



Saudi United Cooperative Insurance Co. - Wala'a

Al-Khobar

Report of the Board of Directors

for the year ended

31.December.2012



Table of Contents

Message from the Chairman of the Board of Directors	3
Message from the Chief Executive Officer	5
Notes to the Report of the Board of Directors	7
1. Principal activities	7
2. Financial performance	8
3. Significant Plans, decisions and future prospects.....	10
4. Risks faced by the Company	10
5. Geographical operations.....	11
6. Material variations from previous year	12
7. Accounting Standards	12
8. Dividend Policy.....	12
9. Interest, Options and Subscription rights.....	13
10. Significant Interest in a Class of Voting Shares	13
11. Borrowings, Issue / Redemption of Securities.....	13
12. Related Party Transactions	14
13. Statutory dues and payments.....	14
14. Employees benefits.....	15
15. Statements of affirmation	15
16. Continuation of the External Auditors.....	15
17. Corporate Governance	15
18. Offices held by company's directors in other joint stock companies.....	16
19. Board of Directors and composition.....	17
20. Board and Committees	17
21. Compensation paid to Directors and senior executives	20
22. Penalty / Preventive restriction	21
23. Internal Control.....	21

Saudi United Cooperative Insurance Company (Wala'a)

Message from the Chairman of the Board of Directors

Dear Shareholders,

I am pleased to present the report of the Board of Directors of your company for the year 2012. It is encouraging to note that in the fourth year of its progress, the Company has reported positive performance for the second year in succession with a net profit of SR 18.8 m for the year 2012 compared to SR 4.6m for 2011. Going forward, with the growth-oriented vision and business plan prepared by board members in consultation with the managerial team, the Company is expected to chart its growth in even stronger terms.

Wala'a will record 2012 as a memorable year in its calendar since, on 1st of October 2012, the Company obtained interactive rating recognition from an international rating agency. The Company secured **B++ (Good)** rating with 'stable' outlook thereby becoming the youngest company in the Kingdom to attain this recognition.

The Kingdom's insurance market has been dynamic in terms of its acceptance of changing circumstances and operational practices – from the perspective of both regulator and market players. The Insurance industry has been concerted in its efforts to streamline the practices followed in the Kingdom, and has also sought regulatory assistance and cooperation in bringing in several improvements in this segment of the economy. One of them is bringing price stability in compulsory lines that is aimed at avoiding unhealthy pricing situations, and helping all players to perform in a fair and equitable manner.

The vision of growth and development perceived by the Kingdom's wise leadership has also provided increased opportunities for all economic sectors to be benefitted. The Kingdom's gross reported insurance premiums have also grown from SR 18.5 billion in 2011 to SR 22.5 billion in 2012. This change has also been brought about due to premium rates getting stabilized. Insurance penetration has also seen improvements with industry statistics indicating this development.

Although the Company's gross premium did show a reduction in the year under review, the net profitability has shown a positive growth. The management team has come up with a strong plan for growth for 2013 and beyond, covering all the three regions where the Company operates. The Company sees itself on the path of complete compliance of all regulatory requirements and corporate governance.

The Board of Directors likes to thank the work-force of the Company for their dedicated efforts and hard-work in the year, and hope that this will continue in the future. The encouragement given to national employees to excel in their role and performance has been another prominent factor to note



in the year under review. Walaa had 50% nationals at the end of 2012 and continuous efforts are in place to achieve improvement in this percentage.

The Company also appreciates the trust and faith placed by its business partners in the chart of progress, and heartily acknowledges their support. The Board looks forward to continuing and holistic success for the Company.

Yours truly,

A handwritten signature in blue ink, appearing to read "Sulaiman A. Alkadi", written over a horizontal line.

Sulaiman A. Alkadi
Chairman

Message from the Chief Executive Officer

Dear Shareholders,

The year just ended has been significant for the insurance industry as a whole due to changes seen in this segment of the Kingdom. Positive results are reported by many insurance companies for this year, and we are proud to report that Wala'a is also poised to grow into a healthy, result-oriented and efficient business entity. I am happy to present the following highlights for the year 2012.

Financial

For the year 2012, the net surplus before zakat and unrealized gain on investment is SR 18.8 m, compared to SR 4.6m for the year 2011. This is mainly attributable to increase in net underwriting income and investment income.

Rating

It is a matter of great delight that during the year 2012, Wala'a secured an interactive Financial Strength Rating of B++ (Good) and Issuer Credit Rating of 'bbb' from AM Best – both with 'stable' outlook. This reflects the sound financial and operational capability demonstrated by the Company, which we intend to strengthen in the years ahead.

Growth strategy and marketing initiatives

We continue to pursue the 5-year business plan which was put in place during 2010. A balanced mix of insurance portfolio remains as a guiding factor which has helped us to create a reliable and rewarding mix of results. The compulsory lines of motor and medical insurance business are reviewed regularly by the management team to improvise upon operating pattern and efficiency. Going forward, the regulator is insisting on having in place a pricing mechanism based on actuarial studies, and this positive step is expected to result in all players getting a fair-share of the market at justifiable prices.

As part of our growth strategy and direct marketing initiatives, Wala'a is steadily expanding its branch and point of sale network on an ongoing basis. Active plans are in place to implement on-line sale of selected insurance products, and this should help our valued clients to choose and purchase an insurance policy right from the convenience of their desks.

You are requested to note that reference made in this message or other company reports may contain forward looking statements which are based on current plans and assumptions and the actual position might differ from those statements.

Business process improvements

The ongoing implementation program of the company-wide ERP made good progress and an improvised call-management system has been completed during the year under review. Current initiatives include an advanced customer-friendly claim-tracking system to be in place. With this, our clients can inquire into their claim settlement status on a real-time basis. We plan to extend this system to providing a summarized account and business position to the clients, who can get to see at a glance, the status of outstanding dues and other useful decision making and monitoring information.



Claimants also receive an automated text-message informing them of the status of their claim process. This has resulted in ensuring that claim settlement process is prompt and efficiently handled.

Human resources and Saudization

The vision perceived to invest in and develop human resource capital is one of the passionate activities at Wala'a. More number of staff members accredited themselves with IFCE credentials and it is pleasing to see that this number reached as high as 76 by end of 2012. In addition to this, staff members are encouraged to improve their communication abilities and soft-skills with the help of highly-focused and intensive training programs. Saudization level at end of 2012 stood over 50%.

Corporate governance and risk management

While dedicated sections provide more details, it is a matter of satisfaction to note that the company's corporate governance and risk management framework has been strengthened during the year under review. All the functional units are constantly reminded of adherence to the relevant governance requirements.

Looking ahead

Our vision to achieve best underwriting practices and customer service will be pursued with greater intent. The underwriting and claims teams are being strengthened and provided with more human resource and technological support to ensure prompt service to the clients.

Acknowledgements

As always, I am grateful to the stakeholders and business partners for their continuing support and contribution which is a key factor for our success and sustained growth. I also like to congratulate the staff members for their dedication, hard work and sincere efforts in helping Wala'a grow into a strong, rewarding and responsible wholesome business unit. I take this opportunity to thank the Chairman and the members of the Board of Directors for their continued support and guidance.

We also sincerely acknowledge and appreciate the support from regulatory and governmental entities in achieving a holistic growth in the years to come.

Thank you,


Johnson Varughese
Chief Executive Officer

Notes to the Report of the Board of Directors

1. Principal activities

The Company is involved in cooperative insurance and reinsurance in the general and medical lines of business and related investment activities. Though the company is engaged in reinsurance inward business, it does not contribute materially to the turnover and the reported surplus of the company.

The composition of activities between the general and medical lines of business is as follows:

	2012			2011		
	General	Medical	Total	General	Medical	Total
Gross written premium	165.79	64.71	230.49	180.02	98.54	278.56
Earned premium	95.66	76.56	172.22	135.47	28.96	164.43
Net underwriting surplus / contribution	15.14	38.09	53.23	25.02	16.83	41.85
Less: Operating expenses (unallocated)			(38.03)			(35.84)
Surplus from underwriting operations			15.20			6.01

2. Financial performance

	(SAR m)				
	2012	2011	2010	2009	2007-08*
Insurance operations:					
Gross premiums written	234.09	278.56	220.00	142.92	-
Net earned premium	177.86	164.43	118.61	41.64	-
Reinsurance commission	10.45	15.20	14.50	5.43	-
Other underwriting income	0.16	0.31	0.08	0.08	-
Total underwriting revenues	188.48	179.94	133.19	47.15	-
Net incurred claims including reserves	(101.35)	(101.28)	(76.40)	(40.21)	-
Policy acquisition costs	(23.16)	(27.04)	(20.58)	(6.01)	-
Excess of Loss protection cost	(5.64)	(5.99)	(4.60)	(5.98)	-
Other underwriting expenses	(5.10)	(3.77)	(3.10)	(2.01)	-
Total underwriting expenses	(135.25)	(138.08)	(104.68)	(54.21)	-
Net underwriting surplus / (deficit)	53.23	41.86	28.51	(7.06)	-
Employee cost and operating expenses	(38.03)	(35.85)	(34.79)	(18.69)	-
Surplus / (deficit) from insurance operations	15.20	6.01	(6.28)	(25.75)	-
Shareholders' appropriation of surplus	(1.52)	(0.60)	-	-	-
Net result for the period	13.68	5.41	(6.28)	(25.75)	-
Net Surplus from insurance operations transferred to shareholders	13.68	5.41	(6.28)	(25.75)	-
Commission income from bank deposits	0.87	0.79	0.93	2.78	12.54
Realized gains on available for sale investments	7.21	-	-	-	-
General and administrative expenses	(3.00)	(1.62)	(1.63)	(2.12)	(27.33)
Net surplus / (deficit) for the period	18.76	4.58	(6.98)	(25.09)	(14.79)
Unrealized gain / (loss) from investment in shares	4.64	1.65	4.84	0.13	-
Zakat and income tax	(2.75)	(1.88)	(1.93)	(1.87)	(4.18)
Comprehensive surplus / (deficit) for the period	20.65	4.35	(4.07)	(26.83)	(18.97)

* 4.Jul.2007 to 31.Dec.2008

Financial Position

	2012			2011			2010			2009	
	Insurance Operations	Share holders	Total	Insurance Operations	Share holders	Total	Insurance Operations	Share holders	Total	Insurance Operations	Share holders
Investment	3.21		3.21	2.32		2.32	2.54		2.54	2.40	
Available	62.07		62.07	57.26		57.26	55.50		55.50	46.49	
of unearned premium	44.28		44.28	74.89		74.89	30.92		30.92	30.41	
of outstanding claims	46.15		46.15	45.36		45.36	18.39		18.39	25.12	
acquisition costs	9.72		9.72	13.76		13.76	13.55		13.55	6.21	
Shareholders	1.87		1.87	-		-	-		-	0.86	
and other assets	-		-	-		-	2.59		2.59	29.65	
Income	4.58		4.58	4.88		4.88	2.90		2.90	2.38	
	0.08	1.17	1.25	0.11	0.76	0.87	0.02	0.67	0.69	-	0.84
Assets	-	20.00	20.00	-	20.00	20.00	-	20.00	20.00	-	20.00
Liabilities	-	64.80	64.80	-	51.40	51.40	-	49.69	49.69	-	34.35
Net operations	-	26.48	26.48	-	40.00	40.00	-	40.00	40.00	-	65.00
Equivalents	81.79	60.00	141.79	137.72	26.27	163.99	86.24	46.09	132.33	26.39	70.44
	253.75	182.86	436.61	336.30	159.24	495.54	212.65	156.45	369.10	169.91	190.63
Shareholders' equity											
Reserves	203.59		203.59	237.75		237.75	169.24		169.24	125.91	
Liabilities	26.76		26.76	67.47		67.47	34.72		34.72	40.29	
Profits	2.18		2.18	1.49		1.49	1.27		1.27	0.72	
Reserves and other liabilities	8.68	7.73	16.40	8.18	4.75	12.93	7.42	3.73	11.15	2.99	6.78
Shareholders' equity											
Reserves	10.42		10.42	20.81		20.81					
Liabilities	2.12		2.12	0.60		0.60					
Equivalents		175.14	175.14		154.49	154.49		150.13	150.13		154.20

3. Significant Plans, decisions and future prospects

During the year under review, the Company reviewed its working relationship with three agents with whom contractual relationship was entered into previously. This was done with a view to streamline the business practices with specific focus on meeting regulatory requirements. The management seeks to gradually and increasingly rely on its own internal sales teams to strengthen the customer base, as well as to provide more personalized service to clients. New branches were opened during the year at Al-Ahsa and Mecca: Branch at Jubail shall be opened during 1st half of 2013. A number of sales representatives with local knowledge of the market have been added to the team during the year, and the Company expects to build-up on this trend to improve the working relationship with brokers operating in the Kingdom.

Active plans are in place to implement on-line sale of selected insurance products, and this should help our valued clients to choose and purchase an insurance policy right from the convenience of their desks

Retail business remains under high focus and management is very keen to ensure that this segment is conducted in full compliance with regulatory documentation requirements. Regional sales teams are being strengthened to secure a higher share of corporate and SME sector of the market. The Company's IT and communication system is also being upgraded to stay in tune with business growth, and to ensure prompt service to clients' requirements.

4. Risks faced by the Company

The Company has established a risk management framework to protect the Company from events that hinder the sustainable achievement of its performance objectives, including failing to exploit opportunities.

The risks faced by the Company can be categorized as follows:

- a) **Financial risk:** The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, cash and cash equivalents and advances for investments. The Company does not enter into derivative transactions.
 - 1) *Credit risk:* The Company seeks to limit credit risk with respect to agents and brokers by setting credit period for individual agents and brokers and monitoring outstanding receivables. The Company only enters into insurance and reinsurance contracts with recognized, credit worthy third parties.
 - 2) *Liquidity risk:* Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.
 - 3) *Market price risk:* The Company limits market risk by maintaining a diversified portfolio and by monitoring developments in equity markets. The Company does not have any significant market risk.
 - 4) *Commission rate risk:* The Company limits commission rate risk by monitoring changes in commission rates in which its cash and investments are denominated.
 - 5) *Foreign currency risk:* The Company does not have any significant foreign currency risk.
 - 6) *Insurance risk:* The Company only underwrites insurance business of a short tail nature such as motor, medical, property and others which includes engineering, casualty cover, fire, accident, marine cargo risks. The Company's insurance business is managed and priced at head office level. The Company undertakes a quarterly review of their insurance risks of all line of business. The Executive Team monitors and develops the management of insurance risk in the insurance business, and assesses the aggregate risk exposure. In order to minimize financial exposure

arising from large claims, the company, in the normal course of business, enters into contracts with other parties for reinsurance purposes.

- 7) *Capital management*: Shareholders' equity comprises share capital and accumulated losses. The company has not made any change in its capital structure during the year.
- b) **Strategic risk**: Strategic risk is explicitly considered throughout strategic review and planning process. The company closely monitors regulatory, legal and fiscal developments as well as actively engaging with external bodies to share the benefit of expertise in supporting responses to emerging risks to challenge developments that could be damaging to business and the industry as a whole.
- c) **Operational risk**: Significant resources are devoted to maintaining efficient and effective operations within company's framework of corporate responsibility, policies and business ethics code. The Company Executive Team oversees aggregate operational risk exposure and reports to the Board. The Company has a full-time in-house internal audit team that oversees various controls, ensures adherence to policies and procedures.
- d) **Regulatory risk**: The company management and compliance officer ensure compliance with all regulatory requirements and initiate timely update for regulatory changes and enable the Company to remain compliant with regulatory changes.

5. Geographical operations

Company does not have any overseas subsidiaries and operates within the Kingdom of Saudi Arabia. Geographical details of Gross Written Premium are given below (in SAR millions):

Regionwise distribution of Gross written premium	Eastern	Central	Western	Total
Year 2012	147.00	40.00	47.00	234.00
Year 2011	164.00	54.23	60.33	278.56
Year 2010	173.62	18.88	27.50	220.00
Year 2009	107.63	11.49	23.80	142.92

6. Material variations from previous year

The reported net profit for the year 2012, as compared to previous year, has increased due to increase in earned premiums, decrease in policy acquisition costs and also increase in realized fair value changes on available for sale investments.

7. Accounting Standards

The company adheres to International Financial Reporting Standards (IFRS) and the relevant International Accounting Standards (IAS) in the preparation of its financial statements, as required by the Saudi Arabian Monetary Agency (SAMA). It does not follow the accounting standards generally followed in the Kingdom of Saudi Arabia. The external auditors have modified their audit report to include an emphasis of matter paragraph addressing this issue.

8. Dividend Policy

The company adopts the requirements to distribute dividends as and when declared, as per its Articles of Association, summarized as follows:

- (1) Zakat & Income Tax amounts shall be set aside.
- (2) 20% of net profit shall be set aside to form the Statutory Reserve and the ordinary General Assembly may hold such action when the legal reserve becomes equal to 100% of the Company's capital.
- (3) The ordinary General Assembly, based on Board's recommendation, may set aside a portion of the annual net profit to form an additional reserve for certain purpose(s) to be determined by the Assembly.
- (4) Out of the above balance, the shareholders shall receive an amount representing the first payment which shall not be less than 5% of the paid up capital.
- (5) The remaining amount shall be distributed as dividends or forwarded to the retained earnings account.
- (6) The Company may distribute, based on a Board resolution, periodic profits to be deducted from the annual profits referred to in item (4) above in accordance with the rules regulating this process to be issued by the competent authorities.
- (7) The Company shall immediately inform the Capital Market Authority of any resolutions or recommendations for distribution of profit. The profits, so proposed for the distribution shall be paid to the shareholders at the place and time specified by the Board pursuant to the instructions issued by the Ministry of Commerce & Industry and subject to SAMA written approval.

(The company did not declare any dividend for 2012 due to the accumulated deficit)

9. Interest, Options and Subscription rights

During the year 2012, details of interests, options and subscription rights of the issuer's directors, senior executives and their spouses and minor children in the Shares of the company or Debt Instruments are as follows:

	Board member	At beginning of the year		Change in holding		At end of the year	
		No. of shares held	Pct. Of shares held	Number	% of change	No. of shares held	Pct. Of shares held
1	Sulaiman A. Al-Kadi	1,000	0.005%			1,000	0.005%
2	Abdullah M. Al-Othman	601,000	3.01%	(600,000)	-99.83%	1,000	0.005%
3	Wasef S.A Al-Jebsheh	2,100,000	10.5%			2,100,000	10.5%
4	Walid S. Al-Shoaibi	600,000	3.0%	(550,000)	-91.67%	50,000	0.250%
5	Khalid A.S Al-Rajhi	600,000	3.0%	(267,214)	-44.54%	332,786	1.664%
6	Abdulaziz S. Al-Rebdi	1,000	0.005%			1,000	0.005%
7	Sulaiman A. Al-Twajjri	1,000	0.005%			1,000	0.005%
8	Walid M. Al-Jaafari	240,000	1.2%			240,000	1.2%
9	Hassan E. Al-Kabbani	1,000	0.005%			1,000	0.005%

Senior Executives and their spouses and minor children have no interests, options, and subscriptions rights in the Shares or Debt Instruments of the Company.

10. Significant Interest in a Class of Voting Shares

The following table provides information about significant interest in a class of voting shares held by persons (other than the Issuer's Directors, senior executives and their spouses and minor children)

No.	Name	Shares beginning of the year	% at beg. of the year	Change	% change	Shares end of the year	% end of the year
01	Youssef Saleh Abdul-Aziz Al-Rajhi	0	0	1,035,000	0	1,035,000	5.18%

11. Borrowings, Issue / Redemption of Securities

The company has neither borrowed any funds nor issued or redeemed any securities during the year and does not have any outstanding convertible and/or redeemable debt instruments, options, warrants or similar rights.

12. Related Party Transactions

Details of related party transactions are furnished below:

		(SAR m)	
Director		Insurance contracts	Terms / duration
	Direct placements:		
Abdullah M. Al-Othman	Al-Othman Group	0.245	12-months
Waleed Al-Shoaibi	Al-Shoaibi Group	0.504	12-months
Waleed Al-Jaafari	Al-Dawaa Medical Services	1.062	various
Khalid Al-Rajhi	Procure / Al-Riaya Hospital	0.621	various
	Key management personnel	0.009	12-months

In addition to the above direct placements, the company also recorded during the year following premiums placed through brokers:

Hassan Al-Kabbani	Essam Al-Kabbani Group	3.965	various
Dr. Sulaiman Al-Towaijri	Amiantit Group	0.711	various
Sulaiman Al-Kadi	Saudi Electricity Co.	3.449	various
Waleed Al-Shoaibi	Al-Shoaibi Group	0.122	various
Abullah M. Al-Othman	Al-Othman Group	0.607	various

The company did not conduct any contract in which a director of the issuer, the CEO, the CFO or any associate is or was materially interested during the year.

13. Statutory dues and payments

The company does not have any outstanding statutory dues as on 31 December 2012, except for the following:

	(SAR m)			
	2012	2011	2010	2009
GOSI for December paid in January the following year	- *	0.128	0.126	0.070
Zakat and tax: Provision for year, due for payment upon filing	2.750	1.875	1.925	1.874
SAMA Supervision fee (provision for last quarter, paid in January)	0.175	0.746	0.251	-

(* - SR 0.142m towards GOSI for December 2012, has been paid in December 2012 itself)

During the year 2012, the Company has made following payments to various statutory agencies:

	(SAR m)			
	2012	2011	2010	2009
Zakat, Income tax and withholding tax	1.506	1.575	0.846	1.057
Saudi Arabian Monetary Agency (SAMA) Supervision	1.719	0.861	0.751	0.698
GOSI (Social insurance)	1.884	1.001	0.808	0.423
Council of Cooperative Health Insurance (CCHI)	0.647	0.985	0.365	0.330
Ministry of Interior, Labour office, Chamber of Commerce & Sagia	0.290	0.379	0.260	0.170

14. Employees benefits

The Company did not make any investments or set up any reserves for the benefit of the employees. The Company provides personal accident with group life insurance cover to its employees against any accidental death or disability.

15. Statements of affirmation

During the year,

- The Company has maintained proper books of accounts.
- The System of internal control is sound in design and has been effectively implemented.
- There are no significant doubts concerning the company's ability to continue as a going concern.

16. Appointing External Auditors

The Board of Directors recommended the appointment of Price WaterHouse and Ernst & Young as external auditors based on Audit Committee's recommendation to review and audit the company's accounts for 2012, after completion of terms by the previous external auditors at the end of 2011. The General Assembly approved this appointment during its last meeting held on 22 April 2012.

One of the reporting auditor, Ernst & Young has completed five years of contractual relationship with the Company, and hence is not eligible for reappointment as per requirements issued by CMA.

17. Corporate Governance

All applicable provisions of the CMA Corporate Governance Regulations were implemented during the year except the following:

1. *Rights of shareholders in the article of association [Article#3 & 4 (a)]:*

The article of association of the company does not include (a) the shareholders' right to a share of the company's assets upon liquidation. (b) The right to supervise the Board of Directors activities, and file responsibility claims against Board members. (c) The right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules. However, it may be noted that that the article of association of the insurance companies was prepared and enforced by SAMA. Moreover, above mentioned rights are granted to the shareholders according to ministry of commerce and CMA regulations. The shareholders approve the Board of Director report and discharge the directors from any liabilities in the annual general assembly. The appointment / ratification of appointment of the board lies with the shareholders.
2. *Accumulative voting method for nomination of board members [Article#6 (b)]:*

The method of voting for nomination of the board members is not specified in the article of association formulated by SAMA. Therefore, the board of directors applied the ordinary voting method since they have not adopted the accumulative voting method until now.

3. *The company's social contributions in the stakeholders' relationship policy [Article#10 (e/5)]:*
The nature of cooperative insurance business itself is considered as social contribution since it provides protection to individuals and society's wealth from possible risks. Moreover, the company contributes to the society through applying the Saudization plan as per regulatory requirements, including employment opportunities for female staff. The company has in place a very pro-active staff training policy that encourages Saudi staff to pursue IFCE examinations, English language related courses and other academic programs. Wala'a coordinates with leading universities of the Kingdom in the 'Co-Op Training Program' offering credit hours to the graduate students to obtain their qualifying degrees. The company also has a policy to provide suitable employment opportunities to physically-challenged or those with special needs.
4. *The term of office of Audit Comm. and Nomination & Remuneration Comm. members [Article#14 (b) & Article#15 (b)]:*
The general assembly, based on the recommendation of the board of directors issued the rules of appointing the audit committee and nomination & remuneration committee members and the procedures to be followed, but did not define the term of their office. However, the board of directors recommended amending the rules of appointing the committees to include term of office, which will be submitted to General Assembly for approval.

18. Offices held by company's directors in other joint stock companies

During the year, the Company's Board members held offices in other joint stock companies as members of its board of directors as follows:

No.	Name of Board Member	Name of Companies
1	Sulaiman A. Al-Kadi	<ul style="list-style-type: none"> • Saudi Electricity Co. (SEC) • Basic Chemical Industries Co. (BCI) • Chemical Development Co. – Closed company • Saudi Hollandi Bank
2	Abdullah M. Al-Othman	<ul style="list-style-type: none"> • Takween Advanced Industries • Al Othman Holding Co. - Closed company • Roots Group Arabia - Closed company • GIP Capital LLC - Closed company
3	Wasef S. A. Al-Jabsheh	<ul style="list-style-type: none"> • International General Insurance Co. Ltd. and associates
4	Walid S. Al-Shoaibi	<ul style="list-style-type: none"> • Chemical Development Co. – Closed company
5	Khalid A. S. Al-Rajhi	<ul style="list-style-type: none"> • Al-Bilad Bank • Saudi Cement Co. • Takween Advanced Industries • Abdul-Rahman Saleh Al-Rajhi & Partners Co. - Closed • Procure & Fakhri Hospitals - Closed company
6	Abdulaziz S. Al-Rebdi	<ul style="list-style-type: none"> • Al-Othaim Markets Company • Takween Advanced Industries • Obeikan Glass Co. – Closed company • Abdulaziz M. Al-Namlah Holding Group Co. - Closed Company
7	Sulaiman A. Al-Twaijri	<ul style="list-style-type: none"> • Saudi Arabian Amiantit Co. • Takween Advanced Industries • Chemical Development Co. – Closed company

8	Waleed M. Al-Jaafari	<ul style="list-style-type: none"> Advanced Petrochemical Co. Golf Real Estate Co. – Closed company Siyaha International Company – Closed company Al-Dawaa Medical Services Company – Closed company
9	Hassan E. Kabbani	<ul style="list-style-type: none"> Bank BEMO S.a.l. - Beirut Isam K. Kabbani for Insurance and Reinsurance Brokerage Co. - limited liability Isam Kabbani & Partners for Construction & Maintenance Co. Ltd. - Closed Company Isam Mohammad Khayri Kabbani & Partners Holdco – Joint Stock

19. Board of Directors and composition

	Member	Functional Duties	Classification
01	Sulaiman A. Al-Kadi	Chairman	Independent
02	Abdullah M. Al-Othman	Vice Chairman	Executive (during 2011)
03	Wasef S. A. Al-Jabsheh	Member	Non-executive
04	Walid S. Al-Shoaibi	Member	Independent
05	Khalid A. S. Al-Rajhi	Member	Independent
06	Waleed M. Al-Jaafari	Member	Independent
07	Abdulaziz S. Al-Rebdi	Member	Independent
08	Sulaiman A. Al-Twaijri	Member	Independent
09	Hassan E. Kabbani	Member	Independent

20. Board and Committees

The Board of Directors is entrusted with effective management and control of the company. It gives strategic direction to achieve the company objectives and monitors the performance through regular meetings held throughout the year.

During the period of this report the Board held four meetings from 01.01.2012 to 31.12.2012 of which details including attendance are given below:

Member	First Meeting 18.02.2012	Second Meeting 22.04.2012	Third Meeting 08.08.2012	Fourth Meeting 22.12.2012	Total
Sulaiman A. Al-Kadi	✓	✓	✓	✓	4
Wasef S. A. Al-Jabsheh	X	✓	X	✓	2
Abdullah M. Al-Othman	✓	X	✓	✓	3
Walid S. Al-Shoaibi	✓	✓	✓	✓	4

Khalid A. S. Al-Rajhi	✓	✓	✓	✓	4
Abdulaziz S. Al-Rebdi	X	X	✓	✓	2
Sulaiman A. Al-Twajjri	✓	✓	X	✓	3
Waleed M. Al-Jaafari	✓	✓	✓	✓	4
Hassan E. Kabbani	✓	✓	✓	✓	4

The Board has appointed the following committees to ensure full control and effectiveness of the management:

(i) *Executive Committee*

The Board of Directors shall appoint the Executive Committee from amongst its members. The CEO shall be an ex-officio member and a secretary of the Committee. The Committee should have at least three members.

The Executive Committee make recommendations to the Board of Directors in regards to the topics raised by the executive management of the company, and determines which of those shall be referred to the Board. Moreover, the committee shall review the performance of the executive management and ensure that it is in line with the overall strategy of the Board. The Executive Committee also reviews the annual budget of the company prior to presentation to the board with their recommendation. Furthermore, the Executive Committee discusses the related technical, marketing, and administrative matters and raises its decisions and recommendations to the Board of Directors.

The Executive Committee meets at least six times a year. Its term of office extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee.

During the period of this report, the Committee met six times. The members of the Committee and the details of the meetings held are given below:

Member	Role	No. of meetings Attended
Abdullah M. Al Othman	Chairman of the Committee	5
Walid S. Al Shoaibi	Member	6
Khalid A. S. Al-Rajhi	Member	6
Wasef S. A. Al-Jabsheh	Member	2

(ii) *Audit Committee*

Audit Committee should consist of three to five members majority of them should be independent members at least one of them should be a member of the Board. The Board, upon the recommendation of the Nomination Committee, appoints a Chairman from among the members.

All members should be financially literate and possesses an ability to read and understand the fundamental financial statements of the company. At least one member of the Committee shall be an expert on finance and accounting matters.

An audit committee member shall not serve as a member in more than three audit committees of publicly listed companies concurrently. An audit committee member shall not accept from the company any consulting, advisory or other compensatory fees other than the sitting fee/ remuneration determined by the Board.

The audit committee should meet at least four times a year and simple majority of the members shall make a quorum. In case of urgency, the committee can take decision by circulation of email.

Term of office shall extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee.

The Audit Committee supervises the company's internal audit department and compliance department to ensure their effectiveness in executing the activities and duties specified by the Board of Directors. The Audit Committee also reviews the internal audit procedures periodically. The Audit Committee reviews the

internal audit and compliance reports and pursues the implementation of the corrective measures in respect of the comments included in them.

Moreover, the committee recommends to the Board of Directors the appointment, dismissal and the remuneration of the external auditors; upon and such recommendation, regard must be made to their independence. The committee monitors the activities of the external auditors and approves any activity beyond the scope of the audit work assigned to them during the performance of their duties. They also review together with the external auditors the audit plan and make any comments thereon, and review the external auditors' comments on the financial statements and follow up the actions taken. In addition, they review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.

The Audit Committee reviews the accounting policies in force and advises the Board of Directors of any recommendations regarding them.

During the period of this report, the Committee met five times. The members of the Committee and the details of the meetings held are given below:

Member	Role	No. of meetings attended
Dr. Sulaiman A. Al Twaijri	Chairman of the Committee	5
Dr. Raed Abdulla Al-Hoqail	Independent member	5
Waleed Al-Othaymeen (appointed on 19.05.2012)	Independent member	2

(iii) Investment Committee

The Board, based on the recommendation of the Nomination Committee, appoints the investment committee from amongst its members. The committee should have at least 3 members, and The CEO and the CFO shall be ex-officio members of the Committee.

The Investment committee is responsible for the formulation of the investment policy. The committee should meet minimum two times a year. Term of office shall extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee.

The Committee met three times during the period of this report. The details of the Investment Committee are given below:

Member	Role	No. of meetings attended
Khalid A. S. Al Rajhi	Chairman of the Committee	2
Abdulaziz S. Al-Rebdi	Member	3
Waleed M. Al-Jaafari	Member	3
Hassan E. Kabbani (appointed on 18.02.2012)	Member	2

(iv) Nomination & Remuneration Committee

The Board of Directors appoints a Nomination & Remuneration Committee from amongst its members. The CEO shall be an ex-officio member of the Nomination & Remuneration Committee. The Committee shall consist of independent members and should have at least three members. The N&R Committee shall make recommendations to the Board of persons to serve as directors from among the proposals received from the shareholders. They shall also recommend names to fill the vacancies occurring on the Board.

The N&R Committee shall oversee the performance of the members of the Board, and shall be responsible for making recommendations to the board with respect to appointment of committees to the Board

The N&R Committee shall recommend the remuneration payable to the Directors and committee members as well as the CEO and Deputy CEO.

The Committee should meet at least once a year. Term of office shall extend from the date of appointment until the end of the term of the Board of Directors which appointed the members of the committee.

The N&R Committee is reviewing annually the requirement of suitable skills for membership of the Board of Directors and preparing a description of the required capabilities and qualifications for such membership,

and defining the time that a board member should reserve for the activities of the Board. Moreover, The N&R Committee is reviewing annually the structure of the Board of Directors and recommending changes. Also, they determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.

The Committee is ensuring on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.

The N&R Committee draw clear policies regarding the indemnities and remunerations of the Board members and top executives; in laying down such policies, the standards related to performance were followed.

The Committee met twice during the period. The details of the Nomination and Remuneration committee are given below:

Member	Role	No. of meetings attended
Sualiman A. Al Kadi	Chairman of the Committee	2
Abdulaziz S. Al-Rebdi	Member	2
Waleed M. Al-Jaafari	Member	1

(v) Shariyah Board

Saudi United Cooperative Insurance Company (Wala'a) has appointed Shariyah Review Bureau Co. as a shariyah review committee. Their main role is to study and revise the company's financial and investments activities, and review the principles of insurance mechanism, insurance programs and products to confirm their compliance with the shariyah principles. Part of the committee duties is to review annually the company's products and services from an Islamic point of view then report the review processes results periodically - after the company's execute required amendments if exist- to the board of the Shariyah Review Bureau for certification, taking into consideration any modification may be required by the shariyah board in order to approve the company and its products. The Shariyah Board consists of the following eminent scholars:

- (1) Sheikh Abdullah Bin Sulaiman Al Manee (Board chairman)
- (2) Dr. Abdullah Al Musleh (Member)
- (3) Dr. Mohammad Bin Ali Alqeri (Member)

21. Compensation paid to Directors and senior executives

Board member	(SAR m)	
	Board meetings	Committee meetings
Sulaiman A. Al-Kadi	0.012	0.013
Abdullah M. Al-Othman	0.009	0.049
Wasef S.A Al-Jebshah	0.006	0.020
Walid S. Al-Shoaibi	0.012	0.059
Khalid A.S Al-Rajhi	0.012	0.062
Abdulaziz S. Al-Rebdi	0.006	0.038
Sulaiman A. Al-Twajjri	0.009	0.058
Walid M. Al-Jaafari	0.012	0.036
Hassan E. Al-Kabbani	0.012	0.023
Total	0.090	0.357

Compensation paid to top five executives including CEO and VPs	3.008
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There have been no arrangements or agreements under which any director or senior executive of the company has waived any emolument or compensation.

22. Penalty / Preventive restriction

During the year under review, Cooperative Council for Health Insurance (CCHI) had placed a restriction on uploading of new health insurance policies which lasted for a period of three months. This restriction did not result in any significant impact on the business.

There were no penalties paid during the year.

23. Internal Control

As mentioned above, the Board of Directors have formed an Audit Committee, the prime responsibility of which includes discharging the Board's responsibilities in respect of supervision of the company's financial reporting and evaluating the adequacy and effectiveness of the company's audit (both internal and external) and risk management processes. The Committee Comprises of 3 members, 2 of whom are independent. The chairman is a non-executive director of the Company. A total of 5 Audit Committee meetings were held in 2012. The purposes of these meetings included, among others:

- a. Review and approval of the interim and final results of the company
- b. Evaluating the adequacy and effectiveness of the internal and external audit functions.
- c. Evaluating the adequacy and effectiveness of the compliance department
- d. Assessing the effectiveness of the risk management practices and procedures.

The satisfactory annual audit of the financial statements provides insights into the effectiveness of the company's internal control environment and procedures and its risk management practices. In addition to that, the internal audit function of the company assists the Audit Committee and consequently the Board of Directors in providing assurance that the Company's internal control system is adequate and effective in mitigating various risks faced by the company and hence ensuring that the objectives of the Company will be met. The internal audit department maintains its organization independence by functionally reporting to the Audit Committee as required by both the regulations and the best practices. The procedure followed by the internal audit department in discharging its responsibilities is as follows:

- a. Annually all the significant business processes are subjected to a risk assessment process by which all the processes are classified as high, medium and low risk business processes.
- b. An audit plan is then prepared and submitted to the Audit committee for approval on an annual basis. The audit plan is risk focused i.e. the high risk business processes are subject to more frequent audits and more rigorous internal audit procedures.
- c. As a result of evolving circumstances, the audit plan may require revisions. Any revisions to the audit plan are also approved by the Audit Committee.
- d. The audits are conducted in accordance with the approved audit plan and its results are submitted in the form of a report to the Audit Committee.

The internal audit department has conducted a number of audits in accordance with the approved internal audit plan and reported the findings to the Audit Committee as a result of these audits, together with management's response. In addition, the progress towards the resolution of the audit findings is also reported periodically. The department also presents separately the most significant findings, if any, as either part of the scheduled or specially arranged meetings.

Moreover, the compliance function of the company assists the Audit Committee in ensuring compliance by the company's management, board of directors and approved persons with all relevant regulatory requirements, guidelines and directives issued by SAMA, CMA and other statutory authorities. The compliance function's key responsibilities include:

- a. Developing, implementing, documenting and updating as needed compliance monitoring and risk management strategies, systems, procedures, processes and controls to meet SAMA's regulatory requirements, directives and anti-money Laundering Regulations
- b. Ensuring Compliance with CMA rules and regulations including listing requirements, regulatory compliance and corporate governance.
- c. Monitoring changes in legislation for insurance and ensure that the company acts in accordance with the revised / changed requirements.
- d. Undertaking ongoing monitoring and ad hoc spot checks to assess the validity and application of internal procedures and processes and their compliance with regulations and /or directives
- e. Ensuring that the company fulfills all the conditions required by SAMA and develop and maintains a professional relationship with SAMA and other statutory bodies.
- f. Working with departmental Heads to direct compliance issues to appropriate channels for investigation and resolution
- g. Consulting with the company's legal advisors as needed to resolve legal compliance issues