SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

31 DECEMBER 2011

Saudi United Cooperative Insurance Company (Wala'a)
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SAUDI UNITED COOPERATIVE INSURANCE COMPANY (WALA'A)
(A SAUDI JOINTSTOCK COMPANY)

SCOPE OF AUDIT:

We have audited the accompanying statement of financial position of Saudi United Cooperative Insurance Company (Wala'a) - A Saudi Joint Stock Company (" the Company ") as at 31 December 2011 and the related statements of insurance operations, shareholders' operations, shareholders' comprehensive operations, changes in shareholders' equity, insurance operations' cash flows and shareholders' operations cash flows for the year then ended and the notes 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 the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

UNQUALIFIED OPINION:

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

i) present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ii) comply with the requirements of the Regulations for Companies and the Company's bylaws in so far as they affect the preparation and presentation of the financial statements.

EMPHASIS OF 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.

Deloitte & Touche
Bakr Abulkhair & Co.

Ernst & Young

Nasser M. Al-Sagga
Certified Public Accountant
Registration No. 322

22 Rabi' I, 1433H
14 February 2012

Abdulaziz Saud Alshubaibi
Certified Public Accountant
Registration No. 339

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 SR	2010 SR
INSURANCE OPERATIONS' ASSETS			
Property and equipment	6	**2,314,729**	2,542,317
Insurance receivables	7	**57,259,911**	55,495,567
Reinsurance share of unearned premiums	8 & 10	**74,893,102**	30,923,630
Reinsurance share of outstanding claims	9 & 10	**21,728,617**	18,393,512
Deferred policy acquisition costs		**13,759,195**	13,545,531
Due from shareholders' operations		**-**	2,588,600
Accrued interest income		**111,964**	17,422
Prepaid expenses and other assets		**4,880,604**	2,896,405
Cash and cash equivalents	12	**137,715,642**	86,240,115
TOTAL INSURANCE OPERATIONS' ASSETS		**312,663,764**	212,643,099
SHAREHOLDERS' ASSETS			
Statutory deposit	13	**20,000,000**	20,000,000
Other financial assets	14	**51,396,722**	49,692,750
Short term deposit	15	**40,000,000**	40,000,000
Accrued interest income		**757,940**	674,388
Due from insurance operations		**20,808,921**	-
Cash and cash equivalents	12	**26,272,575**	46,085,399
TOTAL SHAREHOLDERS' ASSETS		**159,236,158**	156,452,537
TOTAL ASSETS		**471,899,922**	369,095,636

DIRECTOR

ACTING CEO & CFO

The accompanying notes from 1 to 29 form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2011

	Note	2011 SR	2010 SR
INSURANCE OPERATIONS' LIABILITIES			
Liabilities arising from insurance contracts:			
Unearned premiums	8	137,803,035	104,454,642
Outstanding claims	9	71,458,288	58,049,270
Total liabilities arising from insurance contracts		209,261,323	162,503,912
End-of-service indemnities	16	1,490,883	1,274,310
Reinsurance payables	17	67,465,291	34,720,425
Unearned reinsurance commission		4,860,735	6,735,429
Accrued expenses and other liabilities	18	8,175,280	7,409,023
Due to shareholders' operations		20,808,921	-
Share of surplus		601,331	-
TOTAL INSURANCE OPERATIONS' LIABILITIES		312,663,764	212,643,099
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	18	4,750,569	3,735,790
Due to insurance operations		-	2,588,600
TOTAL SHAREHOLDERS' LIABILITIES		4,750,569	6,324,390
SHAREHOLDERS' EQUITY:			
Share capital	19	200,000,000	200,000,000
Accumulated losses		(52,138,055)	(54,841,525)
Revaluation reserve		6,623,644	4,969,672
TOTAL SHAREHOLDERS' EQUITY		154,485,589	150,128,147
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		159,236,158	156,452,537
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		471,899,922	369,095,636

DIRECTOR

ACTING CEO & CFO

The accompanying notes from 1 to 29 form an integral part of these financial statements

Saudi United Cooperative Insurance Company (Wala'a)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 SR	2010 SR
REVENUES			
Gross written premium	11 & 21	278,560,419	219,997,528
Reinsurance ceded premiums	11 & 21	(124,749,911)	(67,873,528)
Net written premiums		153,810,508	152,124,000
Changes in unearned premiums		10,621,079	(33,512,086)
Net earned premiums	21	164,431,587	118,611,914
Reinsurance commission		15,194,949	14,504,417
Other underwriting income		310,286	77,276
TOTAL REVENUES		179,936,822	133,193,607
UNDERWRITING COSTS AND EXPENSES			
Gross paid claims	9	116,107,416	96,825,253
Reinsurance share of claims paid	9	(24,905,939)	(32,282,855)
Net paid claims		91,201,477	64,542,398
Changes in outstanding claims	9	10,073,913	11,857,859
Net incurred claims	9	101,275,390	76,400,257
Policy acquisition costs		27,041,372	20,581,859
Excess of loss expenses		5,993,864	4,601,326
Other expenses		3,767,318	3,095,419
TOTAL UNDERWRITING COSTS AND EXPENSES		138,077,944	104,678,861
Net underwriting income		41,858,878	28,514,746
OPERATING EXPENSES			
Operating and administrative salaries		(21,176,141)	(23,550,299)
General and administrative expenses	23	(15,082,190)	(11,487,338)
Commission income from bank deposits		412,768	243,754
TOTAL OPERATING EXPENSES, NET		(35,845,563)	(34,793,883)
Net surplus/ (deficit) from insurance operations		6,013,315	(6,279,137)
Insurance operations (surplus)/ deficit transferred to shareholders' operations		(5,411,984)	6,279,137
NET SURPLUS FROM INSURANCE OPERATIONS		601,331	-

DIRECTOR

ACTING CEO & CFO

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STATEMENT OF SHAREHOLDERS' OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 SR	2010 SR
Net surplus/ (deficit) transferred from insurance operations		5,411,984	(6,279,137)
Commission income from bank deposits		601,176	783,015
Commission income on held to maturity investments		188,500	142,949
General and administrative expenses	23	(1,623,193)	(1,631,572)
Net income/ (loss) for the year		4,578,467	(6,984,745)
Earnings/ (loss) per share	27	0.23	(0.35)
Weighted average number of outstanding shares		20,000,000	20,000,000

DIRECTOR

ACTING CEO & CFO

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Saudi United Cooperative Insurance Company (Wala'a)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 SR	2010 SR
Net income/ (loss) for the year		**4,578,467**	(6,984,745)
Net unrealised gain on available for sale investments		**1,653,972**	4,840,381
Zakat and income tax	22	**(1,874,997)**	(1,925,176)
Total comprehensive income/ (loss) for the year		**4,357,442**	(4,069,540)
Earnings/ (loss) per share	27	**0.22**	(0.20)
Weighted average number of outstanding shares		**20,000,000**	20,000,000

DIRECTOR

ACTING CEO & CFO

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital SR	Accumulated losses SR	Revaluation reserve SR	Total SR
Balance at 1 January 2010	200,000,000	(45,931,604)	129,291	154,197,687
Net loss for the year	-	(6,984,745)	-	(6,984,745)
Net unrealised gain on available for sale investments	-	-	4,840,381	4,840,381
Zakat and income tax	-	(1,925,176)	-	(1,925,176)
Balance at 31 December 2010	200,000,000	(54,841,525)	4,969,672	150,128,147
Balance at 1 January 2011	**200,000,000**	**(54,841,525)**	**4,969,672**	**150,128,147**
Net income for the year	**-**	**4,578,467**	**-**	**4,578,467**
Net unrealised gain on available for sale investments	**-**	**-**	**1,653,972**	**1,653,972**
Zakat and income tax	**-**	**(1,874,997)**	**-**	**(1,874,997)**
Balance at 31 December 2011	**200,000,000**	**(52,138,055)**	**6,623,644**	**154,485,589**

DIRECTOR

ACTING CEO & CFO

The accompanying notes from 1 to 29 form an integral part of these financial statements

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 SR	2010 SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus/ (deficit) from insurance operations		6,013,315	(6,279,137)
Adjustments for:			
Depreciation		1,100,282	913,748
End of service indemnities, net		216,573	552,053
Loss on disposal of property and equipment		-	6,735
		7,330,170	(4,806,601)
Changes in operating assets and liabilities:			
Insurance receivables		(1,764,344)	(10,002,549)
Reinsurance share of unearned premiums		(43,969,472)	(517,334)
Reinsurance share of outstanding claims		(3,335,105)	6,724,084
Deferred policy acquisition costs		(213,664)	(7,339,725)
Accrued interest income		(94,542)	(17,422)
Prepaid expenses and other assets		(1,984,199)	(518,968)
Due from an affiliate		-	856,050
Reinsurance payables		32,744,866	(5,573,762)
Unearned premiums		33,348,393	34,029,420
Unearned reinsurance commission		(1,874,694)	4,177,189
Outstanding claims		13,409,018	5,133,775
Accrued expenses and other liabilities		766,257	5,433,560
Net cash from operating activities		34,362,684	27,577,717
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(872,694)	(1,069,442)
Proceeds from disposal of property and equipment		-	2,900
Net cash used in investing activities		(872,694)	(1,066,542)
CASH FLOW FROM FINANCING ACTIVITY			
Due from shareholders' operations		17,985,537	33,343,130
Net cash from financing activity		17,985,537	33,343,130
NET INCREASE IN CASH AND CASH EQUIVALENTS		51,475,527	59,854,305
Cash and cash equivalents at the beginning of the year		86,240,115	26,385,810
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	137,715,642	86,240,115

DIRECTOR

ACTING CEO & CFO

The accompanying notes from 1 to 29 form an integral part of these financial statements

Saudi United Cooperative Insurance Company (Wala'a)
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' OPERATIONS' CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 SR	2010 SR
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/ (loss) for the year	4,578,467	(6,984,745)
Adjustments for:		
Commission income	(601,176)	(783,015)
	3,977,291	(7,767,760)
Changes in operating assets and liabilities:		
Due to insurance operations	(23,397,521)	(27,063,993)
Accrued expenses and other liabilities	55,480	(4,125,332)
Cash used in operations	(19,364,750)	(38,957,085)
Zakat paid	(915,698)	(847,285)
Net cash used in operating activities	(20,280,448)	(39,804,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Short term deposit	-	25,000,000
Movement in other financial assets	(50,000)	(10,500,000)
Commission income received	517,624	948,090
Net cash from investing activities	467,624	15,448,090
DECREASE IN CASH AND CASH EQUIVALENTS	(19,812,824)	(24,356,280)
Cash and cash equivalents at the beginning of the year	46,085,399	70,441,679
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26,272,575	46,085,399
Non-cash transactions:		
- Net unrealised gain on available for sale investments	1,653,972	4,840,381

DIRECTOR

ACTING CEO & CFO

The accompanying notes from 1 to 29 form an integral part of these financial statements

1 GENERAL

The Saudi United Cooperative Insurance Company ("the Company") is a Saudi Joint Stock Company established in Al Khobar, Kingdom of Saudi Arabia and incorporated on 19 Jumada II 1428H corresponding to 4 July 2007 under Commercial Registration No. 2051034982.

The purpose of the Company is to transact in cooperative insurance operations and all related activities.

The Company was granted the license (number TMN/16/2008) to practice general and medical insurance and re-insurance business from the Saudi Arabian Monetary Agency (SAMA) on 28 Jumada II 1429 H corresponding to 2 July 2008.

2 BASIS OF PREPARATION

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

Use of estimates in the preparation of financial statements

The financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Further details of the specific estimates and judgments made by management are given in the accounting policy notes below.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

Standard	*Name of the standard*	*Effective date*
IFRS 1:	Limited exemption from comparative IFRS 7 disclosures for first time adopters	1 July 2010
IAS 24:	Related party disclosure	1 January 2011
IAS 32:	Financial instruments	1 February 2010
IFRIC 14:	Prepayment of a Minimum Funding Requirement	1 January 2011
IFRIC 19:	Extinguishing financial liabilities with equity instruments	1 July 2010

Adoption of these revised standards and interpretations did not have any material effect on the financial performance or position of the Company. They did, however, give rise to additional disclosures in some occasions.

Improvements to IFRSs

In May 2010 IASB issued its annual amendments to International Financial Reporting Standards (IFRSs) and the related Basis for Concluisons and guidance made. The IASB uses the annaul improvements process to make neassary, but non-urgent, amdenments to IFRSs that will not be included as part of a major project. The amdendements primarily deal with a view to remove inconsistencies and clarify wording. The Company has adopted the following amendments to standards as they come to effect for the reporting period beginning on 1 January 2011:

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Improvements to IFRSs (continued)

Standard	*Name of the standard*	*Effective date*
IFRS 7:	Clarification of Disclosures	1 July 2011

Amendments to other standards do not have any material impact to the financial statements of the Company.

Listed below are standards and interpretations that have been issued, but not yet effective as of 1 January 2011:

Standards issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt the standards when they become effective.

Standard	*Name of the standard*	*Effective date*
Amenments to IAS 19:	Employee Benefits	1 January 2013
Amenments to IAS 1:	Presentation of Financial Statements	1 July 2012
IFRS 9:	Financial Instruments- Classification and measurement	1 January 2013
IFRS 12:	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13:	Fair Value Measurement	1 January 2013

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting convention
The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

Functional currency
The financial statements are presented in Saudi Riyals, which is also the functional currency of the Company.

Revenue recognition
Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis using the 1/365 method except for marine insurance which is calculated based on last nine months premium. Unearned premiums represent the portion of premiums written relating to the unexpired period of insurance coverage. The change in the provision for unearned premiums is taken to the "statement of insurance operations", over the period of risk.

Retained premiums and commission income in the current period, which relates to unexpired risks beyond the end of the financial period, are reported as unearned based on mechanism identified above.

Commission income is recognised on an effective yield basis taking account of the principal outstanding and the commission rate applicable.

Basis of presentation
The Company maintains separate books of account for the insurance operations and shareholders. Income and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and approved by the Board of Directors.

Cash and cash equivalents
Cash and cash equivalents comprise cash and balances with banks and highly liquid investments with original maturities of three months or less that are readily convertible to corresponding amounts of cash and which are subject to insignificant risk of changes in value. At 31 December 2011, cash and cash equivalents consist entirely of cash in hand, bank balances and term deposits.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition a provision based on actuarial valuation is maintained for the cost of settling claims incurred but not reported (IBNR) at the reporting date. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the statement of insurance operations for that year.

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

Policy acquisition costs
Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts are deferred. Deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts to which they relate as premiums are earned.

The direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, these costs are amortized on a pro-rata basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the cost incurred during the last quarter. Amortization is recorded in the statement of insurance operations.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value an impairment loss is recognised in the statement of insurance operations. Deferred policy acquisition cost is also considered in the liability adequacy test for each reporting period.

Liability adequacy test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contracts liabilities net of related deferred policy acquisition costs. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations initially by writing off the related deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Reinsurance
In the ordinary course of business, the Company cedes insurance premium and risk. Such reinsurance arrangements provide for greater diversification of business, allows management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts. An asset or liability is recorded in the insurance operations' statement of financial position representing premiums due to or payments due from reinsurers and the share of losses recoverable from reinsurers. Amounts receivable from reinsurance is estimated in a manner consistent with the claim liability associated with the insured parties.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance (continued)
An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of insurance operations.

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of insurance and/or shareholders' operations.

Provisions for obligations
Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Property and equipment
Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets.

Impairment of assets
At each reporting date, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash- generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash- generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash- generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash- generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Employees' end-of-service indemnities
Employees' end-of-service indemnities are accrued currently and are payable as a lump sum to all employees under the terms and conditions of Saudi Arabian Labour 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 be terminated at the balance sheet date. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stipulated by the Saudi Arabian Labour Regulations.

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

Premiums receivable represents premiums written for polices issued on credit, which are outstanding at the reporting date, less an allowance for amounts estimated to be uncollectable.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment and uncollectibility of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the statements of insurance operations or shareholders' operations. Impairment is determined as follows:

For assets carried at fair value, impairment is the difference between the cost and fair value.

For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective commission rate.

Zakat and income tax
The Company is subject to zakat and income tax on behalf of the Saudi and foreign shareholders, respectively, in accordance with the regulations of the Department of Zakat and Income Tax. Zakat and income tax is accrued and charged to the statement of changes in shareholders' equity. The zakat charge is computed on the Saudi shareholders'/GCC Nationals' share of the zakat base.

Income tax is computed on the foreign shareholder's share of adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Segment reporting
A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments. For management purposes, the Company is organized into business units based on their products and services and has three reportable segments as follows:

Medical insurance provides coverage for health insurance.

Motor insurance provides coverage for vehicles' insurance.

Property insurance provides coverage for property insurance.

General insurance provides coverage for engineering, fire, marine and other general insurance.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements.

No inter-segment transactions occurred during the period. If any transaction was to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Product classification
Insurance contract
Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance 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 determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts
Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or the other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product classification (continued)
Investment contracts (continued)
Investment contracts can however be reclassified as insurance contracts after inception if insurance risk becomes significant.

Investments and other financial assets
Financial assets
Financial assets are classified as either investments at fair value through statement of operations, investments available for sale or investments held to maturity or loans and advances, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through statement of income, directly attributable transaction costs.

The Company determines that classification of its investments upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments available for sale
After initial recognition investments available for sale are measured at fair value with gains and losses being recognised in the statement of shareholders' comprehensive operations until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain and loss previously reported in equity is recognised in the statement of shareholders' operations. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Investments held to maturity
Investments held to maturity are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After initial measurement, held to maturity investments are measured at amortized cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the statement of shareholders' operations when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost

using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or cost that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of shareholders' operations. The losses arising from impairment are recognised in the statement of shareholders' operations in finance costs.

Fair value
The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Financial liabilities
Financial liabilities, insurance, reinsurance payable and other payables are recognised initially at fair value.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

De-recognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all 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. 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.

Financial liabilities
Financial liabilities, insurance, reinsurance payable and other payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

When the existing 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 statement of insurance operations.

Fair values
Fair values of commission bearing items are estimated based on discounted cash flows using commission for instruments with similar terms and risk characteristics.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods when risks and rewards associated with such goods are transferred to the Company or when services are received, whether or not billed to the Company.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of insurance and shareholder's operations unless required or permitted by an accounting standard or interpretation.

Leases
Operating lease payments are recognised as an expense in the statement of insurance operations on a straight-line basis over the lease term.

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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

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

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

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.

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

6 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Years
Computer equipment & software	4
Furniture, fixture and office equipment	5
Vehicles	4

a) *Insurance operations*

	Computer equipment & software *SR*	*Furniture, fixture & office equipment* *SR*	*Vehicles* *SR*	**Total 2011** *SR*
Cost:				
1 January 2011	2,260,705	2,070,172	155,350	4,486,227
Additions	293,357	559,337	20,000	872,694
At 31 December 2011	2,554,062	2,629,509	175,350	5,358,921
Depreciation:				
1 January 2011	976,588	907,118	60,204	1,943,910
Charge for the year	583,339	475,515	41,428	1,100,282
At 31 December 2011	1,559,927	1,382,633	101,632	3,044,192
Net book value:				
31 December 2011	994,135	1,246,876	73,718	2,314,729

	Computer equipment & software *SR*	*Furniture, fixture & office equipment* *SR*	*Vehicles* *SR*	Total 2010 *SR*
Cost:				
1 January 2010	1,584,457	1,788,431	67,350	3,440,238
Additions	676,248	305,194	88,000	1,069,442
Disposals	-	(23,453)	-	(23,453)
At 31 December 2010	2,260,705	2,070,172	155,350	4,486,227
Depreciation:				
1 January 2010	484,695	536,773	22,512	1,043,980
Charge for the year	491,893	384,163	37,692	913,748
Disposals	-	(13,818)	-	(13,818)
At 31 December 2010	976,588	907,118	60,204	1,943,910
Net book value:				
At 31 December 2010	1,284,117	1,163,054	95,146	2,542,317

6 PROPERTY AND EQUIPMENT (Continued)

b) ***Shareholders' operations***

During the year, there were no property and equipment in shareholders' operations (2010: same).

7 INSURANCE RECEIVABLES

	2011 *SR*	2010 *SR*
Premiums receivable	**66,242,999**	54,230,193
Insurance and reinsurance companies	**1,135,052**	4,246,786
Allowance for doubtful debts	**(10,118,140)**	(2,981,412)
	57,259,911	55,495,567

All of the above amounts are due within twelve months of the reporting date. Amounts due from reinsurers are normally settled on a quarterly basis.

Movement in allowance for doubtful debts was as follows:

	2011 *SR*	2010 *SR*
At the begining of the year	**2,981,412**	1,000,000
Provided during the year (note 23)	**7,136,728**	1,981,412
At the end of the year	**10,118,140**	2,981,412

7 INSURANCE RECEIVABLES (Continued)

At 31 December 2011, the aging of receivables arising from insurance and reinsurance contracts is as follows (amounts in Saudi Riyals):

Insurance Premium receivable:

			Past due but not impaired					
	Total	*Neither impaired nor past due*	*30 days*	*31-60 days*	*61-120 days*	*121 - 180 days*	*181 - 360 days*	*More than 360 days*
2011	**66,242,999**	**12,495,446**	**13,056,958**	**14,550,865**	**10,625,448**	**5,299,555**	**6,900,090**	**3,314,637**
2010	54,230,193	15,094,521	6,537,272	9,354,748	10,652,146	7,266,650	4,204,452	1,120,404

Insurance and reinsurance receivable:

			Past due but not impaired					
	Total	*Neither impaired nor past due*	*30 days*	*31-60 days*	*61-120 days*	*121 - 180 days*	*181 - 360 days*	*More than 360 days*
2011	**1,135,052**	**-**	**-**	**-**	**156,023**	**97,720**	**503,265**	**378,044**
2010	4,246,786	-	276,193	802,723	339,157	215,746	2,282,330	330,637

Unimpaired receivables are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables.

8 UNEARNED PREMIUMS

	2011 *SR*	*2010* *SR*
Unearned premiums	**137,803,035**	104,454,642
Reinsurers' share of unearned premiums	**(74,893,102)**	(30,923,630)
	62,909,933	73,531,012

9 MOVEMENT IN INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS

	2011			2010		
	Gross SR	***Reinsurers' share SR***	***Net SR***	*Gross SR*	*Reinsurers' share SR*	*Net SR*
Claims:						
At the beginning of the year	**(58,049,270)**	**18,393,512**	**(39,655,758)**	(52,915,495)	25,117,596	(27,797,899)
Insurance claims settled during the year	**116,107,416**	**(24,905,939)**	**91,201,477**	96,825,253	(32,282,855)	64,542,398
Outstanding claims at the end of the year	**71,458,288**	**(21,728,617)**	**49,729,671**	58,049,270	(18,393,512)	39,655,758
Claims incurred	**129,516,434**	**(28,241,044)**	**101,275,390**	101,959,028	(25,558,771)	76,400,257
Analysis of outstanding claims:						
At 31 December:						
At the beginning of the year	**(58,049,270)**	**18,393,512**	**(39,655,758)**	(52,915,495)	25,117,596	(27,797,899)
Reported claims	**46,500,443**	**(21,728,617)**	**24,771,826**	36,370,064	(18,393,512)	17,976,552
Claims incurred but not reported	**24,957,845**	**-**	**24,957,845**	21,679,206	-	21,679,206
Changes in outstanding claims	**13,409,018**	**(3,335,105)**	**10,073,913**	5,133,775	6,724,084	11,857,859

10 REINSURANCE CONTRACT ASSETS AND INSURANCE CONTRACT LIABILITIES

	Medical SR	*Motor SR*	*Property SR*	*Others SR*	*Total SR*
As at 31 December 2011					
Gross:					
Insurance contract liabilities					
Claims reported unsettled	4,600,255	13,762,704	8,988,657	19,148,827	46,500,443
Claims incurred but not reported	4,232,340	14,829,347	801,068	5,095,090	24,957,845
Unearned premiums	66,056,780	20,927,627	7,757,742	43,060,886	137,803,035
Total insurance contract liabilities	74,889,375	49,519,678	17,547,467	67,304,803	209,261,323
Recoverable from reinsurers					
Outstanding claims	2,302,188	359,046	7,623,306	11,444,077	21,728,617
Unearned premiums	32,500,263	-	7,739,543	34,653,296	74,893,102
Total reinsurers' share of insurance liabilities	34,802,451	359,046	15,362,849	46,097,373	96,621,719
Net:					
Outstanding claims	2,298,067	13,403,658	1,365,351	7,704,750	24,771,826
Claims incurred but not reported	4,232,340	14,829,347	801,068	5,095,090	24,957,845
Unearned premiums	33,556,517	20,927,627	18,199	8,407,590	62,909,933
	40,086,924	49,160,632	2,184,618	21,207,430	112,639,604

	Medical SR	*Motor SR*	*Property SR*	*Others SR*	*Total SR*
As at 31 December 2010					
Gross:					
Insurance contract liabilities					
Claims reported unsettled	1,048,446	12,283,568	11,294,694	11,743,356	36,370,064
Claims incurred but not reported	3,994,368	12,641,809	978,914	4,064,115	21,679,206
Unearned premium	16,858,842	57,148,268	6,187,000	24,260,532	104,454,642
Total insurance contract liabilities	21,901,656	82,073,645	18,460,608	40,068,003	162,503,912
Recoverable from reinsurers					
Outstanding claims	776,516	344,582	9,054,384	8,218,030	18,393,512
Unearned premium	7,948,180	-	6,062,132	16,913,318	30,923,630
Total reinsurers' share of insurance liabilities	8,724,696	344,582	15,116,516	25,131,348	49,317,142
Net:					
Outstanding claims	271,930	11,938,986	2,240,310	3,525,326	17,976,552
Claims incurred but not reported	3,994,368	12,641,809	978,914	4,064,115	21,679,206
Unearned premium	8,910,662	57,148,268	124,868	7,347,214	73,531,012
	13,176,960	81,729,063	3,344,092	14,936,655	113,186,770

11 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent, major shareholders, directors and entities controlled, jointly or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year.

		Sales of insurance contracts *SR*	*Amounts owed by related parties* *SR*	*Amounts owed to related parties* *SR*
Directors &	2011	2,972,976	146,753	46,770
related parties	2010	2,868,799	315,232	314,149
Key management	2011	4,089	-	-
personnel	2010	-	-	-
Due from/to an	2011	-	470,358	-
affiliate	2010	-	-	2,963,439

Transactions with related parties are made at normal market prices. When market prices cannot be determined book values are used. Outstanding balances at year end are unsecured and settlement occurs as per payment terms. There have been no guarantees provided or received for any related party receivables.

For the years ended 31 December 2011 and 2010, the Company has not raised any allowance for doubtful debts relating to amount owed by related parties as management is confident regarding recoverability of relevant balances.

Compensation of key management personnel of the Company:

	2011 *SR*	2010 *SR*
Short term benefits	**2,375,161**	3,921,844
Employees' end of service indemnity	**327,206**	389,002
	2,702,367	4,310,846

12 CASH AND CASH EQUIVALENTS

	2011 *SR*	2010 *SR*
a) ***Insurance operations:***		
Cash on hand	**34,883**	31,987
Cash at banks	**37,616,759**	20,764,739
Short term deposits	**100,064,000**	65,443,389
Cash and cash equivalents	**137,715,642**	86,240,115

12 CASH AND CASH EQUIVALENTS (Continued)

	2011 *SR*	2010 *SR*
b) *Shareholders' operations:*		
Cash at banks	839,063	834,098
Short term deposit	25,433,512	45,251,301
Cash and cash equivalents	26,272,575	46,085,399

Bank accounts are placed with counterparties who have investment grade rating.

13 STATUTORY DEPOSIT

The statutory deposit represents 10% of the paid up share capital which is maintained in accordance with the implementing guidelines on the Law on Supervision of Co-operative Insurance Companies. This statutory deposit can not be withdrawn without the consent of SAMA.

14 OTHER FINANCIAL ASSETS

The Company's other financial assets are summarized by categories as follows:

	2011 *SR*	2010 *SR*
Held-to-maturity	6,500,000	6,500,000
Available-for-sale (in quoted securities)	42,423,644	40,769,672
Advances towards investments	2,473,078	2,423,078
	51,396,722	49,692,750

The following table compares fair values of financial assets identified above to their carrying values:

	2011		2010	
	Carrying value *SR*	*Fair value* *SR*	*Carrying value* *SR*	*Fair value* *SR*
Held-to-maturity	6,500,000	6,500,000	6,500,000	6,500,000
Available-for-sale (in quoted securities)	42,423,644	42,423,644	40,769,672	40,769,672
Advances towards investments	2,473,078	2,473,078	2,423,078	2,423,078
	51,396,722	51,396,722	49,692,750	49,692,750

14 OTHER FINANCIAL ASSETS (Continued)

a) ***Held-to-maturity***

	2011 *SR*	2010 *SR*
Fair value		
Debt securities	6,500,000	6,500,000
Amortised cost		
Debt securities	6,500,000	6,500,000

b) ***Available-for-sale***

	2011 *SR*	2010 *SR*
Equity securities	42,423,644	40,769,672

c) ***Advances towards investments***

	2011 *SR*	2010 *SR*
Advances towards investments	1,923,078	1,923,078
Loans and receivable	550,000	500,000
	2,473,078	2,423,078

Investment held to maturity represents fixed rate bonds that are traded in an interbank market within Saudi Arabia and values are determined according to such market, when available, or through an appropriate pricing model. These fixed rate bonds are with a maturity period of 10 years (callable after 5 years- December 2014). Management believes that fair value of these investments approximates the carrying value.

Available for sale represents investments in quoted securities in domestic market. Information for this managed fund is usually restricted to periodic investment performance reports from the investment managers. Management has performed a review of its investment in managed fund to assess whether impairment has occurred in the value of its investment and based on specific information available in respect of this fund and its operations, management is of the view that investment in the managed fund has not suffered any impairment.

Advances towards investments represents amounts paid against the percentage of proposed/issued capital for companies which are either newly formed or are currently under development. For companies under formation stage, these advances will be settled against the Company's share in these companies whenever the legal formalities of establishing them will be completed.

15 SHORT TERM DEPOSITS

The time deposits which are denominated in Saudi Riyals, are made for varying periods between 3 months and 12 months depending on the cash requirements of the Company, and earn interest at an effective commission rate of 0.83% at 31 December 2011 (31 December 2010: 0.77%). Short term deposits are placed with counterparties who have investment grade rating.

16 END OF SERVICE INDEMNITIES

a) *Insurance operations:*

	2011 SR	2010 SR
January 1,	1,274,310	722,257
Provision for the year	726,923	744,283
Utilization of provision	(510,350)	(192,230)
December 31,	1,490,883	1,274,310

b) *Shareholders' operations:*

During the year, there were no end of service indemnities in the shareholders' operations (2010: same).

17 REINSURANCE PAYABLE

	2011 *SR*	2010 *SR*
Reinsurance companies	52,450,505	30,085,902
Other payables	15,014,786	4,634,523
	67,465,291	34,720,425

18 ACCRUED EXPENSES AND OTHER LIABILITIES

a) *Insurance operations:*

	2011 *SR*	2010 *SR*
Accrued expenses	7,902,311	4,345,584
Other payables	-	100,000
Due to an affiliate	272,969	2,963,439
	8,175,280	7,409,023

b) *Shareholders' operations:*

	2011 *SR*	2010 *SR*
Accrued expenses	229,000	300,000
Zakat	3,911,666	2,952,367
Other payables	609,903	483,423
	4,750,569	3,735,790

19 SHARE CAPITAL

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

20 STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the Articles of Association of the Company, the Company shall allocate 20% of the shareholders' income each year until the reserve equals 100% of the paid capital. In view of the accumulated losses, no such transfer has been made for the years ended 31 December 2011 and 2010.

21 NET EARNED PREMIUMS

	2011 *SR*	2010 *SR*
Gross written premiums	**278,560,419**	219,997,528
Movement in provision for unearned premiums	**(33,348,393)**	(34,029,420)
Gross insurance premium revenue	**245,212,026**	185,968,108
Reinsurance premium ceded	**124,749,911**	67,873,528
Movement in provision for reinsurance share of unearned premiums	**(43,969,472)**	(517,334)
Gross insurance premiums ceded to reinsurers	**80,780,439**	67,356,194
Net earned premiums	**164,431,587**	118,611,914

22 ZAKAT AND INCOME TAX

ZAKAT

Charge for the year

The zakat charge consists of:

	2011 *SR*	2010 *SR*
Current year provision and charge for the year	**1,671,825**	1,925,176

Current provision is based on the following:

	2011 *SR*	2010 *SR*
Equity	**150,128,147**	154,197,687
Non current liabilities	**1,490,883**	1,274,310
Non current assets	**(71,287,807)**	(65,235,067)
Zakat base	**80,331,223**	90,236,930

The differences between the financial and the zakatable results are mainly due to adjustments for certain disallowances/ claims based on the relevant fiscal regulations.

22 ZAKAT AND INCOME TAX (Continued)

Movements in provision during the year

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

	2011 *SR*	2010 *SR*
At the beginning of the year	2,952,367	1,874,476
Provided during the year	1,671,825	1,925,176
Payments during the year	(915,698)	(847,285)
At the end of the year	3,708,494	2,952,367

INCOME TAX

Charge for the year
Income tax charge consists of:

	2011 *SR*	2010 *SR*
Current year provision and charge for the year	203,172	-

The movement in the income tax provision for the year was as follows:

	2011 *SR*	2010 *SR*
Provided during the year	203,172	-
At the end of the year	203,172	-

Status of assessments
The Company has submitted its zakat and income tax returns upto the year ended 31 December 2010 and settled zakat and income tax as per return and obtained the required certificate from the Department of Zakat and Income Tax.

23 GENERAL AND ADMINISTRATION EXPENSES

a) Insurance operations:

	2011 SR	2010 SR
Doubtful debts	7,136,728	1,981,412
Legal and professional fees	2,056,868	2,862,050
Rent expenses	1,358,509	960,193
Depreciation	1,100,282	913,748
Office supplies	879,318	602,497
Utilities	860,104	878,294
Marketing, advertising and promotion	367,123	150,470
Withholding tax	366,698	1,684,906
Training and education	215,264	431,695
IT expenses	190,876	218,188
Other expenses	550,420	803,885
	15,082,190	11,487,338

b) Shareholders' operations:

	2011 SR	2010 SR
Employee costs	1,200,000	1,200,000
Other expenses	423,193	431,572
	1,623,193	1,631,572

24 SEGMENTAL REPORTING

For management purposes, the Company is organized into business segments classified as: Motor, Medical, property and Others. Others include marine, engineering & casualty. These segments are the basis on which the Company reports its primary segment information.

Consistent with the Company's internal reporting process, business segment has been approved by management in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include operating and administrative salaries and general and administrative expenses and have been presented under unallocated expenses.

	Medical SR	*Motor SR*	*Property SR*	*Others SR*	*Total SR*
Operating segments For the year ended 31 December 2011					
Gross written premium	98,541,201	63,415,029	28,452,127	88,152,062	278,560,419
Net written premium	53,610,787	62,292,907	3,030,819	34,875,995	153,810,508
Net earned premium	28,964,930	98,936,609	2,839,050	33,690,998	164,431,587
Reinsurance commission	4,372,817	224,119	5,482,742	5,115,271	15,194,949
Other underwriting income	9,871	255,648	8,590	36,177	310,286
Net incurred claims	(11,950,289)	(76,912,470)	(1,388,578)	(11,024,053)	(101,275,390)
Other underwriting expenses	(4,726,700)	(19,140,017)	(4,024,954)	(8,910,883)	(36,802,554)
Net underwriting income	16,670,629	3,363,889	2,916,850	18,907,510	41,858,878
Other general and administrative expenses (unallocated)					(36,258,331)
Net surplus from insurance operations					5,600,547
Commission income from bank deposits					412,768
Surplus from insurance operations					6,013,315

24 SEGMENTAL REPORTING (Continued)

	Medical SR	*Motor SR*	*Property SR*	*Others SR*	*Total SR*
As at 31 December 2011					
Insurance operations' assets					
Reinsurance share of unearned premiums	32,500,262	-	7,739,543	34,653,297	74,893,102
Reinsurance share of outstanding claims	2,302,186	359,046	7,623,306	11,444,079	21,728,617
Deferred policy acquisition cost	7,683,171	1,853,365	1,200,145	3,022,514	13,759,195
Unallocated assets	-	-	-	-	202,282,850
Total assets	42,485,619	2,212,411	16,562,994	49,119,890	312,663,764
Insurance operations' liabilities					
Unearned premiums	66,056,780	20,927,627	7,757,742	43,060,886	137,803,035
Outstanding claims	8,832,595	28,592,051	9,789,725	24,243,917	71,458,288
Unearned reinsurance commission	219,998	-	1,921,218	2,719,519	4,860,735
Unallocated liabilities	-	-	-	-	98,541,706
Total liabilities	75,109,373	49,519,678	19,468,685	70,024,322	312,663,764

	Medical SR	*Motor SR*	*Property SR*	*Others SR*	*Total SR*
Operating segments					
For the year ended 31 December 2010					
Gross written premium	36,493,256	113,818,388	21,583,700	48,102,184	219,997,528
Net written premium	19,169,280	112,592,826	1,548,784	18,813,110	152,124,000
Net premium earned	17,302,808	81,713,172	1,724,461	17,871,473	118,611,914
Reinsurance commission	2,899,903	245,110	5,650,173	5,709,231	14,504,417
Other underwriting income	12,440	25,623	6,115	33,098	77,276
Net claims incurred	(11,492,839)	(58,452,009)	(854,467)	(5,600,942)	(76,400,257)
Other underwriting expenses	(4,522,511)	(14,662,047)	(2,765,967)	(6,328,079)	(28,278,604)
Net underwriting income	4,199,801	8,869,849	3,760,315	11,684,781	28,514,746
Other general and administrative expenses (unallocated)					(35,037,637)
Deficit from insurance operations					(6,522,891)
Commission income from bank deposit					243,754
Net deficit from insurance operations					(6,279,137)

24 SEGMENTAL REPORTING (Continued)

	Medical SR	*Motor SR*	*Property SR*	*Others SR*	*Total SR*
As at 31 December 2010					
Insurance operations' assets					
Reinsurers' share of unearned premiums	7,948,180	-	6,062,132	16,913,318	30,923,630
Reinsurers' share of outstanding claims	776,516	344,582	9,054,384	8,218,030	18,393,512
Deferred policy acquisition cost	1,247,931	8,082,888	901,360	3,313,352	13,545,531
Unallocated assets	-	-	-	-	149,780,426
Total assets	9,972,627	8,427,470	16,017,876	28,444,700	212,643,099
Insurance operations' liabilities					
Unearned premiums	16,858,842	57,148,268	6,187,000	24,260,532	104,454,642
Outstanding claims	5,042,814	24,925,377	12,273,608	15,807,471	58,049,270
Unearned reinsurance commission	2,313,892	-	1,648,218	2,773,319	6,735,429
Unallocated liabilities	-	-	-	-	43,403,758
Total liabilities	24,215,548	82,073,645	20,108,826	42,841,322	212,643,099

Geographical segments

All of the significant assets and liabilities of the Company are located in the Kingdom of Saudi Arabia except for some of the reinsurance assets/ liabilities which are held outside the Kingdom of Saudi Arabia.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

Categories of financial instruments

a) Insurance operations:

	2011 *SR*	2010 *SR*
Financial assets		
Insurance premium receivables	**57,259,911**	55,495,567
Reinsurance contract assets	**96,621,719**	49,317,142
Accrued interest income	**111,964**	17,422
Cash and cash equivalents	**137,715,642**	86,240,115
	291,709,236	191,070,246
Financial liabilities		
Insurance contract liabilities	**214,122,058**	169,239,341
Reisurance payable	**67,465,291**	34,720,425
Accrued expenses and other liabilities	**8,175,280**	7,409,023
	289,762,629	211,368,789

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

b) Shareholders' operations:

	2011 *SR*	2010 *SR*
Financial assets		
Other financial assets	51,396,722	49,692,750
Accrued income	757,940	674,388
Short term deposits	40,000,000	40,000,000
Cash and cash equivalents	26,272,575	46,085,399
	118,427,237	136,452,537
Financial liabilities		
Accrued expenses and other liabilities	838,903	783,423
	838,903	783,423

Financial instruments comprise of financial assets and financial liabilities as have been defined above.

The fair values of financial instruments are carried at cost (note 14), are not materially different from their carrying values. The Company uses the following hierarchy for determining and disclosing the fair values of available for sale investments as well as advances by a valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities:

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

As at 31 December 2011

	Level 1 *SR*	*Level 2* *SR*	*Level 3* *SR*	*Total fair value* *SR*
Financial instruments:				
Held to maturity:				
Debt securities	-	6,500,000	-	6,500,000
Investments available for sale:				
Equity securities	41,623,644	-	800,000	42,423,644
Advances towards investments:				
Advances towards investments	-	-	1,923,078	1,923,078
Loan	-	-	550,000	550,000
Total	41,623,644	6,500,000	3,273,078	51,396,722

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2010

	Level 1 *SR*	*Level 2* *SR*	*Level 3* *SR*	*Total fair value* *SR*
Financial instruments:				
Held to maturity:				
Debt securities	-	6,500,000	-	6,500,000
Investments available for sale:				
Equity securities	39,969,672	-	800,000	40,769,672
Loans and advances:				
Advances towards investments	-	-	1,923,078	1,923,078
Loan	-	-	500,000	500,000
Total	39,969,672	6,500,000	3,223,078	49,692,750

During the year, there were no transfers into or out of level 3.

26 RISK MANAGEMENT

This note sets out the major risks our business faces and describes our approach to managing these. It also gives sensitivity analysis around the major economic and non-economic assumptions that can cause volatility in our earnings and capital requirements.

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:

- Financial risks cover credit risk, liquidity risk, commission rate risk, insurance risk and capital management.
- Strategic risks include issues such as customer, brand, products and markets as well as any risks to our business model arising from changes in our market and risks arising from mergers and acquisitions.
- Operational risks arise inadequate or failed internal processes, or from people and systems or from external events. Operational risks include business protection, information technology, people, legal and regulatory compliance.

The risk management framework provides the means to identify, assess, mitigate, manage, monitor and report all of the different types of risks faced by the Company to provide a single picture of the threats and uncertainties faced and opportunities that exsist. Responsibility for risk management resides at all levels within the Company with appropriate risk related objectives embedded within performance measurement plans.

The Company recognizes the critical importance of maintaining an efficient and effective risk management framework. To this end, The Company has an established governance framework, which has the following key elements:

- Defined terms of reference for the Board, its committees, and the associated executive management committees.
- A clear organizational structure with documented delegated authorities and responsibilities from the Board to Board committees, executive team and senior management.

Financial risk
The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, cash and cash equivalents and advances for investments.

26 RISK MANAGEMENT (Continued)

Financial risk (continued)
The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, market price risk, commission rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

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

The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables. Premiums receivable comprise a large number of brokers/customers mainly within Saudi Arabia of which the five largest brokers/customers account for 42% of the receivables as at 31 December 2011 (2010: 50%).

The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. Receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the company's exposure to bad debts

The Company's bank balances are maintained with a range of international and local banks in accordance with limits set by the board of directors.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the minimum possible rating issued by internationally recognised rating agencies that differenciates the investment grade vis-a-vis non-investment grade. Assets that fall outside the range of investment grade are classified as non investment grade (satisfactory) or past due but not impaired.

Insurance Operations assets as at 31 December 2011

	Neither past due nor impaired			
	Investment grade SR	*Non investment grade (satisfactory) SR*	*Past due but not impaired SR*	*Total SR*
Receivables arising from insurance contracts	-	12,495,446	43,629,413	56,124,859
Receivables arising from re-insurance contracts	1,135,052	-	-	1,135,052
Reinsurers' share of unexpired risk	74,893,102	-	-	74,893,102
Reinsurers' share of outstanding claims	21,728,617	-	-	21,728,617
Cash and cash equivalents	137,680,758	34,884	-	137,715,642
Accrued interest income	-	111,964	-	111,964
	235,437,529	12,642,294	43,629,413	291,709,236

26 RISK MANAGEMENT (Continued)

Financial risk (continued)
Credit risk (continued)

Insurance Operations assets as at 31 December 2010

	Neither past due nor impaired			
	Investment grade SR	*Non investment grade (satisfactory) SR*	*Past due but not impaired SR*	*Total SR*
Receivables arising from insurance contracts	-	15,094,521	36,154,260	51,248,781
Receivables arising from re-insurance contracts	4,246,786	-	-	4,246,786
Reinsurers' share of unexpired risk	30,923,630	-	-	30,923,630
Reinsurers' share of outstanding claims	18,393,512	-	-	18,393,512
Cash and cash equivalents	86,208,128	31,987	-	86,240,115
Accrued interest income	-	17,422	-	17,422
Due from shareholders	2,588,600	-	-	2,588,600
	142,360,656	15,143,930	36,154,260	193,658,846

Shareholders' assets as at 31 December 2011

	Neither past due nor impaired			
	Investment grade SR	***Non investment grade (satisfactory) SR***	***Past due but not impaired SR***	***Total SR***
Statutory deposit	**20,000,000**	**-**	**-**	**20,000,000**
Other financial assets	**51,396,722**	**-**	**-**	**51,396,722**
Short term deposits	**40,000,000**	**-**	**-**	**40,000,000**
Accrued interest income	**757,940**	**-**	**-**	**757,940**
Cash and cash equivalents	**26,272,575**	**-**	**-**	**26,272,575**
	138,427,237	**-**	**-**	**138,427,237**

Shareholders' assets as at 31 December 2010

	Neither past due nor impaired			
	Investment grade SR	*Non investment grade (satisfactory)* SR	*Past due but not impaired* SR	*Total* SR
Statutory deposit	20,000,000	-	-	20,000,000
Other financial assets	49,692,750	-	-	49,692,750
Short term deposits	40,000,000	-	-	40,000,000
Accrued income	674,388	-	-	674,388
Cash and cash equivalents	46,085,399	-	-	46,085,399
	156,452,537	-	-	156,452,537

26 RISK MANAGEMENT (Continued)

Financial risk (continued)
Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

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 deposits held by the Company at the reporting date had original maturity periods not exceeding six months; furthermore, the commitments (in the ordinary course of the business) at the period end are not material.

All financial liabilities are contractually payable within a year's time and are non-special commission bearing.

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

As at 31 December 2011

	Less than 12 months SR	*More than 12 months SR*	*Total SR*
INSURANCE OPERATIONS FINANCIAL ASSETS			
Insurance premium receivable	57,259,911	-	57,259,911
Reinsurance contract assets	96,621,719	-	96,621,719
Accrued interest income	111,964	-	111,964
Cash and cash equivalents	137,715,642	-	137,715,642
TOTAL INSURANCE OPERATIONS FINANCIAL ASSETS	**291,709,236**	-	**291,709,236**
INSURANCE OPERATIONS FINANCIAL LIABILITIES			
Reinsurance payables	67,465,291	-	67,465,291
Accrued expenses and other liabilities	8,175,280	-	8,175,280
Insurance contract liabilities	214,122,058	-	214,122,058
TOTAL INSURANCE OPERATIONS FINANCIAL LIABILITIES	**289,762,629**	-	**289,762,629**

As at 31 December 2010

	Less than 12 months SR	*More than 12 months SR*	*Total SR*
INSURANCE OPERATIONS FINANCIAL ASSETS			
Insurance premium receivable	55,495,567	-	55,495,567
Reinsurance contract assets	62,862,673	-	62,862,673
Accrued interest income	17,422	-	17,422
Cash and cash equivalents	86,240,115	-	86,240,115
TOTAL INSURANCE OPERATIONS FINANCIAL ASSETS	204,615,777	-	204,615,777

26 RISK MANAGEMENT (Continued)

Financial risk (continued)
Liquidity risk (continued)

	Less than 12 months SR	*More than 12 months SR*	*Total SR*
INSURANCE OPERATIONS FINANCIAL LIABILITIES			
Reinsurance payables	34,720,425	-	34,720,425
Accrued expenses and other liabilities	7,409,023	-	7,409,023
Insurance contract liabilities	169,239,341	-	169,239,341
TOTAL INSURANCE OPERATIONS FINANCIAL LIABILITIES	211,368,789	-	211,368,789

As at 31 December 2011

	Less than 12 months SR	***More than 12 months SR***	***Total SR***
SHAREHOLDERS' FINANCIAL ASSETS			
Statutory deposit	**-**	**20,000,000**	**20,000,000**
Accrued interest income	**757,940**	**-**	**757,940**
Short term deposits	**40,000,000**	**-**	**40,000,000**
Cash and cash equivalents	**26,272,575**	**-**	**26,272,575**
Other financial assets	**44,896,722**	**6,500,000**	**51,396,722**
TOTAL SHAREHOLDERS' FINANCIAL ASSETS	**111,927,237**	**26,500,000**	**138,427,237**
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	**838,903**	**-**	**838,903**
TOTAL SHAREHOLDERS' FINANCIAL LIABILITIES	**838,903**	**-**	**838,903**

26 RISK MANAGEMENT (Continued)

Financial risk (continued)
Liquidity risk (continued)

As at 31 December 2010

	Less than 12 months SR	*More than 12 months SR*	*Total SR*
SHAREHOLDERS' FINANCIAL ASSETS			
Statutory deposit	-	20,000,000	20,000,000
Accrued interest income	674,388	-	674,388
Short term deposits	40,000,000	-	40,000,000
Cash and cash equivalents	46,085,399	-	46,085,399
Other financial assets	43,192,750	6,500,000	49,692,750
TOTAL SHAREHOLDERS' FINANCIAL ASSETS	129,952,537	26,500,000	156,452,537

	Less than 12 months SR	*More than 12 months SR*	*Total SR*
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	783,423	-	783,423
TOTAL SHAREHOLDERS' FINANCIAL LIABILITIES	783,423	-	783,423

Market price risk
Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

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. ,

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 is exposed to commission rate risk on certain of its cash and balances with banks. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its cash and investments are denominated. The effective commission rate at the year end was 0.83% (2010: 0.77%).

All commission bearing financial instruments as at the year end have a maturity of less than 1 year except for bond investment held to maturity.

The sensitivity of the statement of the shareholders' operations is the approximate effect of the assumed changes in commission rates on the Company's loss for the year, based on the floating rate financial assets held at 31 December 2011.

26 RISK MANAGEMENT (Continued)

Financial risk (continued)
Commission rate risk (continued)
The sensitivity of the statement of shareholders' operations to a decrease in commission rate of 10 basis points (reasonably possible changes), with all other variables held constant, will have an effect of decrease in profits by SR 0.14 million (2010: increase in loss by SR 0.15 million).

Foreign currency risk
Foreign 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 fluctuations and consequently the Company does not hedge its foreign currency exposure.

Insurance risk
Insurance risk is the risk that actual claims payable to policy holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

Insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations.
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten.
- Inadequate reinsurance protection.
- Inadequate reserve.

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 underwriting strategy and appetite is agreed by the Board of Directors and communicated via specific policy statements and guidelines. The Company's insurance business is managed and priced at head office level.

Concentration of insurance contract liabilities by type of contract:	*Gross* *SR*	*Reinsurers' share* *SR*	*Net* *SR*
As at 31 December 2011			
Medical	**74,889,378**	**(34,802,451)**	**40,086,927**
Motor	**49,519,678**	**(359,046)**	**49,160,632**
Property	**17,547,467**	**(15,362,849)**	**2,184,618**
Others	**67,304,800**	**(46,097,373)**	**21,207,427**
Total	**209,261,323**	**(96,621,719)**	**112,639,604**

	Gross *SR*	*Reinsurers' share* *SR*	*Net* *SR*
As at 31 December 2010			
Medical	21,901,656	(8,724,696)	13,176,960
Motor	82,073,645	(344,582)	81,729,063
Property	18,460,608	(15,116,516)	3,344,092
Others	40,068,003	(25,131,348)	14,936,655
Total	162,503,912	(49,317,142)	113,186,770

26 RISK MANAGEMENT (Continued)

Management of insurance risks
Significant insurance risks will be reported through the Company risk management framework. The Company undertakes a quarterly review of their insurance risks of all lines of business, the output from which is a key input into the risk-based capital assessment.

The Executive Team monitors and develops the management of insurance risk in the insurance business, and assesses the aggregate risk exposure. It is responsible for the development, implementation, and review of the Company policies for underwriting, claims, reinsurance and reserving that operates within the Company risk management framework.

Insurance claims reserving
Actuarial claims reserving is conducted by in house actuary in the various lines of insurance business according to the Insurance Reserving policy. The Executive Team monitors and maintains the Insurance Reserving policy, and conducts quarterly reviews of the Company's insurance claims provisions, and their adequacy. The reviews include peer reviews of own conclusions as well as independent analysis to confirm the reasonableness of the inhouse actuarial reviews. The Company also has periodic external reviews by local consultant actuaries.

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

Reinsurance strategy
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. Such reinsurance arrangements provide for greater diversification of business risks allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsuarance contracts.

Significant reinsurance purchases are reviewed annually by Executive Team to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. Reinsurance purchases must be in line with the strategy set out in our Company's Reinsurance policy manual approved by the Board of directors.

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The reinsurance is placed with providers who meet the Company's counterparty security requirements and deals with reinsurers approved by the board of directors. Currently, the Company principally reinsures in the panel of reinsurers headed by Hanover Re.

The largest five reinsurers account for 76% of the maximum credit exposure at 31 December 2011 (2010: 66%).

Medical
Medical insurance is designed to compensate contract holders for expenses incurred in the treatment of a disease, illness or injury.

For medical insurance, the main risks are illness and related healthcare costs. Medical insurance is generally offered to corporate customers with large population to be covered under the policy.

Motor
Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. Substantially all of the motor contracts relate to corporate customers. The Company has reinsurance cover to limit losses for any individual claim upto SR 1 million.

26 RISK MANAGEMENT (Continued)

Insurance risk (continued)
Motor (continued)
The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to, motor vehicles are the key factors that influence the level of claims.

Property
Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

For property insurance contracts, the main risks are fire and business interruption. The Company has only underwritten policies for properties containing fire detection equipment.

These contracts are underwritten 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 exposure to limit losses for any individual claim upto SR 2 million.

Casualty
Casualty insurance primarily consists of risks taken for money, fidelity, workmen compensation, general public liability, engineering, etc and is designed to compensate contract holders for damage suffered to them or others, arising through accidents, thefts, etc. Substantially all of the casualty contracts relate to corporate customers.

The Company has reinsurance cover to limit losses for any individual claim upto SR 1 million.

Marine cargo
Marine cargo insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine cargo insurance 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 class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has reinsurance cover to limit losses for any individual claim upto SR 2 million.

Capital management
The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders' value.

The Company manages its capital structure and makes changes to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year. Shareholders' equity comprises share capital and accumulated losses.

Strategic risk
We are exposed to a number of strategic risks. Our strategy needs to support our vision, purpose and objectives and be respective to both the external and internal environment, for example, changes in the competitive landscape, customer behaviour, regulatory changes and merger and acquisition opportunities. Strategic risk is explicitly considered throughout our strategic review and planning process. Developments are assessed during our quarterly performance management process where all aspects of our risk profile are considered.

We closely monitor regulatory, legal and fiscal developments as well as actively engaging with external bodies to share the benefit of our expertise in supporting responses to emerging risks to challenge developments that could be damaging to our business and the industry as a whole.

26 RISK MANAGEMENT (Continued)

Strategic risk (continued)

Operational risk

Operational risk is the risk of loss, arising from inadequate or failed internal processes, or from people and systems, or from external events. Operational risks include business protection, information technology, people, legal and regulatory compliance risks.

Operational risk management

We process a large number of transactions across diverse line of business products, and are highly dependent on the proper functioning of information technology and communications systems. We are partially reliant on the operational processing performance of our outsourced partners including certain servicing and IT functions. Significant resources are devoted to maintaining efficient and effective operations within our framework of corporate responsibility, policies and business ethics code.

Our businesses are primarily responsible for identifying and managing operational risks in line with minimum standards of control set out in our policies. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are considered against financial, operational and reputation criteria.

Business management teams must be satisfied that all material risks falling outside our risk appetite are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact level are monitored centrally on a regular basis.

The Company Executive Team oversees aggregate operational risk exposure and reports to the Board. It makes recommendations on the risk appetite that the Company can work within for operational risk, assesses and monitors overall operational risk exposures, identifying any concentrations of operational risk and in particular verifies that mitigating action plans are implemented. The Executive Team focuses on specific areas of strategic and operational risk including customer, business protection, IT, People, legal and regulatory compliance.

Regulatory risk

The operations of the Company are subject to local regulatory requirements within the jurisdictions where it is incorporated. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. The Company management and compliance officer ensures compliance with all regulatory requirements and timely initiate update for regulatory changes and enable the Company to remain in compliance with regulatory changes.

27 EARNINGS/ (LOSS) PER SHARE

Earnings/ (loss) per share from shareholders' operations is calculated by dividing net income/ loss for the year by weighted average number of ordinary shares outstanding during the year.

Earnings/ (loss) per share from shareholders' comprehensive operations is calculated by dividing total comprehensive income/ (loss) for the year by weighted average number of ordinary shares outstanding during the year.

28 CONTINGENCIES

During 2010, one of the affiliate's shareholder filed a law suit of SR 40 million against the Company and three affiliate shareholders, claiming his share of goodwill as a result of run-off of affiliate's insurance business and the establishment of a new Company. Management believes that the outcome of this case in plaintiff favor is remote as there is no valid base for this case, accordingly no provision has been made.

During the year, one of the Company's agents filed a law suit of SR 74.7 million against the Company towards unsubstantiated amounts and alleged damages as a result of breach of agreement. Management believes that the outcome of this case in plaintiff favour is remote as there is no valid base for this case, accordingly no provision has been made.

29 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 22 Rabi' I 1433 H corresponding to 14 February 2012.