued):*

Concentration of credit risk (continued)

Details of the Company's concentration of credit risk of financial instruments by industrial distribution are as follows:

	2012		2011	
	Insurance operations	**Shareholders' operations**	Insurance operations	Shareholders' operations
Banks	**65,479,976**	**70,858,708**	118,055,360	55,433,885
Financial Institutions	**48,416,920**	**17,944,295**	54,682,408	21,169,030
Services & Contracting	**30,923,146**	--	30,666,400	--
Others	**38,280,883**	**519,111**	36,442,443	926,614
Total financial assets exposed to credit risk	**183,100,925**	**89,322,114**	239,846,611	77,529,529

e) *Liquidity risk:*

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

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

Maturity Profiles

The table below summarizes the maturity profile of the financial assets and liabilities of the Company based on remaining expected contractual obligations. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized insurance liabilities.

	2012					
	Insurance operations			**Shareholders' operations**		
	Upto one year	**More than one year**	**Total**	**Upto one year**	**More than one year**	**Total**
Financial assets						
Cash and cash equivalents	**65,479,976**	--	**65,479,976**	**49,940,289**	--	**49,940,289**
Premiums receivable, net	**63,395,494**	--	**63,395,494**	--	--	--
Reinsurers' balance receivable, net	**9,735,595**	--	**9,735,595**	--	--	--
Reinsurers' share of outstanding claims and other technical reserves	**37,611,190**	--	**37,611,190**	--	--	--
Statutory deposit	--	--	--	--	**20,918,419**	**20,918,419**
Investments – available for sale	--	--	--	**40,145,978**	--	**40,145,978**
Loan receivable		--		--	**500,000**	**500,000**
Other assets	**6,878,670**	--	**6,878,670**	**19,111**	--	**19,111**
Total financial assets	183,100,925	--	183,100,925	90,105,378	21,418,419	111,523,797

(Amount in Saudi Riyals)

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

e) *Liquidity risk (continued):*

Maturity Profiles (continued)

	2012					
	Insurance operations			Shareholders' operations		
	Upto one year	More than one year	Total	Upto one year	More than one year	Total
Financial liabilities						
Reinsurer balances payable	3,404,068	--	3,404,068	--	--	--
Accrued expenses and other liabilities	37,484,048	--	37,484,048	387,025	--	387,025
Outstanding claims and other technical reserves	90,709,402	--	90,709,402	--	--	--
End-of-service Indemnities	--	2,490,967	2,490,967	--	--	--
Total financial liabilities	131,597,518	2,490,967	134,088,485	387,025	--	387,025

	2011					
	Insurance operations			Shareholders' operations		
	Upto one year	More than one year	Total	Upto one year	More than one year	Total
Financial assets						
Cash and cash equivalents	118,055,360	--	118,055,360	34,655,033	--	34,655,033
Premiums receivable, net	61,083,979	--	61,083,979	--	--	--
Reinsurers' balance receivable, net	24,679,216	--	24,679,216	--	--	--
Reinsurers' share of outstanding claims and other technical reserves	32,128,970	--	32,128,970	--	--	--
Statutory deposit	--	--	--	--	20,778,852	20,778,852
Investments – available for sale	--	--	--	43,702,108	--	43,702,108
Loan receivable	--	--	--	--	500,000	500,000
Other assets	3,899,086	--	3,899,086	426,614	--	426,614
Total financial assets	239,846,611	--	239,846,611	78,783,755	21,278,852	100,062,607
Financial liabilities						
Reinsurer balances payable	35,603,651	--	35,603,651	--	--	--
Accrued expenses and other liabilities	40,305,391	--	40,305,391	97,525	--	97,525
Outstanding claims and other technical reserves	104,267,446	--	104,267,446	--	--	--
End-of-service Indemnities	--	1,909,867	1,909,867	--	--	--
Total financial liabilities	180,176,488	1,909,867	182,086,355	97,525	--	97,525

18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

f) Operational risk:

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

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

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

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

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

g) Regulatory framework risk:

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

19. CAPITAL RISK MANAGEMENT

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' 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 light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure or comply with the local regulatory requirement, the Company may issue shares or adjust the amount of dividends paid to shareholders.

As per the regulatory requirements, the Company need to maintain solvency margins equal to its share capital after the end of its third year of operations. Management is in process of taking necessary steps to ensure that solvency requirements remain in compliance.