AL RAJHI COMPANY FOR COOPERATIVE INSURANCE

(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
TOGETHER WITH THE
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

ERNST & YOUNG | KPMG Al Fozan & Al Sadhan

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

Scope of audit:

We have audited the accompanying statement of financial position of Al Rajhi Company for Cooperative Insurance - A Saudi Joint Stock Company (the "Company") as at 31 December 2012 and the related statements of income and comprehensive income of takaful and shareholders' operations, statement of changes in shareholders' equity, statements of cash flows of takaful and shareholders' operations for the year then ended and the notes from 1 to 23 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of Article 123 of the Regulations for Companies and the Company's By-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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:

i) 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

ii) comply with the requirements of the Regulations for Companies and the Company's By-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 accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants.

Ernst & Young P. O. Box 2732 Riyadh 11461 Kingdom of Saudi Arabia	KPMG Al Fozan & Al Sadhan P. O. Box 92876 Riyadh 11663 Kingdom of Saudi Arabia
Rashid S. Al Rashoud Certified Public Accountant Licence No. 366	Abdullah H. Al Fozan Certified Public Accountant Licence No. 348

8 Rabi Thani 1434H
(18 February 2013)

STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2012

	Notes	2012 SR'000	2011 SR'000
TAKAFUL OPERATIONS' ASSETS			
Bank balances and cash	6	**50,413**	48,950
Amount due from related parties	19	**-**	634
Due from shareholders' operations		**202,867**	196,822
Contributions receivable, net	5	**111,296**	61,482
Available for sale investment	9(i)(b)	**30,200**	30,216
Re-takaful share of outstanding claims	11(a)	**40,898**	43,976
Investments held to maturity	9(i)(c)	**-**	7,000
Advances and other assets		**-**	6,622
Re-takaful share of unearned contributions	12(c)	**76,239**	73,345
Deferred policy acquisition costs	12(a)	**10,876**	13,399
TOTAL TAKAFUL OPERATIONS' ASSETS		**522,789**	482,446
SHAREHOLDERS' OPERATIONS' ASSETS			
Bank balances and cash	6	**109,740**	1,211
Amount due from related parties	19	**1,274**	957
Management fees receivable		**18,866**	35,620
Investments at fair value through income statement	9(ii)(c)	**31,918**	31,125
Available for sale investments	9(ii)(b)	**2,572**	2,223
Investments held to maturity	9(ii)(d)	**112,710**	197,175
Advances, prepayments and other assets	10	**11,409**	19,793
Statutory deposit	8	**20,000**	20,000
Property and equipment, net	7	**17,415**	15,040
TOTAL SHAREHOLDERS' OPERATIONS' ASSETS		**325,904**	323,144
TOTAL ASSETS		**848,693**	805,590

Dr. Waleed Abdullah Al Mogbel	**Abdulaziz Mohammed Al Sedeas**	**Zoheb Khurshid Farooqui**
Board Member	**Chief Executive Officer**	**Finance Manager**

The accompanying notes 1 to 23 form an integral part of these financial statements.

	Notes	2012 SR'000	2011 SR'000
TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims	11(a)	**119,263**	90,240
Amount due to related parties	19	**927**	-
Management fees payable		**18,866**	35,620
Payables, accruals and other liabilities	13	**30,597**	27,606
Re-takaful balances payable		**66,500**	85,925
Gross unearned contributions	12(c)	**280,565**	237,452
Unearned re-takaful commission income	12(b)	**5,967**	5,525
TAKAFUL OPERATIONS' SURPLUS		**522,685**	482,368
Fair value reserve for AFS investments	9(i)(b)	**104**	78
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS		**522,789**	482,446
SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY			
SHAREHOLDERS' OPERATIONS' LIABILITIES			
Provision for Zakat	14	**1,368**	1,859
Payables, accruals and other liabilities	13	**9,455**	12,717
Due to takaful operations		**202,867**	196,822
Employees' end of service benefits		**3,455**	2,410
TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES		**217,145**	213,808
SHAREHOLDERS' EQUITY			
Share capital	15	**200,000**	200,000
Accumulated losses		**(91,241)**	(90,664)
TOTAL SHAREHOLDERS' EQUITY		**108,759**	109,336
TOTAL SHAREHOLDERS' OPERATIONS' LIABILITIES AND EQUITY		**325,904**	323,144
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**848,693**	805,590

Dr. Waleed Abdullah Al Mogbel **Board Member**	**Abdulaziz Mohammed Al Sedeas** **Chief Executive Officer**	**Zoheb Khurshid Farooqui** **Finance Manager**

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STATEMENT OF INCOME - TAKAFUL OPERATIONS
For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
Gross contributions written	12(c)	**600,864**	493,344
Re-takaful contributions ceded	12(c)	**(151,072)**	(146,678)
Excess of loss		**(3,489)**	(1,861)
NET CONTRIBUTIONS WRITTEN		**446,303**	344,805
Change in unearned contributions, net		**(40,219)**	(75,371)
NET CONTRIBUTIONS EARNED		**406,084**	269,434
Policy fees and other income		**1,284**	902
Re-takaful commission income	12(b)	**12,960**	7,830
TOTAL UNDERWRITING REVENUE		**420,328**	278,166
Gross claims paid	11(a)	**(374,024)**	(214,093)
Re-takaful share of claims paid	11(a)	**89,984**	50,817
NET CLAIMS PAID		**(284,040)**	(163,276)
Movement in outstanding claims, net		**(32,101)**	(28,448)
NET CLAIMS INCURRED		**(316,141)**	(191,724)
Inspection and supervision fees		**(3,916)**	(4,478)
Policy acquisition costs	12 (a)	**(26,482)**	(18,472)
Allowance for doubtful receivables	5	**(2,052)**	(8,532)
Other expenses		**(26)**	(25)
TOTAL CLAIMS AND OTHER EXPENSES		**(348,617)**	(223,231)
NET UNDERWRITING SURPLUS		**71,711**	54,935
Investment income		**670**	365
Management fee		**(72,381)**	(176,721)
Net deficit for the year		**-**	(121,421)
Net deficit transferred to Shareholders' Operations		**-**	121,421
NET RESULT FOR THE YEAR		**-**	-

Dr. Waleed Abdullah Al Mogbel	**Abdulaziz Mohammed Al Sedeas**	**Zoheb Khurshid Farooqui**
Board Member	**Chief Executive Officer**	**Finance Manager**

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STATEMENT OF COMPREHENSIVE INCOME - TAKAFUL OPERATIONS
For the year ended 31 December 2012

	Note	***2012*** ***SR'000***	*2011* *SR'000*
Net result for the year		-	-
Other comprehensive income			
Net change in fair value of AFS investments	*9(i)(b)*	**104**	78
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**104**	78

Dr. Waleed Abdullah Al Mogbel	**Abdulaziz Mohammed Al Sedeas**	**Zoheb Khurshid Farooqui**
Board Member	**Chief Executive Officer**	**Finance Manager**

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STATEMENT OF INCOME – SHAREHOLDERS' OPERATIONS
For the year ended 31 December 2012

	Notes	*2012* *SR'000*	*2011* *SR'000*
REVENUE			
Management fee		**72,381**	176,721
Dividend income		**2,103**	974
Net gain/(loss) on investments at FVIS	*9(ii)(c)*	**2,433**	(281)
Realized gain on sale of AFS investments		**473**	1,797
Special commission income on investments held to maturity		**4,234**	1,812
TOTAL REVENUE		**81,624**	181,023
General and administrative expenses	*17*	**(80,839)**	(91,577)
Net deficit transferred from Takaful Operations		**-**	(121,421)
INCOME/(LOSS) BEFORE ZAKAT		**785**	(31,975)
Provision for Zakat	*14(b)*	**(1,362)**	(930)
NET LOSS FOR THE YEAR		**(577)**	(32,905)
BASIC AND DILUTED LOSS PER SHARE (SR)	*18*	**(0.03)**	(1.65)

Dr. Waleed Abdullah Al Mogbel	Abdulaziz Mohammed Al Sedeas	Zoheb Khurshid Farooqui
Board Member	Chief Executive Officer	Finance Manager

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STATEMENT OF COMPREHENSIVE INCOME – SHAREHOLDERS' OPERATIONS
For the year ended 31 December 2012

	2012 *SR'000*	*2011* *SR'000*
Net loss for the year	**(577)**	(32,905)
Other comprehensive loss		
Net change in fair value of AFS investments	-	(1,145)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(577)**	(34,050)

Dr. Waleed Abdullah Al Mogbel	**Abdulaziz Mohammed Al Sedeas**	**Zoheb Khurshid Farooqui**
Board Member	**Chief Executive Officer**	**Finance Manager**

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2012

	Share capital SR'000	*Accumulated losses SR'000*	*Fair value reserve for AFS investments SR'000*	*Total SR'000*
Balance as at 1 January 2011	200,000	(57,759)	1,145	143,386
Net loss for the year	-	(32,905)	-	(32,905)
Other comprehensive loss	-	-	(1,145)	(1,145)
Total comprehensive loss for the year	-	(32,905)	(1,145)	(34,050)
Balance as at 31 December 2011	**200,000**	**(90,664)**	-	**109,336**
Net loss for the year	-	**(577)**	-	**(577)**
Other comprehensive loss	-	-	-	-
Total comprehensive loss for the year	-	**(577)**	-	**(577)**
Balance as at 31 December 2012	**200,000**	**(91,241)**	-	**108,759**

Dr. Waleed Abdullah Al Mogbel
Board Member

Abdulaziz Mohammed Al Sedeas
Chief Executive Officer

Zoheb Khurshid Farooqui
Finance Manager

The accompanying notes 1 to 23 form an integral part of these financial statements.

Al Rajhi Company for Cooperative Insurance (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS – TAKAFUL OPERATIONS

For the year ended 31 December 2012

	Notes	2012 SR'000	2011 SR'000
OPERATING ACTIVITIES			
Net result for the year		-	-
Adjustments for:			
Allowance for doubtful receivables	5	**2,052**	8,532
Realized gain on sale of available for sale investments		**(78)**	-
Net surplus before changes in operating assets and liabilities		**1,974**	8,532
Changes in operating assets and liabilities:			
Amount due from related parties		**1,561**	-
Due from shareholders' operations		**(6,045)**	(121,421)
Contributions receivable		**(51,866)**	(34,433)
Re-takaful share of outstanding claims		**3,078**	(29,124)
Advances and other assets		**6,622**	(11,635)
Re-takaful share of unearned contributions		**(2,894)**	(35,242)
Deferred policy acquisition costs		**2,523**	(10,747)
Gross outstanding claims		**29,023**	71,936
Management fee payable		**(16,754)**	35,620
Payables, accruals and other liabilities		**2,991**	19,950
Re-takaful balances payable		**(19,425)**	44,053
Deposit against letters of guarantee		**(3,478)**	200
Gross unearned contributions		**43,113**	110,613
Unearned commission income		**442**	3,525
Net cash (used in) / from operating activities		**(9,135)**	51,827
INVESTING ACTIVITIES			
Maturities / (purchase) of investments held to maturity	9(i)(c)	**7,000**	(7,000)
Purchase of available for sale investments	9(i)(b)	**(195,000)**	(130,000)
Sale of available for sale investments	9(i)(b)	**195,120**	99,862
Net cash from / (used in) investing activities		**7,120**	(37,138)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(2,015)**	14,689
Cash and cash equivalents at the beginning of year		**43,900**	29,211
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	**41,885**	43,900
Non - cash supplemental information:			
Change in fair value of available for sale investments		**104**	78

Dr. Waleed Abdullah Al Mogbel	**Abdulaziz Mohammed Al Sedeas**	**Zoheb Khurshid Farooqui**
Board Member	**Chief Executive Officer**	**Finance Manager**

The accompanying notes 1 to 23 form an integral part of these financial statements.

	Notes	2012 SR'000	2011 SR'000
OPERATING ACTIVITIES			
Net loss for the year		**(577)**	(32,905)
Adjustments for:			
Depreciation		**5,415**	3,290
Provision for zakat		**1,362**	930
Employees' end of service benefits		**1,045**	1,167
Net (gain) / loss on investments at fair value through income statement		**(2,433)**	281
Net surplus / (deficit) before changes in operating assets and liabilities		**4,812**	(27,237)
Changes in operating assets and liabilities:			
Due from related parties		**(317)**	(179)
Management fee receivable		**16,754**	(35,620)
Advances, prepayments and other assets		**8,384**	(12,456)
Payables, accruals and other liabilities		**(3,262)**	4,249
Due to takaful operations		**6,045**	121,421
		32,416	50,178
Zakat paid	14(b)	**(1,853)**	(2,828)
Net cash from operating activities		**30,563**	47,350
INVESTING ACTIVITIES			
Purchase of property and equipment, net		**(7,790)**	(7,562)
Purchase of available for sale investments	9(ii)(b)	**(122,700)**	57,502
Sale of available for sale investments	9(ii)(b)	**122,351**	
Purchase of investments at fair value through income statement	9(ii)(c)	**(15,919)**	(9,883)
Sale of investments at fair value through income statement	9(ii)(c)	**17,559**	
Maturities of investments held to maturity	9(ii)(d)	**197,175**	28,000
Purchase of investments held to maturity	9(ii)(d)	**(112,710)**	(197,175)
Net cash from / (used in) investing activities		77,966	(129,118)
INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		**108,529**	(81,768)
Cash and cash equivalents at beginning of the year		**1,211**	82,979
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	**109,740**	1,211

Non-cash supplemental information:

Changes in fair value of available for sale investments		-	(1,145)

Dr. Waleed Abdullah Al Mogbel	**Abdulaziz Mohammed Al Sedeas**	**Zoheb Khurshid Farooqui**
Board Member	**Chief Executive Officer**	**Finance Manager**

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Al Rajhi Company for Cooperative Insurance (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010270371 dated 5 Rajab 1430 corresponding to 28 June 2009. The address of the registered office of the Company is as follows:

Al Rajhi Company for Cooperative Insurance
P.O. Box 67791
Riyadh 11517
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance business and related activities in accordance with the Law on Supervision of Cooperative Insurance Companies and its implementing regulations in the Kingdom of Saudi Arabia. On 29 Dhul-Qi'dah 1430H (corresponding to17 November 2009), the Company received its license from Saudi Arabian Monetary Agency (SAMA) to transact cooperative insurance business in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock market ("Tadawul") on 13 July 2009. The Company received product approvals from SAMA on 17 January 2010.

2 BASIS OF PREPARATION

a) Basis of measurement

These financial statements are prepared under the historical cost convention except for the measurement at fair value of Available for Sale ("AFS") and Fair Value through Income Statement ("FVIS") investments.

b) Statement of compliance

The Company has prepared these financial statements in accordance with International Financial Reporting Standards (IFRS).

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

c) Functional and presentation currency

The functional and presentational currency of the Company is Saudi Riyals. The financial statements values are presented in Saudi Arabian Riyals rounded off to the nearest thousand (SR'000), unless otherwise indicated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

IFRS 7 *Financial Instruments: Disclosures (amendment)*

The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for 'transferred financial assets that are derecognised in their entirety'and transferred assets that are not derecognised in their entirety. The effective date is for annual periods beginning on or after 1 July 2011.

Other amendments resulting from Improvements to IFRSs and to the following standard did not have any impact on the accounting policies, financial position or performance of the Company:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The significant accounting policies adopted are as follows:

Takaful contracts

Takaful contracts are those contracts where the Company (the insurer) has accepted significant takaful risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

Once a contract has been classified as a takaful contract, it remains a takaful contract till its maturity, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Re-takaful

Re-takaful contracts are contracts entered into by the Company under which the Company is compensated for losses on takaful contracts issued.

The benefits to which the Company is entitled under its re-takaful contracts held are recognized as re-takaful assets. These assets consist of the re-takaful share of settlement of claims and other receivables such as profit commissions and the re-takaful share of outstanding claims that are dependent on the expected claims and benefits arising under the related re-takaful contracts. Amounts recoverable from or due to re-takaful companies are recognized consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each re-takaful contract

At each reporting date, the Company assesses whether there is any indication that a re-takaful asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of a re-takaful asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment is recognized in the statement of income - takaful operations.

Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of income - takaful operations in the period in which they are incurred.

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

Any difference between the provisions at the reporting date and settlements and provisions in the following year is charged to statement of income - takaful operations.

The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment charge in the Statement of Income - Takaful Operations. DPAC is also considered in the liability adequacy test for each reporting period.

Liability adequacy test
At each reporting date, a liability adequacy test is performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs, using current estimates of future cash flows under takaful contracts. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the Statement of Income - Takaful Operations initially by writing off related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests under premium deficiency reserves.

Income recognition
The underwriting surplus represents contributions earned less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts reinsured, less provision for any anticipated future losses on continuing policies.

Fees and commission income
Fees and commission income represents management fees charged to clients for policy documentation and claim management charges that are recovered from policyholders.

Management fee
Management fee from Takaful Operations are recognized by shareholders' operations when earned in accordance with the takaful agreements approved by the Shariah Supervisory Board and the Board of Directors.

Re-takaful commission income
Re-takaful commissions are deferred and amortized on a straight-line basis over the term of the takaful contracts. Re-takaful profit commission is recognized as the basis of terms agreed with reinsurers which include claim or loss ratios on policies ceded.

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

Interest income on investments is recognised on the effective interest rate method.

Contribution receivables
Contribution receivables are recognized when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of contributions receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Income - Takaful Operations. Contribution receivables are derecognized when the de-recognition criteria for financial assets have been met.

Any difference between the provisions at the end of reporting period and settlements and provisions in the following period is included in the underwriting result for that period.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and murabaha deposits with an original maturity of three months or less from the acquisition date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments
The accounting policies for each of the classification of investments are as follows

Available-for-sale investments (AFS)
Available-for-sale investments are those intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in commission rates.

Available for sale investment securities are initially recognized at fair value, including acquisition charges associated with the investment. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in statement of comprehensive income and presented in the fair value reserve in equity for AFS investments of shareholders and under Takaful operations surplus/liabilities for Takaful operations. When an investment is derecognised, the gain or loss is reclassified to statement of income. For securities 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. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values. For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

Investment held to maturity:
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity.

Held-to-maturity investments are recorded at cost, adjusted by the amount of amortization of premium or accretion of discount using the effective interest method.
Any permanent decline in value of investments is adjusted for and reported in the related Statements of Income as impairment charges.

Investments at fair value through income statement (FVIS)
A financial asset is classified as at fair value through income statement if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through income statement if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in statement of income as incurred.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the Statement of Income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from investment held as FVIS in the Statement of Income.

Fair values of investments are based on quoted prices for marketable securities, or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

De-recognition of financial instruments
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired

- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

De-recognition of financial instruments (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Trade date accounting

All regular way purchases and sales of financial assets are recognised / de-recognised on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

Fair value of financial instruments

The fair value of financial instruments 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 can also be made to broker or dealer price quotations.

For financial instruments where there is no an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. 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.

For discounted cash flow analysis, estimated future cash flows are based on Management's best estimates and the discount rate used is a market related rate for a similar instrument.

Impairment of other financial assets

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

- for financial assets at amortized cost, the impairment loss is based on the difference between the present value of future anticipated cash flows and the carrying amount; and
- for financial assets at fair value, the impairment loss is the significant or prolonged decline in the fair value from the cost.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of other financial assets (continued)

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.

Impairment of non financial assets

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

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the assets. Expenditure for repair and maintenance is charged to income. Improvements that increase the value or materially extend the life of the related assets are capitalised. Depreciation is charged to the "Statement of Income – Shareholders' Operations" on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets are:

	Years
Office and electrical equipment	5
Furniture and fixtures	6 - 7
Motor vehicles	5
Computer hardware and software	3

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in statement of income of Shareholders' Operations.

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.

Re-takaful balance payable

Re-takaful balances payable comprise of the amounts payable to various reinsurance companies in respect of re-takaful share of contributions, net of paid claims and commission income.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Employees' end of service benefits
Employees' end of service benefits are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Labor Regulations on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at reporting date. End-of-service payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by Saudi Arabian Labour Law.

Zakat and income taxes
The Company is subject to zakat in accordance with the regulation. Zakat is accrued and charged to the statement of income - shareholders' operations.

Contributions earned / Unearned contributions
Contributions are taken into income over the terms of the policies to which they relate. A proportion of net retained contributions is provided to cover portions of risk which have not expired at the reporting date. The Company's policy is to provide for unearned contributions as 90 days method for marine cargo business and $1/24^{th}$ method calculation for other lines of business.

Segmental reporting
An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other segments, whose operating results are reviewed regularly by the management committee to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. For management purposes, the Company is organised into business units based on their products and services and has three operating and reportable segments as follows:

- General
- Motor
- Health

Operating segments do not include shareholders' operations.

Segment performance is evaluated based on segment profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. Company financing is managed for the Company as a whole and are not allocated to individual operating segments.

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.

Segment assets do not include takaful operations' cash and cash equivalents, due from shareholders' operations, net contributions receivable, advances and other assets, available for sale investments, investments held to maturity and amounts due from related parties. Accordingly they are included in unallocated assets..

Segment liabilities do not include payables accruals and others, amount due to related party, management fee payable and re-takaful balances payable. Accordingly, they are included in unallocated liabilities

These unallocated assets and liabilities are not reported to Chief Operating Decision Maker under the related segments and are monitored on a centralised basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income - takaful operations, except when they relate to items where gains or losses are recognized directly in comprehensive income and the gain or loss is recognized net of the exchange component in equity.

Offsetting

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

Management (Wakala) fee

The management fee model for motor and general (40% of gross written premium), health (30% of gross written premium) lines of business was based on a fixed charge on gross written contribution upto 31 December 2011. From 1 January 2012, the Company has amended the model by charging management fee on net contribution for the period after adjusting commission income and cost of production for motor and general at 40% and for health at 30%. Also, the Company limits the management fee charge to the extent of surplus available in Statement of income of takaful operations.

Mudarib fee

During September 2012, the Company amended its policy of apportioning Mudarib's share of investment income to the takaful operations. Mudarib's fees are no longer charged to the takaful operations.

New amendments and standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Company does not plan to adopt these standards early:

(a) IFRS 9 *Financial Instruments* (2010)

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 is expected to have an impact on the Company's financial assets, but not any impact on the Company's financial liabilities.

(b) IFRS 13 *Fair Value Measurement* (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Company is currently reviewing its methodologies in determining fair values. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New amendments and standards issued but not yet effective (continued)

(c) Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities

Disclosures - offsetting of financial assets and liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangement on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Company will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting of financial assets and financial liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

Based on its initial assessment, the Company is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendment to IFRS 7 requires more extensive disclosures about rights of set-off.

(d) Improvements to IFRSs 2011 - IAS 1 Presentation of Financial Statements

IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in shareholders' equity or in the notes.

(e) Improvements to IFRSs 2011 – IFRS 7 Financial Instruments: Disclosures

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets.

(f) Improvements to IFRSs 2011 – IAS 34 Interim Financial Reporting

These amendments emphasises the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report and clarifies how to apply this principle in respect of financial instruments and their fair values. The amendments add examples to the list of events or transactions that require disclosure under IAS 34 and remove references to materiality in IAS 34 that describes other minimum disclosures.

Other amendments resulting in improvements to the following standard did not have any material impact on the accounting policies, financial position and performance of the Company:

The new standards, amendments to standards and interpretations to International Financial Reporting Standards which are mandatory for the first time for the financial year beginning 1 January 2012 did not result in material amendments to the presentation and disclosure of the accompanying financial statements.

The Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect from future dates.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Details of the specific estimate and judgments made by management are given below:

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

The provision for claims Incurred But Not Reported (IBNR) is an estimation of claims, which are expected to be reported subsequent to the reporting date, for which the insured event has occurred prior to the reporting date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. The company also used the services of an actuary to ensure adequacy of its claim reserves.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims on a quarterly basis.

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

Liabilities arising under general, motor and health takaful contracts are independently reviewed and certified by an external actuary semi-anually.

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

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

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Deferred policy acquisition costs ("DPAC")
Certain acquisition costs related to writing or renewal of policies are recorded as DPAC and are amortised in the statement of income - takaful operations over the related period of policy coverage in the same manner that policy contributions are recognised. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income - takaful operations.

Fair value of financial instruments that are not quoted in an active market
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

5 CONTRIBUTIONS RECEIVABLE, NET

	2012	*2011*
	SR'000	*SR'000*
Due from policyholders		
- External policyholders	**52,297**	43,720
- Related parties	**71,775**	28,486
Gross contributions receivables	**124,072**	72,206
Allowance for doubtful receivables	**(12,776)**	(10,724)
	111,296	61,482

The movement in allowances for doubtful receivables for the year was as follows:

	2012	*2011*
	SR'000	*SR'000*
As at 1 January	**10,724**	2,192
Charge for the year	**2,052**	8,532
As at 31 December	**12,776**	10,724

As at 31 December 2012, the ageing of contributions receivable balances is as follows:

				Past due and impaired		
	Total	*Not yet due*	*Neither past due nor impaired*	*91 to 180 days*	*181 to 365 days*	*Above 365 days*
	SR'000	*SR'000*	*SR'000*	*SR'000*	*SR'000*	*SR'000*
As at 31 December 2012	**124,072**	**37,308**	**57,635**	**7,503**	**9,138**	**12,488**
As at 31 December 2011	72,206	16,595	21,415	8,886	19,183	6,127

The Company classifies balances as 'past due and impaired' on a case by case basis. An impairment adjustment is recorded in the statement of income - takaful operations. It is not the practice of the Company to obtain collateral over receivables and these are therefore, unsecured. The Company does not have an internal credit ratings assessment process. Amounts which are neither past due nor impaired, in respect of policyholders' balances, are from individuals and unrated corporates.

The five largest customers account for 56% of outstanding accounts receivable as at December 31, 2012 (2011: 32%).

6 BANK BALANCES AND CASH

	2012 SR'000		2011 SR'000	
	Takaful operations	**Shareholders' operations**	Takaful operations	Shareholders' operations
Cash in hand and at banks	**41,885**	**59,740**	13,247	1,211
Murabaha deposits	**-**	**50,000**	30,653	-
Cash and cash equivalents in the statements of cash flows	**41,885**	**109,740**	43,900	1,211
Deposit against letters of guarantee* (note 16)	**8,528**	**-**	5,050	-
	50,413	**109,740**	48,950	1,211

Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The average variable commission rate on murabaha deposits at 31 December 2012 is 2.24% per annum (2011- 1.41% per annum).

Bank balances and murabaha deposits are placed with counterparties with investment grade credit ratings, as rated by international rating agencies.

The carrying values of murabaha deposits and bank balances approximate their fair value at the reporting date.

* Deposits against letters of guarantee comprises amounts placed with a local bank against issuance of payment guarantees in favor of the Company's service providers (note 16). As these cannot be withdrawn before the end of guarantee period, these are restricted in nature.

7 PROPERTY AND EQUIPMENT

	Office & electrical equipments SR'000	*Furniture & fixtures SR'000*	*Motor vehicles SR'000*	*Computer software SR'000*	*Computer hardware SR'000*	*Total SR'000*
Cost:						
Balance at 1 January 2011	816	8,401	391	750	2,320	12,678
Additions during the year	762	4,867	190	261	1,482	7,562
Balance at 31 December 2011	1,578	13,268	581	1,011	3,802	20,240
Balance at 1 January 2012	**1,578**	**13,268**	**581**	**1,011**	**3,802**	**20,240**
Additions during the year	**342**	**86**	**-**	**6,442**	**933**	**7,803**
Disposals during the year	**(23)**	**-**	**-**	**-**	**-**	**(23)**
Balance at 31 December 2012	**1,897**	**13,354**	**581**	**7,453**	**4,735**	**28,020**
Accumulated depreciation:						
Balance at 1 January 2011	127	969	77	144	593	1,910
Charge for the year (note 17)	267	1,676	85	185	1,077	3,290
Balance at 31 December 2011	394	2,645	162	329	1,670	5,200
Balance at 1 January 2012	**394**	**2,645**	**162**	**329**	**1,670**	**5,200**
Charge for the year (note 17)	**341**	**1,999**	**116**	**1,491**	**1,468**	**5,415**
Disposals during the year	**(10)**	**-**	**-**	**-**	**-**	**(10)**
Balance at 31 December 2012	**725**	**4,644**	**278**	**1,820**	**3,138**	**10,605**
Net book value as at						
31 December 2012	**1,172**	**8,710**	**303**	**5,633**	**1,597**	**17,415**
31 December 2011	1,184	10,623	419	682	2,132	15,040

8 STATUTORY DEPOSIT

The statutory deposit represents 10% of the paid up share capital of the company which is maintained in accordance with the Cooperative Insurance Companies Control Law issued by the Saudi Arabian Monetary Agency ("SAMA"). This statutory deposit cannot be withdrawn without the consent of SAMA.

9 INVESTMENTS

i) Takaful operations:

a) Investments comprise of available-for-sale ("AFS") and held to maturity investments. An analysis of investments is set out below:

	2012 ***SR'000***	*2011* *SR'000*
Available for sale investment – (level – 2)		
Investment in Al Rajhi Capital Commodity Mudarabah Fund	**30,200**	30,216
Held to maturity investments – unquoted		
Murabaha deposits	**-**	7,000
Total Investments – Takaful operations	**30,200**	37,216

b) The movements in AFS investments were as follows:

	2012 ***SR'000***	*2011* *SR'000*
As at 1 January	**30,216**	-
Purchased during the year	**195,000**	130,000
Sold during the year	**(195,120)**	(99,862)
Net change in fair values	**104**	78
As at 31 December	**30,200**	30,216

c) The movements in held to maturity investments were as follows:

	2012 ***SR'000***	*2011* *SR'000*
As at 1 January	**7,000**	-
Purchased during the year	**-**	7,000
Matured during the year	**(7,000)**	-
As at 31 December	**-**	7,000

9 INVESTMENTS (CONTINUED)

ii) Shareholders' operations:

a) Investments comprise of AFS and Fair value through income statement ("FVIS") investments. An analysis of investments is set out below:

	2012 SR'000	*2011 SR'000*
AFS investment – (level – 2)		
Investment in Al Rajhi Capital Commodity Mudarabah Fund	**149**	-
AFS investment –unquoted- (level – 3)		
Najm Insurance Services Co. (note 9(ii)(e))	**2,423**	2,223
	2,572	2,223
Investments at FVIS (Saudi Company Equities) (level – 1)	**31,918**	31,125
Investments held to maturity – unquoted		
Murabaha deposits	**112,710**	197,175
Total investments – Shareholders' operations	**147,200**	230,523

b) The movements in the AFS investments were as follows:

	2012 SR'000	*2011 SR'000*
As at 1 January	**2,223**	60,870
Purchased during the year	**122,700**	173,000
Sold during the year	**(122,351)**	(231,647)
As at 31 December	**2,572**	2,223

c) The movements in FVIS investments were as follows:

	2012 SR'000	*2011 SR'000*
As at 1 January	**31,125**	21,523
Purchased during the year	**15,919**	9,883
Disposal during the year	**(17,559)**	-
Net change in fair values	**2,433**	(281)
As at 31 December	**31,918**	31,125

9 INVESTMENTS (CONTINUED)

ii) Shareholders' operations (continued)

d) The movements in held to maturity investments unquoted securities were as follows:

	2012 ***SR'000***	*2011* *SR'000*
As at 1 January	**197,175**	28,000
Purchased during the year	**112,710**	197,175
Maturities during the year	**(197,175)**	(28,000)
As at 31 December	**112,710**	197,175

e) Investment in 'Najm Insurance Services Company' represents a 4.55% equity holding in that Company. As the fair value is not readily available, this investment has been carried at cost. Management is of the opinion that the fair market value of this investment is not materially different from its carrying value.

f) Fair value hierarchy

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 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 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 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

10 ADVANCES, PREPAYMENTS AND OTHER ASSETS

	2012 ***SR'000***	*2011* *SR'000*
Shareholders' Operations		
Advances to suppliers	**6,770**	12,087
Prepayments:		
- Rent	**1,355**	1,696
- Others	**2,412**	4,723
Accrued profits on murabaha deposits	**740**	1,245
Deposits	**132**	42
	11,409	19,793

11 OUTSTANDING CLAIMS

a) Outstanding claims at year end are as follows:

	2012			*2011*		
	Gross SR'000	***Reinsurers' share SR'000***	***Net SR'000***	*Gross SR'000*	*Reinsurers' share SR'000*	*Net SR'000*
Outstanding at 31 December	**79,200**	**(20,735)**	**58,465**	53,406	(27,186)	26,220
IBNR	**40,063**	**(20,163)**	**19,900**	36,834	(16,790)	20,044
	119,263	**(40,898)**	**78,365**	90,240	(43,976)	46,264
Claims paid during the year	**(374,024)**	**89,984**	**(284,040)**	(214,093)	50,817	(163,276)
Outstanding at 1 January	**53,406**	**(27,186)**	**26,220**	20,446	(9,437)	11,009
IBNR	**36,834**	**(16,790)**	**20,044**	12,222	(5,415)	6,807
	90,240	**(43,976)**	**46,264**	32,668	(14,852)	17,816
Claims incurred	**(403,047)**	**86,906**	**(316,141)**	(271,665)	79,941	(191,724)

Claims development
The Company commenced its operations on 17 January 2010. Accordingly, management believes that the disclosure of a claims development table would not be meaningful at this stage.

12 MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED RE-TAKAFUL COMMISSION INCOME AND UNEARNED CONTRIBUTION

a) Deferred policy acquisition costs

	2012 SR'000	*2011 SR'000*
As at 1 January	**13,399**	2,652
Incurred during the year	**23,959**	29,219
Amortized during the year	**(26,482)**	(18,472)
As at 31 December	**10,876**	13,399

b) Movement in unearned re-takaful commission income

	2012 SR'000	*2011 SR'000*
As at 1 January	**5,525**	2,000
Received during the year	**13,402**	11,355
Earned during the year	**(12,960)**	(7,830)
As at 31 December	**5,967**	5,525

12 MOVEMENTS IN DEFERRED POLICY ACQUISITION COSTS, UNEARNED RE-TAKAFUL COMMISSION INCOME AND UNEARNED CONTRIBUTION (CONTINUED)

c) Movement in unearned contributions

	2012			*2011*		
	Gross SR'000	***Reinsurers' share SR'000***	***Net SR'000***	*Gross SR'000*	*Reinsurers' share SR'000*	*Net SR'000*
As at 1 January	**237,452**	**(73,345)**	**164,107**	126,839	(38,103)	88,736
Contributions written during the year	**600,864**	**(151,072)**	**449,792**	493,344	(146,678)	346,666
Contributions earned during the year	**(557,751)**	**148,178**	**(409,573)**	(382,731)	111,436	(271,295)
As at 31 December	**280,565**	**(76,239)**	**204,326**	237,452	(73,345)	164,107

13 PAYABLES, ACCRUALS AND OTHERS

	2012 SR'000	
	Takaful Operations	***Shareholder' Operations***
Accounts payable and others	**21,347**	**5,789**
Accrued expenses	**9,250**	**3,666**
	30,597	**9,455**

	2011 SR'000	
	Takaful Operations	*Shareholder' Operations*
Accounts payable and others	22,313	10,306
Accrued expenses	5,293	2,411
	27,606	12,717

14 PROVISION FOR ZAKAT

a) The zakat charge for the year has been computed as follows:

	2012 SR'000	*2011 SR'000*
Equity	**109,336**	142,241
Opening allowances and other adjustments	**2,410**	1,243
Book value of long term assets	**(71,757)**	(68,388)
	39,989	75,096
Zakatable income (loss) for the year	**14,760**	(22,276)
Zakat base	**54,749**	52,820
Zakat @ 2.5%	**1,368**	1,321

14 PROVISION FOR ZAKAT (CONTINUED)

The differences between the loss as per the financial statements and Zakatable income for the year used for Zakat base is mainly due to provisions, which are not allowed in the calculation of Zakatable income.

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

	2012 ***SR'000***	*2011* *SR'000*
As at 1 January	**1,859**	3,757
Net provision during the year	**1,362**	930
Payments during the year	**(1,853)**	(2,828)
As at 31 December	**1,368**	1,859

c) Status of assessments

The Company has filed zakat returns with the Department of Zakat and Income tax (DZIT) for all years up to 31 December 2011.

The DZIT has requested additional information from the Company for the year ended 31 December 2010 and the Company is in the process of submitting it to the DZIT.

On initial review of the zakat return by the DZIT for the year ended 31 December 2011, a demand of SR 1,852,066 raised by the DZIT was paid under 'protest' by the Company and an appeal was filed with the DZIT which is in progress at the reporting date.

15 SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company consists of 20 million issued and fully paid ordinary shares of SR 10 each.

16 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

Bank Guarantee
As at 31 December 2012, the Company's banker has issued letters of guarantee of SR 8.5 million (2011: 5.05 million) issued to various motor agencies, workshops and health service providers as per the terms of the agreements with them (note 6).

Legal proceedings
The Company operates in the takaful insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that any such proceedings (including litigation) that are in progress at reporting date will have a material effect on its results and financial position.

COMMITMENTS

The Company has future capital commitment amounting to SR Nil (2011: SR 7 million).

17 GENERAL AND ADMINISTRATIVE EXPENSES

	2012	*2011*
	SR'000	*SR'000*
Shareholders' Operations		
Employee costs	**54,851**	54,792
Legal and professional fees	**6,552**	17,936
Office expenses	**7,345**	7,138
Advertising and marketing expenses	**2,215**	3,694
Depreciation (note 7)	**5,415**	3,290
Information Technology expenses	**3,197**	3,211
Communication expenses	**739**	711
Travel and lodging expenses	**436**	736
Others	**89**	69
	80,839	91,577

18 BASIC AND DILUTED LOSS PER SHARE

	2012	*2011*
	SR'000	*SR'000*
Net loss for the year	**(577)**	(32,905)
Weighted average number of shares in issue throughout the year	**20,000**	20,000
	(0.03)	(1.65)

Basic and diluted loss per share has been calculated by dividing the net loss for the year by the weighted average number of shares outstanding as of the reporting date.

19 RELATED PARTY TRANSACTIONS AND BALANCES

a) Transactions and balances with related parties:

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 or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management.

Following are the details of significant related party transactions during the year:

Related party	***Nature of transaction***	***Amount of transaction***		***Balance***	
		2012 SR'000	*2011 SR'000*	***2012 SR'000***	*2011 SR'000*
Al Rajhi Insurance Company BSC *(shareholder)*	Reimbursement from / expenses paid on behalf of related party				
	a) takaful operations	**(1,561)**	-	**(927)**	634
	b) shareholder's operations	**317**	813	**1,274**	957
Al Rajhi Bank *(shareholder)*	Contribution for policies written	**334,043**	190,513	**32,610**	5,569
Affiliate companies	Contribution for policies written.	**64,153**	35,299	**39,165**	22,917
	Contributions receivable			**71,775**	28,486
Al Rajhi Bank *(shareholder)*	Claims incurred and notified during the year	**221,745**	121,767	**32,567**	20,774

19 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Related party	*Nature of transaction*	*Amount of transaction*		*Balance*	
		2012 SR'000	*2011 SR'000*	***2012 SR'000***	*2011 SR'000*
Al Rajhi Bank *(Shareholder)*	Bank balance of takaful operations			**40,720**	12,074
	Bank balance of shareholders' operations			**59,165**	637
	Bank balances			**99,885**	12,711
Al Rajhi Capital *(Affiliate)*	Available for sale investments				
	a) takaful operations			**30,200**	30,216
	b) shareholders' operations			**149**	--
				30,349	30,216
Al Rajhi Capital *(Affiliate)*	Income received from sale of investment in Al Rajhi Capital commodity fund				
	a) takaful operation	**458**	274		
	b) shareholders' operation	**484**	1,567		
		942	1,841		
Al Rajhi Bank *(Shareholder)*	Investment in shares of Al Rajhi Bank			**3,676**	4,660
Al Rajhi Takaful Agency *(Subsidiary of shareholders)*	Commissions	**1,060**	-	**(220)**	(194)

b) 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 ended is as follows:

	2012 SR'000	*2011 SR'000*
Salaries and benefits of key management personnel	**3,130**	6,416
Shariah committees' remuneration	**223**	212
	3,353	6,628

20 RISK MANAGEMENT

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 takaful, re-takaful, 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 the Company's pre-defined risk appetite.

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

a) Takaful risk

The risk under a takaful 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 takaful 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 takaful 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 re-takaful arrangements.

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

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

20 RISK MANAGEMENT (CONTINUED)

a) Takaful risk (continued)

The takaful claim liabilities are sensitive to the various assumptions mentioned in note 4. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly property and fire and accident, motor, medical and marine risks. These are regarded as short-term takaful contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Property and fire and accident
For property takaful contracts the main risks are fire and business interruption. In recent years the Company has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim to SR 500,000 (2011: SR 500,000).

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the Company has only underwritten comprehensive polices for owner/drivers over 21 years of age. Substantially all of the motor contracts relate to private individuals.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are key factors that influence the level of claims. The Company also has risk management procedures to control cost of claims. The Company has re-takaful cover for such damage to limit the losses for any individual claim to SR 300,000 (2011: SR 300,000).

Medical
The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risks and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Marine
For marine cargo takaful, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine cargo class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has re-takaful cover to limit losses for any individual claim to SR 600,000 (2011: SR 600,000).

Sensitivity analysis
The general takaful claims provision is sensitive to the above key assumptions. A hypothetical 5% change in the claims ratio would impact income by approximately SR 15,807 thousand (2011: SR 9,586 thousand) annually in aggregate.

20 RISK MANAGEMENT (CONTINUED)

b) Re-takaful risk

In order to minimize its financial exposure to potential losses arising from large claims, the Company enters into agreements with other parties for re-takaful purposes. Such re-takaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Motor policies are protected by an excess of loss treaty. Health policies have been reinsured on a quota share basis. Marine, engineering and other lines of business have been insured on a quota share, surplus and facultative basis.

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

Re-takaful ceded contracts do not relieve the Company from its obligations to the policyholders and as a result, the Company remains liable for outstanding claims re-takaful to the extent that the re-takaful fails to meet the obligations under the reinsurance agreements. The credit exposure in respect of re-takaful share of outstanding claims is mainly concentrated in the Gulf Co-operative Council countries (the 'GCC") and Europe.

c) Currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, Company's foreign currency transactions are primarily in US dollars which is pegged with Saudi Riyal and therefore the financial instruments are not sensitive to currency fluctuations.

d) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company has no significant concentration of commission rate risk.

The sensitivity of the income is the effect of the assumed changes in the commission rates, with all other variable held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2012. As at 31 December 2012, Company do not have any floating rate financial instruments.

e) Equity price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from 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 has investment in the units of commodity fund managed by a related party. The Company limits fund price risk by monitoring of developments in fund markets. A 5% change in the net asset value of funds, with all other variables held constant, would impact the shareholders' equity by increase / decrease of SR 7 thousand (2011: SR Nil) and fair value reserve on investments under takaful operations by increase / decrease by SR 1,510 thousand (2011: SR 1,511).

20 RISK MANAGEMENT (CONTINUED)

f) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial instruments held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position. The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- To minimize its exposure to significant losses from re-takaful insolvencies, the Company evaluates the financial condition of its re-takaful counterparties. Accordingly, as a pre-requisite, the parties with whom re-takaful is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company only enters into takaful and re-takaful contracts with recognized credit ratings of Reinsurers of BBB by Standards and Poor's (S&P) or equivalent. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from takaful and re-takaful contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The risk is managed within the Company's investment guidelines by the Investment Committee who regularly update the Board. The investment risk appetite is low as the return is required to meet future liabilities arising from the Company's takaful business. The investments are held in a high quality, fixed income portfolio and are intended to be held until maturity.

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

	2012	
	Takaful Operations	***Shareholders Operations***
	SR'000	***SR'000***
Bank balances	**49,248**	**109,663**
Amount due from related parties	**-**	**1,274**
Contributions receivable, net	**111,296**	**-**
Available for sale investments	**30,200**	**2,572**
Re-takaful share of outstanding claims	**40,898**	**-**
Investment held to maturity	**-**	**112,710**
Advances, prepayments and other assets	**-**	**11,409**
	231,642	**237,628**

	2011	
	Takaful Operations	*Shareholders Operations*
	SR'000	*SR'000*
Bank balances	42,726	1,155
Amount due from related parties	634	957
Contributions receivable, net	61,482	--
Available for sale invesmtents	30,216	2,223
Re-takaful share of outstanding claims	43,976	--
Investment held to maturity	7,000	197,175
Advances and other assets	6,622	19,793
	192,656	221,303

20 RISK MANAGEMENT (CONTINUED)

f) Credit risk (continued)

The analysis of the credit ratings of the investment portfolio is as follows:

	2012	
	Takaful Operations	***Shareholders Operations***
	SR'000	***SR'000***
S & P (A-)	**-**	**62,710**
Fitch (A+)	**-**	**50,000**
	-	**112,710**

	2011	
	Takaful Operations	*Shareholders Operations*
	SR'000	*SR'000*
S & P (A-)	7,000	95,000
Fitch (A+)	--	102,175
	7,000	197,175

g) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial instruments. There is also a liquidity risk associated with the timing difference between gross cash out-flow and expected re-takaful recoveries.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

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

- A Company liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet takaful obligations.

- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

- The Company's catastrophic excess-of-loss re-takaful contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

20 RISK MANAGEMENT (CONTINUED)

g) Liquidity risk (continued)

Maturity Profiles

The table below summarizes the maturity profile of the assets and liabilities of the Company based on remaining expected contractual obligations. For takaful contract liabilities and re-takaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized takaful liabilities. Repayments that are subject to notice are treated as if notice were to be given immediately.

	31 December 2012					
	Takaful Operations			***Shareholders***		
	Up to one year SR'000	***More than one year SR'000***	***Total SR'000***	***Up to one year SR'000***	***More than one year SR'000***	***Total SR'000***
ASSETS						
Bank balance and cash	**50,413**	**-**	**50,413**	**109,740**	**-**	**109,740**
Amount due from related parties	**-**	**-**	**-**	**317**	**957**	**1,274**
Due from shareholders' operations	**6,045**	**196,822**	**202,867**			
Contributions receivable	**98,808**	**12,488**	**111,296**			
Investment at FVIS	**-**	**-**	**-**	**31,918**	**-**	**31,918**
Available for sale investments	**30,200**	**-**	**30,200**	**149**	**2,423**	**2,572**
Re-takaful share of outstanding claims	**40,898**	**-**	**40,898**			
Investments held to maturity	**-**	**-**	**-**	**112,710**	**-**	**112,710**
Advances and other assets	**-**	**-**	**-**	**11,409**	**-**	**11,409**
Re-takaful share of unearned contributions	**63,329**	**12,910**	**76,239**			
Deferred policy acquisition costs	**10,876**	**-**	**10,876**			
Statutory deposit	**-**	**-**	**-**	**-**	**20,000**	**20,000**
Property and equipment, net	**-**	**-**	**-**	**2,375**	**15,040**	**17,415**
Management fee receivable	**-**	**-**	**-**	**18,866**	**-**	**18,866**
TOTAL ASSETS	**300,569**	**222,220**	**522,789**	**287,484**	**38,420**	**325,904**

	31 December 2011					
	Takaful Operations			*Shareholders*		
	Up to one year SR'000	*More than one year SR'000*	*Total SR'000*	*Up to one year SR'000*	*More than one year SR'000*	*Total SR'000*
ASSETS						
Bank balance and cash	48,950	-	48,950	1,211	-	1,211
Amount due from related parties	634	-	634	179	778	957
Due from shareholders' operations	121,421	75,401	196,822	-	-	-
Contributions receivable	55,355	6,127	61,482	-	-	-
Investment at FVIS	-	-	-	9,601	21,524	31,125
Available for sale investments	30,216	-	30,216	-	2,223	2,223
Re-takaful share of outstanding claims	43,976	-	43,976	-	-	-
Investments held to maturity	7,000	-	7,000	197,175	-	197,175
Advances and other assets	6,622	-	6,622	19,793	-	19,793
Re-takaful share of unearned contributions	71,758	1,587	73,345	-	-	-
Deferred policy acquisition costs	13,399	-	13,399	-	-	-
Statutory deposit	-	-	-	-	20,000	20,000
Property and equipment, net	-	-	-	6,516	8,524	15,040
Management fee receivable	-	-	-	35,620	-	35,620
TOTAL ASSETS	399,331	83,115	482,446	270,095	53,049	323,144

20 RISK MANAGEMENT (CONTINUED)

g) Liquidity risk (continued)

Maturity Profiles (continued)

	31 December 2012					
	Takaful Operations			Shareholders		
	Up to one year SR'000	More than one year SR'000	Total SR'000	Up to one year SR'000	More than one year SR'000	Total SR'000
LIABILITIES						
Gross outstanding claims	**119,263**	**-**	**119,263**	**-**	**-**	**-**
Amount due to related parties	**927**	**-**	**927**	**-**	**-**	**-**
Management fee payable	**18,866**	**-**	**18,866**	**-**	**-**	**-**
Payables, accruals and others	**30,597**	**-**	**30,597**	**9,455**	**-**	**9,455**
Re-takaful balances payable, net	**66,500**	**-**	**66,500**	**-**	**-**	**-**
Gross unearned contributions	**267,427**	**13,138**	**280,565**	**-**	**-**	**-**
Unearned re-takaful commission income	**5,967**	**-**	**5,967**	**-**	**-**	**-**
Provision for Zakat	**-**	**-**	**-**	**1,362**	**6**	**1,368**
Due to takaful operations	**-**	**-**	**-**	**202,867**	**-**	**202,867**
Employees' end of service benefits	**-**	**-**	**-**	**1,045**	**2,410**	**3,455**
TOTAL LIABILITIES	**509,547**	**13,138**	**522,685**	**214,729**	**2,416**	**217,145**

	31 December 2011					
	Takaful Operations			Shareholders		
	Up to one year SR'000	More than one year SR'000	Total SR'000	Up to one year SR'000	More than one year SR'000	Total SR'000
LIABILITIES						
Gross outstanding claims	90,240	-	90,240	-	-	-
Management fee payable	35,620	-	35,620	-	-	-
Payables, accruals and others	27,606	-	27,606	12,717	-	12,717
Re-takaful balances payable, net	85,925		85,925			
Gross unearned contributions	235,187	2,265	237,452	-	-	-
Unearned re-takaful commission income	5,525		5,525	-	-	-
Provision for Zakat	-	-	-	929	930	1,859
Due to takaful operations	-	-	-	121,421	75,401	196,822
Employees' end of service benefits	-	-	-	-	2,410	2,410
TOTAL LIABILITIES	480,103	2,265	482,368	135,067	78,741	213,808

Liquidity profile
All liabilities as of the reporting date are based on discounted cash flows and are payable on a current basis within one year.

20 RISK MANAGEMENT (CONTINUED)

h) Capital management

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The operations of the Company are subject to local regulatory requirements within the jurisdiction 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 takaful companies and to enable them to meet unforeseen liabilities as these arise.

The Company is currently reassessing its capital needs to maintain sufficient liquid resources and accordingly comply with the prescribed requirements for maintaining solvency margins.

i) Fair values of financial instruments

Financial instruments consist of financial assets and financial liabilities. 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. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, contribution receivables, investments and accrued income and its financial liabilities consist of payables and accrued expenses and gross outstanding claims.

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

21 OPERATING SEGMENTS

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities.

21 OPERATING SEGMENTS (CONTINUED)

For the year ended 31 December 2012	*General*	*Motor*	*Health*	*Total*
		SR'000		
Gross contributions written	**95,809**	**379,988**	**125,067**	**600,864**
Re-takaful contributions ceded	**(79,966)**	**(1,032)**	**(70,074)**	**(151,072)**
Excess of loss	**(739)**	**(2,750)**	**-**	**(3,489)**
Net contributions written	**15,104**	**376,206**	**54,993**	**446,303**
Change in unearned contributions, net	**83**	**(70,336)**	**30,034**	**(40,219)**
Net contributions earned	**15,187**	**305,870**	**85,027**	**406,084**
Policy fee and other income	**120**	**1,164**	**-**	**1,284**
Re-takaful commission income	**12,613**	**347**	**-**	**12,960**
Total underwriting revenue	**27,920**	**307,381**	**85,027**	**420,328**
Gross claims paid	**(9,713)**	**(241,827)**	**(122,484)**	**(374,024)**
Re-takaful share of claims paid	**8,129**	**2,203**	**79,652**	**89,984**
Net claims paid	**(1,584)**	**(239,624)**	**(42,832)**	**(284,040)**
Movement in outstanding claims, net	**(1,263)**	**(37,996)**	**7,158**	**(32,101)**
Net claims incurred	**(2,847)**	**(277,620)**	**(35,674)**	**(316,141)**
Inspection and supervision fees	**(339)**	**(1,894)**	**(1,683)**	**(3,916)**
Policy acquisition costs	**(5,885)**	**(9,442)**	**(11,155)**	**(26,482)**
Other expenses	**(330)**	**(1,315)**	**(433)**	**(2,078)**
Total claims and other expenses	**(9,401)**	**(290,271)**	**(48,945)**	**(348,617)**
Net underwriting surplus	**18,519**	**17,110**	**36,082**	**71,711**
Investment income				**670**
Management fee				**(72,381)**
Net result for the year				**-**

21 OPERATING SEGMENTS (CONTINUED)

As at 31 December 2011	***General***	***Motor***	***Health***	***Total***
		SR'000		
Gross contributions written	58,000	233,827	201,517	493,344
Re-takaful contributions ceded	(46,975)	(1,481)	(98,222)	(146,678)
Excess of loss	(607)	(1,254)	-	(1,861)
Net contributions written	10,418	231,092	103,295	344,805
Change in unearned contributions, net	(2,671)	(47,199)	(25,501)	(75,371)
Net contributions earned	7,747	183,893	77,794	269,434
Policy fee and other income	96	56	750	902
Re-takaful commission income	7,440	390	-	7,830
Total underwriting revenue	15,283	184,339	78,544	278,166
Gross claims paid	(9,049)	(142,711)	(62,333)	(214,093)
Re-takaful share of claims paid	6,437	657	43,723	50,817
Net claims paid	(2,612)	(142,054)	(18,610)	(163,276)
Movement in outstanding claims, net	(833)	(14,051)	(13,564)	(28,448)
Net claims incurred	(3,445)	(156,105)	(32,174)	(191,724)
Inspection and supervision fees	(283)	(1,168)	(3,027)	(4,478)
Policy acquisition costs	(4,261)	(4,543)	(9,668)	(18,472)
Other expenses	(1,006)	(4,056)	(3,495)	(8,557)
Total claims and other expenses	(8,995)	(165,872)	(48,364)	(223,231)
Net underwriting surplus	6,288	18,467	30,180	54,935
Investment income				365
Management fee				(176,721)
Net deficit for the year				(121,421)

21 OPERATING SEGMENTS (CONTINUED)

	General	Motor	Health	Total
	SR'000	SR'000	SR'000	SR'000
As at 31 December 2012				
Takaful operations' assets				
Re-takaful share of outstanding claims	**21,882**	**921**	**18,095**	**40,898**
Re-takaful share of unearned contributions	**52,535**	**487**	**23,217**	**76,239**
Deferred policy acquisition cost	**3,418**	**5,198**	**2,260**	**10,876**
Deposit against letter of guarantee	**-**	**7,050**	**1,478**	**8,528**
				136,541
Unallocated assets				**386,248**
Total Assets				**522,789**
Takaful operations' liabilities				
Gross outstanding claims	**25,785**	**65,638**	**27,840**	**119,263**
Gross unearned contributions	**58,390**	**179,380**	**42,795**	**280,565**
Unearned re-takaful commission income	**5,833**	**134**	**-**	**5,967**
				405,795
Unallocated liabilities and surplus				**116,994**
Total liabilities and surplus				**522,789**

	General	*Motor*	*Health*	*Total*
	SR'000	*SR'000*	*SR'000*	*SR'000*
As at 31 December 2011				
Takaful operations' assets				
Re-takaful share of outstanding claims	10,083	1,190	32,703	43,976
Re-takaful share of unearned contributions	25,477	692	47,176	73,345
Deferred policy acquisition cost	1,341	3,622	8,436	13,399
Deposit against letter of guarantee	-	5,050	-	5,050
				135,770
Unallocated assets				346,676
Total Assets				482,446
Takaful operations' liabilities				
Gross outstanding claims	12,723	27,912	49,605	90,240
Gross unearned contributions	31,415	109,249	96,789	237,453
Unearned re-takaful commission income	5,328	197	-	5,525
				333,218
Unallocated liabilities and surplus				149,228
Total liabilities and surplus				482,446

22 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain prior year amounts have been reclassified to conform to the presentation in the current year. The significant reclassifications effected in the statements of financial position and comprehensive income for the year ended 31 December 2012 is set out below:

	As reported in 2012 financial statements as comparatives	*As reported in 2011*	*Net impact*
	SR'000	***SR'000***	***SR'000***
Statement of financial position			
Advance and other assets	**6,622**	17,256	(10,634)
Amount due from related parties	**634**	-	634
Gross outstanding claims	**90,240**	100,240	10,000
Statement of income			
Mudarib fee	**-**	91	(91)
Management fee	**176,721**	176,630	91

23 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 18 Feb 2013, corresponding to 8 Rabi Thani 1434H.