

**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**

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL 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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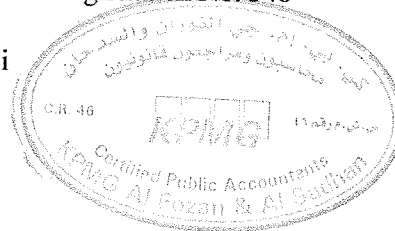
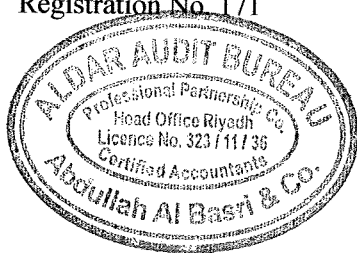


**Abdullah M. Al Basri**  
Certified Public Accountant  
Registration No. 171



**Abdullah H. Al Fozan**  
Certified Public Accountant  
Registration No. 348

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



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

	<u>Note</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
<b>ASSETS - INSURANCE OPERATIONS</b>			
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
<b>Total assets - insurance operations</b>		<b>209,967,761</b>	<b>284,293,338</b>
<b>ASSETS - SHAREHOLDERS' OPERATIONS</b>			
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
<b>Total assets - shareholders' operations</b>		<b>116,424,819</b>	<b>115,449,080</b>
<b>Total Assets</b>		<b>326,392,580</b>	<b>399,742,418</b>
<b>LIABILITIES - INSURANCE OPERATIONS</b>			
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
<b>Total liabilities - insurance operations</b>		<b>209,967,761</b>	<b>284,293,338</b>
<b>LIABILITIES - SHAREHOLDERS' OPERATIONS</b>			
Accrued expenses and other liabilities		387,025	97,525
Zakat payable	8(b)	9,935,141	8,242,480
<b>Total liabilities - shareholders' operations</b>		<b>10,322,166</b>	<b>8,340,005</b>
<b>TOTAL LIABILITIES</b>		<b>220,289,927</b>	<b>292,633,343</b>
<b>SHAREHOLDERS' EQUITY</b>			
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
<b>Total shareholders' equity</b>		<b>106,102,653</b>	<b>107,109,075</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>326,392,580</b>	<b>399,742,418</b>

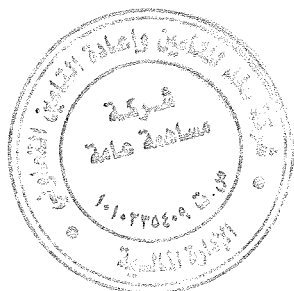
The accompanying notes 1 to 22 form an integral part of these financial statements.





**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)*

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



*Yamin Rashed*

*PLWHL*

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)*

	<u>Note</u>	<u>2012</u>	<u>2011</u>
<b>INCOME</b>			
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)
		<u>2,393,104</u>	<u>1,053,412</u>
<b>EXPENSES</b>			
Transfer of deficit from insurance operations		(5,195,539)	(27,673,564)
General and administration expenses	13	(1,941,384)	(1,312,521)
		<u>(7,136,923)</u>	<u>(28,986,085)</u>
<b>NET LOSS FOR THE YEAR BEFORE ZAKAT</b>			
		<u>(4,743,819)</u>	<u>(27,932,673)</u>
Zakat		(2,586,077)	(2,129,138)
<b>NET LOSS FOR THE YEAR</b>		<u>(7,329,896)</u>	<u>(30,061,811)</u>
<i>Other comprehensive income:</i>			
Changes in fair value of available for sale investments, net		6,323,474	2,328,609
<b>Total comprehensive loss for the year</b>		<u>(1,006,422)</u>	<u>(27,733,202)</u>
Basic and diluted loss per share		(0.37)	(1.50)
<b>Weighted average number of shares in issue</b>		<u>20,000,000</u>	<u>20,000,000</u>



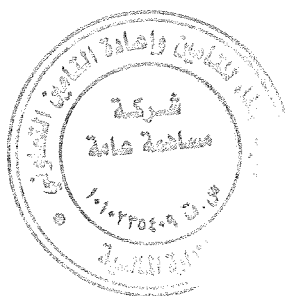
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The accompanying notes 1 to 22 form integral part of these financial statements.

**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)*

	<u>Share capital</u>	<u>Accumulated deficit</u>	<u>Fair value reserve on Investment</u>	<u>Total</u>
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
<b>Balance at 31 December 2011</b>	<b>200,000,000</b>	<b>(97,977,041)</b>	<b>5,086,116</b>	<b>107,109,075</b>
Loss for the year	--	(7,329,896)	--	(7,329,896)
Other comprehensive income for the year	--	--	6,323,474	6,323,474
<b>Balance at 31 December 2012</b>	<b>200,000,000</b>	<b>(105,306,937)</b>	<b>11,409,590</b>	<b>106,102,653</b>

*Philly*



*Jami Rashed*

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
<b>Operating Activities</b>		
Net results for the year	--	--
<i>Adjustments for non cash items:</i>		
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	--
<b>Changes in operating assets and liabilities:</b>		
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)
<b>Net cash (used in) / from operating activities</b>	<b>(51,911,979)</b>	<b>71,051,840</b>
<b>Investing Activities</b>		
Purchase of property and equipment	(688,405)	(2,724,914)
Consideration received from sale of property and equipment	25,000	--
<b>Net cash used in investing activities</b>	<b>(663,405)</b>	<b>(2,724,914)</b>
<b>Net changes in cash and cash equivalents</b>	<b>(52,575,384)</b>	<b>68,326,926</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>118,055,360</b>	<b>49,728,434</b>
<b>Cash and cash equivalents, end of the year</b>	<b>65,479,976</b>	<b>118,055,360</b>



*Jawad Rashid*

*PLU.A*

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
<b>Operating Activities</b>		
Net loss before zakat	(4,743,819)	(27,932,673)
<i>Adjustments for non cash items:</i>		
Transfer from insurance operations	5,195,539	27,673,564
(Gain)/ loss on sale of investments	(253,944)	756,131
<b>Changes in operating assets and liabilities:</b>		
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)
<b>Net cash from / (used) in operating activities</b>	<b>5,291,275</b>	<b>(44,014,021)</b>
<b>Investing Activities</b>		
Statutory deposit	(139,567)	(152,336)
Redemption of investments – available for sale	10,133,548	43,093,981
<b>Net cash from investing activities</b>	<b>9,993,981</b>	<b>42,941,645</b>
<b>Net changes in cash and cash equivalents</b>	<b>15,285,256</b>	<b>(1,072,376)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>34,655,033</b>	<b>35,727,409</b>
<b>Cash and cash equivalents, end of the year</b>	<b>49,940,289</b>	<b>34,655,033</b>
<b>Non – cash supplemental information:</b>		
Change in fair value of investments – available for sale	<b>6,323,474</b>	<b>2,328,609</b>

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



*Tamim Rashid*



**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**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 Daren 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.



**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**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*

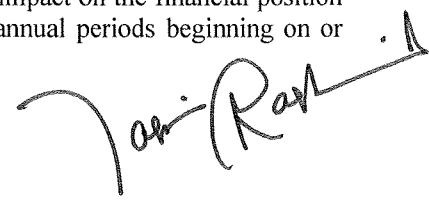
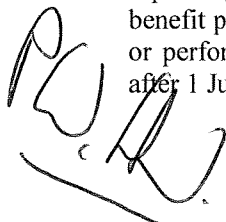
IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective 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*

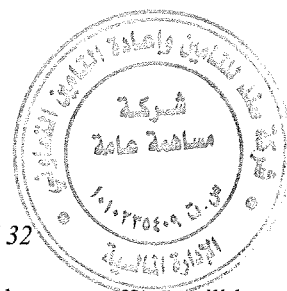
The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted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



**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
**(A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 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.

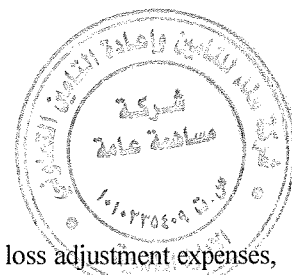
*Investment income:*

- 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.

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**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 comprehensive 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.

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**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.

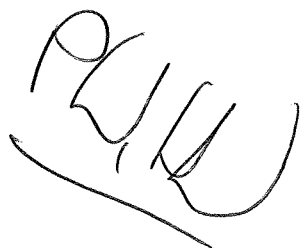
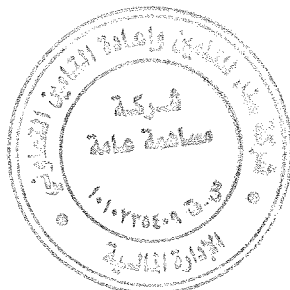
**3.8 *Receivables***

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.



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**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. It 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***

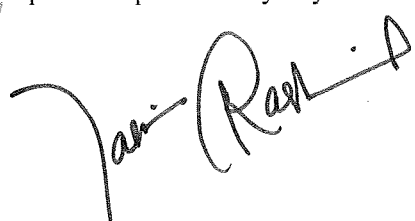
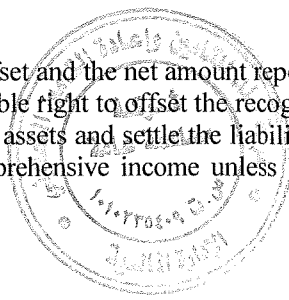
The fair value of financial assets that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date. If quoted market prices are not available, reference is made to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



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**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:

	<u>Years</u>
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.

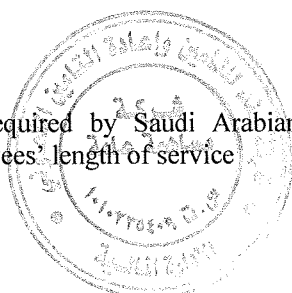
**3.17 *Zakat and income tax***

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



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**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.





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**4 CASH AND CASH EQUIVALENTS**

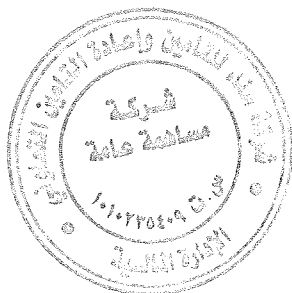
	2012	
	Insurance Operations	Shareholders' Operations
Cash in hand	25,001	--
Bank balances	35,454,975	9,940,289
Murabaha deposits	30,000,000	40,000,000
	65,479,976	49,940,289
	2011	
	Insurance Operations	Shareholders' Operations
Cash in hand	25,343	--
Bank balances	68,030,017	10,655,033
Murabaha deposits	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
<b>10% founding shareholder and common directorship</b>	- Saudi Continental Insurance Company
<b>90% shareholder in Saudi Continental Insurance Company and have a common directorship</b>	- Aggad Investment Company
<b>Common directorship and control</b>	- 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



*Yasir Rashid*

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**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:

<u>Name of related party</u>	<u>2012</u>		<u>2011</u>	
	<u>Gross written premium</u>	<u>Gross claims paid</u>	<u>Gross written premium</u>	<u>Gross claims paid</u>
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:**

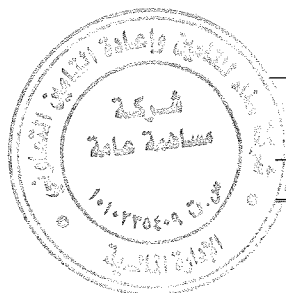
Details of significant receivables from and payables to the related parties are as follows:

<u>Related party</u>	<u>2012</u>		<u>2011</u>	
	<u>Premiums receivable</u>	<u>Outstanding claims</u>	<u>Premiums receivable / (Premium received in advance)</u>	<u>Outstanding claims</u>
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:

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



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**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
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**6 INVESTMENTS**

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

	2012		
	<u>Cost</u>	<u>Market value</u>	<u>Unrealised gain</u>
<b><u>Quoted</u></b>			
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
	<u>26,813,310</u>	<u>38,222,900</u>	<u>11,409,590</u>
<b><u>Unquoted</u></b>			
Equities (c)	1,923,078	1,923,078	--
	<u>28,736,388</u>	<u>40,145,978</u>	<u>11,409,590</u>
	2011		
	<u>Cost</u>	<u>Market value</u>	<u>Unrealised gain</u>
<b><u>Quoted</u></b>			
Mutual Funds	19,948,332	21,169,030	1,220,698
Equities	16,744,582	20,610,000	3,865,418
	<u>36,692,914</u>	<u>41,779,030</u>	<u>5,086,116</u>
<b><u>Unquoted</u></b>			
Equities (c)	1,923,078	1,923,078	--
	<u>38,615,992</u>	<u>43,702,108</u>	<u>5,086,116</u>

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	<u>40,145,978</u>	<u>43,702,108</u>

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 unspecified 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
	<u>40,145,978</u>	<u>43,702,108</u>



*PLWHL*

*Jarid Rakhil*

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**7 PROPERTY AND EQUIPMENT, NET**

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

	2012					
	<u>Software</u>	<u>Computers</u>	<u>Furniture</u>	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Total</u>
<b>Cost:</b>						
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)
<b>Balance at the end of the year</b>	<u>2,017,846</u>	<u>2,907,903</u>	<u>2,078,389</u>	<u>3,630,516</u>	<u>356,000</u>	<u>10,990,654</u>
<b>Accumulated depreciation:</b>						
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)
<b>Balance at the end of the year</b>	<u>1,581,807</u>	<u>2,269,523</u>	<u>741,848</u>	<u>2,644,072</u>	<u>266,623</u>	<u>7,503,873</u>
<b>Net book value at 31 December 2012</b>	<u>436,039</u>	<u>638,380</u>	<u>1,336,541</u>	<u>986,444</u>	<u>89,377</u>	<u>3,486,781</u>

	2011					
	<u>Software</u>	<u>Computers</u>	<u>Furniture</u>	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Total</u>
<b>Cost:</b>						
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	<u>2,006,746</u>	<u>2,695,990</u>	<u>2,164,079</u>	<u>3,230,548</u>	<u>356,000</u>	<u>10,453,363</u>
<b>Accumulated depreciation:</b>						
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	<u>1,127,328</u>	<u>1,825,395</u>	<u>583,050</u>	<u>1,897,820</u>	<u>200,707</u>	<u>5,634,300</u>
<b>Net book value at 31 December 2011</b>	<u>879,418</u>	<u>870,595</u>	<u>1,581,029</u>	<u>1,332,728</u>	<u>155,293</u>	<u>4,819,063</u>

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



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*Yasir Raed*

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**8. ZAKAT AND INCOME TAX**

**a) Zakat:**

The provision for zakat of SR 2,586,077 (31 December 2011: 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:

	<u>2012</u>	<u>2011</u>
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
	<u>105,986,776</u>	<u>87,259,741</u>
Saudi Shareholders' share of zakat base @ 97.6%	<u>103,443,093</u>	<u>85,165,507</u>
Zakat charge for the year @ 2.5%	<u>2,586,077</u>	<u>2,129,138</u>

**b) Movements in zakat provision:**

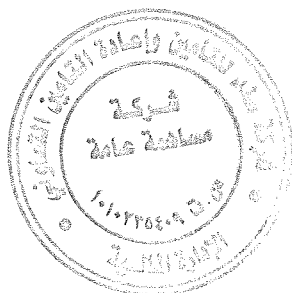
	<u>2012</u>	<u>2011</u>
Balance at beginning of the year	8,242,480	6,735,854
Zakat charge for the year	2,586,077	2,129,138
Payments made during the year	(893,416)	(622,512)
Balance at end of the year	<u>9,935,141</u>	<u>8,242,480</u>

**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 ended upto 31 December 2011. The 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.



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**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**  
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**9. CLAIMS AND TECHNICAL RESERVES**

**a) Incurred claims:**

	2012		
	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
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)
	<u>128,418,047</u>	<u>(35,904,598)</u>	<u>92,513,449</u>

	2011		
	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
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
	<u>168,372,042</u>	<u>(44,632,479)</u>	<u>123,739,563</u>

**b) Outstanding claims and other technical reserves:**

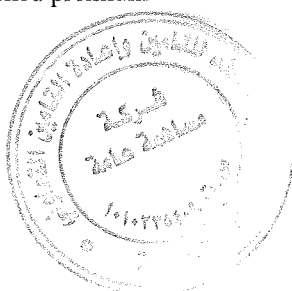
	2012		
	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
Outstanding claim reserves	64,285,225	(28,200,117)	36,085,108
Incurred But Not Reported (IBNR) reserve	23,808,330	(9,411,073)	14,397,257
Other technical reserves	2,615,847	--	2,615,847
	<u>90,709,402</u>	<u>(37,611,190)</u>	<u>53,098,212</u>

	2011		
	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
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
	<u>104,267,446</u>	<u>(32,128,970)</u>	<u>72,138,476</u>

**10. PREMIUMS**

**a) Earned premium:**

	2012		
	<u>Gross</u>	<u>Reinsurers' Share</u>	<u>Net</u>
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
	<u>199,318,159</u>	<u>(59,126,936)</u>	<u>140,191,223</u>



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**10. PREMIUMS (Continued)**

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

	2011		
	<u>Gross</u>	Reinsurers' <u>Share</u>	<u>Net</u>
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
	<u>227,940,317</u>	<u>(55,350,853)</u>	<u>172,589,464</u>

**b) Unearned premium reserves:**

	2012		
	<u>Gross</u>	Reinsurers' <u>share</u>	<u>Net</u>
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)
<b>Balance as at the end of the year</b>	<u>67,695,866</u>	<u>(13,562,340)</u>	<u>54,133,526</u>

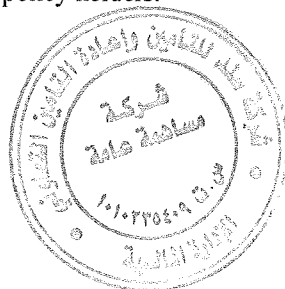
	2011		
	<u>Gross</u>	Reinsurers' <u>Share</u>	<u>Net</u>
Balance as at the beginning of the year	80,100,722	(21,757,136)	58,343,586
Total gross written premium	231,325,704	(60,888,610)	170,437,094
Premium earned	(227,940,317)	55,350,854	(172,589,463)
Balance as at the end of the year	<u>83,486,109</u>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

**11. PREMIUM RECEIVABLES, NET**

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

	<u>Total</u>	<u>Neither past due nor impaired</u>	<u>Past due but not impaired</u>	<u>Past due and impaired</u>
<b>31 December 2012</b>	<b>88,033,474</b>	<b>24,922,401</b>	<b>38,473,093</b>	<b>24,637,980</b>
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.



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**12. DEFERRED POLICY ACQUISITION COSTS**

	<u>2012</u>	<u>2011</u>
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)
<b>Balance as at the end of the year</b>	<b>7,027,284</b>	<b>10,117,495</b>

**13. GENERAL AND ADMINISTRATION EXPENSES**

	<u>2012</u>	<u>2011</u>
<b>Insurance Operations</b>		
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
	<b>37,316,234</b>	<b>39,349,566</b>

	<u>2012</u>	<u>2011</u>
<b>Shareholders' Operations</b>		
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	--
	<b>1,941,384</b>	<b>1,312,521</b>

**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.

P. J. K.



Yasir Rashid



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**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.

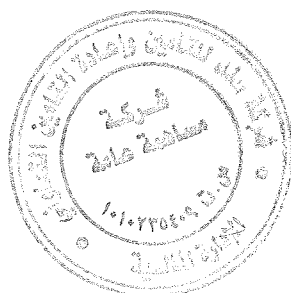
Segment liabilities do not include due to shareholders operations, end-of-service indemnities, reinsurers' balances payable, accrued expenses and other liabilities.

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					<u>Total</u>
	<u>Medical</u>	<u>Motor</u>	<u>Marine</u>	<u>Engineering</u>	<u>Others</u>	
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)
<b>Net written premiums</b>	<b>57,025,130</b>	<b>72,381,570</b>	<b>3,188,577</b>	<b>1,309,290</b>	<b>4,228,965</b>	<b>138,133,532</b>
Net changes in unearned premiums	7,648,387	(6,290,394)	73,931	563,436	62,331	2,057,691
<b>Net earned premiums</b>	<b>64,673,517</b>	<b>66,091,176</b>	<b>3,262,508</b>	<b>1,872,726</b>	<b>4,291,296</b>	<b>140,191,223</b>
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
<b>Underwriting revenue</b>	<b>64,686,917</b>	<b>66,217,125</b>	<b>6,503,861</b>	<b>4,841,542</b>	<b>6,591,994</b>	<b>148,841,439</b>
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
<b>Net claims paid</b>	<b>(53,252,453)</b>	<b>(52,623,629)</b>	<b>(4,509,914)</b>	<b>(156,016)</b>	<b>(1,011,701)</b>	<b>(111,553,713)</b>
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
<b>Net claims incurred</b>	<b>(30,149,353)</b>	<b>(55,009,108)</b>	<b>(5,788,013)</b>	<b>(696,145)</b>	<b>(870,830)</b>	<b>(92,513,449)</b>
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
<b>Underwriting expenses</b>	<b>(35,951,729)</b>	<b>(65,528,818)</b>	<b>(8,098,620)</b>	<b>(3,429,459)</b>	<b>(4,126,231)</b>	<b>(117,134,857)</b>
<b>Underwriting results</b>	<b>28,735,188</b>	<b>688,307</b>	<b>(1,594,759)</b>	<b>1,412,083</b>	<b>2,465,763</b>	<b>31,706,582</b>
Unallocated expenses						(37,373,396)
Unallocated income						471,275
<b>Net Deficit from insurance operations</b>						<b>(5,195,539)</b>



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**16. SEGMENTAL INFORMATION (Continued)**

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

	2011					<u>Total</u>
	<u>Medical</u>	<u>Motor</u>	<u>Marine</u>	<u>Engineering</u>	<u>Others</u>	
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)
<b>Net written premiums</b>	<b>101,521,743</b>	<b>61,791,371</b>	<b>3,355,029</b>	<b>743,453</b>	<b>3,025,498</b>	<b>170,437,094</b>
Net changes in unearned premiums	1,994,326	595,097	(175,809)	(320,402)	59,158	2,152,370
<b>Net earned premiums</b>	<b>103,516,069</b>	<b>62,386,468</b>	<b>3,179,220</b>	<b>423,051</b>	<b>3,084,656</b>	<b>172,589,464</b>
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
<b>Underwriting revenue</b>	<b>103,536,769</b>	<b>62,482,926</b>	<b>6,204,412</b>	<b>3,048,520</b>	<b>6,937,941</b>	<b>182,210,568</b>
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
<b>Net claims paid</b>	<b>(62,507,809)</b>	<b>(39,382,997)</b>	<b>(671,511)</b>	<b>(196,150)</b>	<b>(1,790,368)</b>	<b>(104,548,835)</b>
Net changes in outstanding claims and other technical reserves	(13,506,770)	(6,666,929)	178,737	25,373	778,861	(19,190,728)
<b>Net claims incurred</b>	<b>(76,014,579)</b>	<b>(46,049,926)</b>	<b>(492,774)</b>	<b>(170,777)</b>	<b>(1,011,507)</b>	<b>(123,739,563)</b>
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)
<b>Underwriting expenses</b>	<b>(102,655,105)</b>	<b>(59,027,448)</b>	<b>(2,449,389)</b>	<b>(2,243,055)</b>	<b>(4,384,261)</b>	<b>(170,759,258)</b>
<b>Underwriting results</b>	<b>881,664</b>	<b>3,455,478</b>	<b>3,755,023</b>	<b>805,465</b>	<b>2,553,680</b>	<b>11,451,310</b>
Unallocated expenses						(39,349,566)
Unallocated income						224,692
<b>Net Deficit from insurance operations</b>						<b>(27,673,564)</b>



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**16. SEGMENTAL INFORMATION (Continued)**

**b) Insurance operation assets and liabilities:**

	At 31 December 2012					
	<u>Medical</u>	<u>Motor</u>	<u>Marine</u>	<u>Engineering</u>	<u>Others</u>	<u>Total</u>
<b>Assets – insurance operations</b>						
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
	<u>17,181,890</u>	<u>8,826,143</u>	<u>7,895,873</u>	<u>13,421,322</u>	<u>10,875,586</u>	<u>58,200,814</u>
Unallocated assets						151,766,947
Total assets - insurance operations						<u>209,967,761</u>
<b>Liabilities – insurance operations</b>						
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
	<u>60,602,094</u>	<u>60,876,149</u>	<u>10,966,852</u>	<u>15,149,748</u>	<u>14,092,813</u>	<u>161,687,656</u>
Unallocated liabilities						48,280,105
Total liabilities - insurance operations						<u>209,967,761</u>

	At 31 December 2011					
	<u>Medical</u>	<u>Motor</u>	<u>Marine</u>	<u>Engineering</u>	<u>Others</u>	<u>Total</u>
<b>Assets – insurance operations</b>						
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
	<u>32,870,730</u>	<u>8,197,945</u>	<u>6,027,291</u>	<u>10,879,089</u>	<u>11,566,302</u>	<u>69,541,357</u>
Unallocated assets						214,751,981
Total assets - insurance operations						<u>284,293,338</u>
<b>Liabilities – insurance operations</b>						
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
	<u>103,725,845</u>	<u>52,080,991</u>	<u>7,727,409</u>	<u>12,649,787</u>	<u>14,903,924</u>	<u>191,087,956</u>
Unallocated liabilities						93,205,382
Total liabilities - insurance operations						<u>284,293,338</u>



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**16. SEGMENTAL INFORMATION (Continued)**

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

	At 31 December 2012					
	<u>Medical</u>	<u>Motor</u>	<u>Marine</u>	<u>Engineering</u>	<u>Others</u>	<u>Total</u>
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
	<u>35,059,512</u>	<u>33,436,689</u>	<u>6,912,409</u>	<u>8,369,304</u>	<u>6,931,488</u>	<u>90,709,402</u>

	At 31 December 2011					
	<u>Medical</u>	<u>Motor</u>	<u>Marine</u>	<u>Engineering</u>	<u>Others</u>	<u>Total</u>
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
	<u>57,199,649</u>	<u>30,931,925</u>	<u>4,516,209</u>	<u>4,662,447</u>	<u>6,957,216</u>	<u>104,267,446</u>

**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.

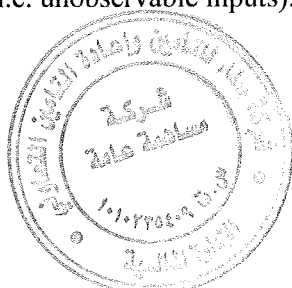
The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

**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).

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**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:

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

**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.

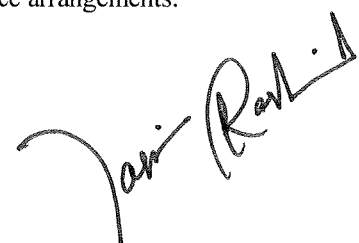
The risks faced by the Company and the way these risks are mitigated by management are summarized below.

**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.





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**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**

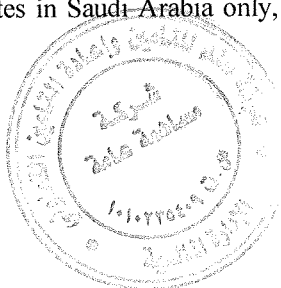
The Company monitors concentration of insurance risks primarily by class of business. The table below sets out the concentration of the claims and premium liabilities (in percentage terms) by class of business at balance sheet date:

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.

*PLW/H*



*Yar-Rashid*

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**a) Insurance risk (Continued):**

*Sources of uncertainty in estimation of future claim payments*

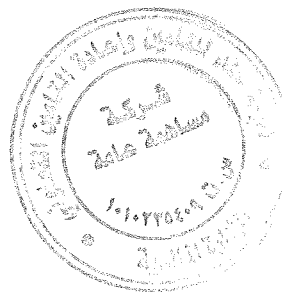
The key source of estimation uncertainty at the reporting date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made 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.



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**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:

	<u>Net results</u>		<u>Shareholders' equity</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Impact of + 10 percent</b>				
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
	<u>5,309,821</u>	<u>7,213,847</u>	<u>5,154,774</u>	<u>7,003,202</u>
<b>Impact of - 10 percent</b>				
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)
	<u>(5,309,821)</u>	<u>(7,213,847)</u>	<u>(5,154,774)</u>	<u>(7,003,202)</u>

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.

<b>Accident year</b>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
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	--	<u>2,359,460</u>	<u>5,199,898</u>	<u>10,284,290</u>	<u>72,865,754</u>	<u>90,709,402</u>



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**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).

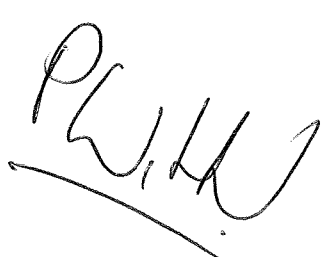
**c) Market risk:**

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.




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**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.

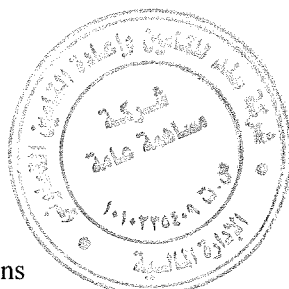
Management assesses that there is minimal risk of significant losses due to exchange risk fluctuations and consequently the Company does not hedge its foreign currency exposure

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:

	<b>Carrying Amount</b>	
	<b>2012</b>	<b>2011</b>
<b>Fixed rate instruments</b>		
<u>Murabaha deposits:</u>		
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
	<b>90,918,419</b>	<b>94,778,852</b>



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.

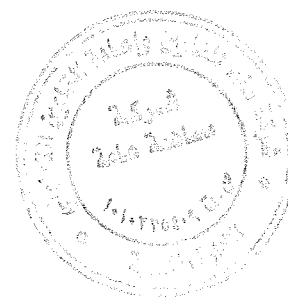
The information about Company's exposure to commission rate risk, with respect to financial assets, is based on contractual re-pricing or maturity dates whichever is earlier is as follows:

<b><u>Insurance Operations:</u></b>	<b>2012</b>					
	<b>Yield</b>	<b>Commission bearing</b>			<b>Non-Commission bearing</b>	<b>Total</b>
		<b>&lt; 1 Year</b>	<b>1-5 Years</b>	<b>&gt; 5 Years</b>		
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
<b>Total insurance operations' financial assets</b>		<b>30,000,000</b>	<b>--</b>	<b>--</b>	<b>153,100,925</b>	<b>183,100,925</b>

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**c) Market risk (continued):**

Commission rate risk (continued)

	2012					
	Yield	Commission bearing			Non-Commission bearing	Total
		< 1 Year	1-5 Years	> 5 Years		
<b><u>Insurance Operations:</u></b>						
<b><u>Shareholders' Operations:</u></b>						
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
<b>Total shareholders' operations financial assets</b>		<b>60,918,419</b>	<b>--</b>	<b>--</b>	<b>50,605,378</b>	<b>111,523,797</b>
<b>Total financial assets</b>		<b>90,918,419</b>	<b>--</b>	<b>--</b>	<b>203,706,303</b>	<b>294,624,722</b>

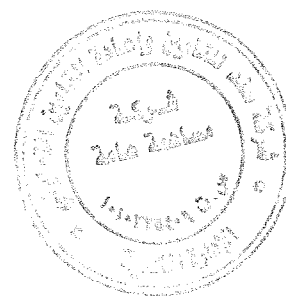
	2011					
	Yield	Commission bearing			Non-Commission bearing	Total
		< 1 Year	1-5 Years	> 5 Years		
<b><u>Insurance Operations:</u></b>						
<b><u>Shareholders' Operations:</u></b>						
Cash and cash equivalents	1.2%	50,000,000	--	--	68,055,360	118,055,360
Premiums receivable, net	--	--	--	--	61,083,979	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
<b>Total insurance operations' financial assets</b>		<b>50,000,000</b>	<b>--</b>	<b>--</b>	<b>189,846,611</b>	<b>239,846,611</b>
<b><u>Shareholders' Operations:</u></b>						
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
<b>Total shareholders' operations financial assets</b>		<b>44,778,852</b>	<b>--</b>	<b>--</b>	<b>55,283,755</b>	<b>100,062,607</b>
<b>Total financial assets</b>		<b>94,778,852</b>	<b>--</b>	<b>--</b>	<b>245,130,366</b>	<b>339,909,218</b>

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.

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**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:

	<u>Price change</u>	<u>Fair value</u>	<u>Effect on net results</u>	<u>Effect on shareholders' equity</u>
<b>31 December 2012</b>	10% increase	<b>3,822,290</b>	--	<b>3,710,679</b>
	10% decrease	<b>(3,822,290)</b>	--	<b>(3,710,679)</b>
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:

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

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**d) Credit risk (continued):**

	<u>2012</u>	<u>2011</u>
<b><u>Shareholders' Operations:</u></b>		
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
<b>Total shareholders' operations financial assets exposed to credit risk</b>	<b>89,322,114</b>	<b>77,529,529</b>
<b>Total financial assets exposed to credit risk</b>	<b>272,423,039</b>	<b>317,376,140</b>
Shareholders' operations - financial assets not exposed to credit risks	22,201,683	22,533,078
<b>Total financial assets</b>	<b>294,624,722</b>	<b>339,909,218</b>

Credit quality

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

<u>Rating</u>	<u>2012</u>		<u>2011</u>	
	<u>Insurance operations</u>	<u>Shareholders' operations</u>	<u>Insurance operations</u>	<u>Shareholders' operations</u>
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:

<u>Rating</u>	<u>2012</u>	<u>2011</u>
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
<b>Total investments exposed to credit risk</b>	<b>17,944,295</b>	<b>21,169,030</b>

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.

*PLUHL*

*Jair Rosh*

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**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	
	<u>Insurance operations</u>	<u>Shareholders' operations</u>	<u>Insurance operations</u>	<u>Shareholders' operations</u>
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
<b>Total financial assets exposed to credit risk</b>	<b>183,100,925</b>	<b>89,322,114</b>	<b>239,846,611</b>	<b>77,529,529</b>

**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
<b>Financial assets</b>						
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
<b>Total financial assets</b>	<b>183,100,925</b>	--	<b>183,100,925</b>	<b>90,105,378</b>	<b>21,418,419</b>	<b>111,523,797</b>

*PLH*

*Yasir Rashid*

**SANAD COOPERATIVE INSURANCE AND REINSURANCE COMPANY**

(A Saudi Joint Stock Company)

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**18. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)**

**e) Liquidity risk (continued):**

Maturity Profiles (continued)

	----- 2012 -----					
	Insurance operations			Shareholders' operations		
	Upto one <u>year</u>	More than <u>one year</u>	<u>Total</u>	Upto one <u>year</u>	More than <u>one year</u>	<u>Total</u>
<b><u>Financial liabilities</u></b>						
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	--	--	--
<b>Total financial liabilities</b>	<b>131,597,518</b>	<b>2,490,967</b>	<b>134,088,485</b>	<b>387,025</b>	<b>--</b>	<b>387,025</b>

	----- 2011 -----					
	Insurance operations			Shareholders' operations		
	Upto one year	More than one year	Total	Upto one year	More than one year	Total
<b><u>Financial assets</u></b>						
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
<b>Total financial assets</b>	<b>239,846,611</b>	<b>--</b>	<b>239,846,611</b>	<b>78,783,755</b>	<b>21,278,852</b>	<b>100,062,607</b>
<b><u>Financial liabilities</u></b>						
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	--	--	--
<b>Total financial liabilities</b>	<b>180,176,488</b>	<b>1,909,867</b>	<b>182,086,355</b>	<b>97,525</b>	<b>--</b>	<b>97,525</b>

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**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.

