WATANIYA INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 26, 2010 (DATE OF MINISTERIAL RESOLUTION) TO DECEMBER 31, 2011

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Financial statements
For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011

INDEX

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Wataniya Insurance Company
Jeddah, Saudi Arabia

Scope of Audit

We have audited the accompanying statement of financial position of Wataniya Insurance Company (a Saudi joint stock company) (the "Company") as at December 31, 2011, and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive operations, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the period from April 26, 2010 (date of ministerial resolution) to December 31, 2011 and the notes which form an integral part of the financial statements. These financial statements are the responsibility of the Company's management and have been prepared, in accordance with International Financial Reporting Standards (IFRS), by them and presented 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 basis for our opinion.

Unqualified Opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and the results of its operations and its cash flows for the period from April 26, 2010 (date of ministerial resolution) to December 31, 2011 in accordance with IFRS.
- Comply, in all material respect, with the requirements of the Regulation for companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

Emphasis of Matter

We draw attention to Note 2 to the accompanying financial statements. The management has prepared these financial statements in accordance with IFRS and not in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).

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Rabi Al Awal 19, 1433H
February 11, 2012

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of financial position
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	December 31, 2011
INSURANCE OPERATIONS' ASSETS		
Cash and cash equivalents	4	**41,059**
Premiums receivable	5	**43,135**
Reinsurers' share of unearned premiums	6, 22	**74,606**
Reinsurers' share of outstanding claims	6, 7, 22	**64,489**
Deferred policy acquisition costs	6	**23,412**
Due from reinsurers	7, 8, 22	**4,903**
Prepaid expenses and other assets	9	**3,700**
Total insurance operations' assets		**255,304**
SHAREHOLDERS' ASSETS		
Cash and cash equivalents	4	**50,547**
Advance against an investment	10	**2,423**
Investments	11	**19,010**
Statutory deposit	12	**10,000**
Property and equipment	13	**1,816**
Due from insurance operations		**388**
Prepaid expenses		**100**
Total shareholders' assets		**84,284**
Total assets		**339,588**

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of financial position (continued)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	December 31, 2011
INSURANCE OPERATIONS' LIABILITIES		
Unearned premiums	6	**102,268**
Outstanding claims	6	**82,485**
Unearned reinsurance commission	6	**27,825**
Due to reinsurers, agents and brokers and third party administrator	14	**27,525**
Due to policyholders	28	**7,643**
Accrued expenses and other liabilities	15	**7,170**
Due to shareholders		**388**
Total insurance operations' liabilities		**255,304**
SHAREHOLDERS' LIABILITIES AND EQUITY		
Shareholders' liabilities		
Zakat payable	16	**360**
Accrued expenses and other liabilities	15	**528**
Total shareholders' liabilities		**888**
Shareholders' equity		
Share capital	17	**100,000**
Losses		**(16,604)**
Total shareholders' equity		**83,396**
Total shareholders' liabilities and equity		**84,284**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**339,588**

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of insurance operations and accumulated surplus
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
REVENUES		
Gross written premiums		322,582
Less: Reinsurance premiums ceded		(196,230)
Net written premiums	6	126,352
Change in unearned premiums	6	(27,662)
Net earned premiums	6	98,690
Commission earned on ceded reinsurance	6	31,845
Total revenues		130,535
COST AND EXPENSES		
Gross claims paid	6	92,658
Reinsurers' share of claims paid	6	(49,975)
Net claims paid	6	42,683
Changes in outstanding claims		17,996
Net claims incurred		60,679
Policy acquisition costs	6	30,659
General and administrative expenses	18	42,309
Total cost and expenses		133,647
Deficit from insurance operations		(3,112)
Shareholders' share of deficit from insurance operations		3,112
Accumulated surplus at the beginning of the period		-
Accumulated surplus at the end of the period		-

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of shareholders' operations
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
Shareholders' share of deficit from insurance operations		(3,112)
General and administrative expenses	18	(7,621)
Investment income	19	463
NET LOSS FOR THE PERIOD		(10,270)
Weighted average number of ordinary shares outstanding (in thousands)	17	10,000
Basic and diluted loss per share (in Saudi Riyals)	21	(1.027)

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of shareholders' comprehensive operations
(All amounts in Saudi Riyals thousands unless otherwise stated)

	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
NET LOSS FOR THE PERIOD	**(10,270)**
Other comprehensive income (expense)	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(10,270)**

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of changes in shareholders' equity
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Losses	Total
April 26, 2010		-	-	-
Issue of share capital	17	100,000	-	100,000
Cost of raising share capital	17	-	(4,650)	(4,650)
Provision for zakat		-	(1,684)	(1,684)
Total comprehensive loss for the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011		-	(10,270)	(10,270)
December 31, 2011		**100,000**	**(16,604)**	**83,396**

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of insurance operations' cash flows
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
Cash flow from operating activities		
Surplus for the period after shareholders' appropriation		-
Adjustments to reconcile deficit for the period after shareholders' appropriation to net cash generated from operating activities:		
Shareholders' share of deficit from insurance operations		(3,112)
Provision for doubtful receivables	5	4,627
		1,515
Changes in operating assets and liabilities:		
Premiums receivable		(47,762)
Reinsurers' share of unearned premiums		(74,606)
Reinsurers' share of outstanding claims		(64,489)
Deferred policy acquisition costs		(23,412)
Due from reinsurers		(4,903)
Prepaid expenses and other assets		(3,700)
Unearned premiums		102,268
Outstanding claims		82,485
Unearned reinsurance commission		27,825
Due to reinsurers, agents and brokers and third party administrator		27,525
Due to policyholders		7,643
Accrued expenses and other liabilities		7,170
Due to shareholders' operations		3,500
Net cash generated from operating activities		39,544
INCREASE IN CASH AND CASH EQUIVALENTS		41,059
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	41,059

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

WATANIYA INSURANCE COMPANY
(A Saudi Joint Stock Company)
Statement of shareholders' cash flows
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
Cash flow from operating activities		
Net loss for the period		(10,270)
Adjustments to reconcile net loss for the period to net cash utilized in operating activities		
Shareholders' share of deficit from insurance operations		3,112
Depreciation	13	1,538
Investment income		(260)
		(5,880)
Changes in operating assets and liabilities:		
Due from insurance operations		(3,500)
Accrued expenses and other liabilities		528
Prepaid expenses		(100)
Net cash utilized in operating activities		(8,952)
Cash flow from investing activities		
Advance against an investment	10	(2,423)
Statutory deposit	12	(10,000)
Investments		(18,750)
Purchase of property and equipment	13	(3,354)
Net cash utilized in investing activities		(34,527)
Cash flow from financing activities		
Issue of share capital	17	100,000
Cost of raising share capital	17	(4,650)
Zakat paid		(1,324)
Net cash generated from financing activities		94,026
INCREASE IN CASH AND CASH EQUIVALENTS		50,547
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	50,547

The accompanying notes on pages 11 to 32 form an integral part of these financial statements.

(All amounts in Saudi Riyals thousands unless otherwise stated)

1 Organization and principal activities

Wataniya Insurance Company (the "Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia as per Ministry of Commerce and Industry's Resolution number 158/K dated Jumad-ul-Awal 12, 1431H (corresponding to April 26, 2010). The Registered Office address of the Company is Juffali Building, Madina Road, Jeddah, Saudi Arabia.

The Company is licensed to conduct insurance business in Saudi Arabia under Cooperative insurance principles in accordance with Royal Decree No M/53 dated Shawwal 21, 1430H (corresponding to October 10, 2009) pursuant to Council of Ministers' Resolution No. 330 dated Shawwal 16,1430H (corresponding to October 5, 2009). The Company was listed on the Saudi Arabian stock market (Tadawul) on June 6, 2010.

The objectives of the Company are to provide general insurance and related services in accordance with its Articles of Association and applicable regulations in Saudi Arabia.

2 Basis of preparation

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

Basis of Presentation
As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. The physical custody and title of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues 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 Board of Directors.

As per the bye-laws of the Company, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' operations	90%
Transfer to Policyholders payable	10%
	100%

These are the first statutory financial statements of the Company and therefore no comparative information is presented in these financial statements.

Basis of measurement
These financial statements are prepared under the historical cost convention.

Functional and presentation currency
The financial statements are presented in Saudi Riyals being the functional currency of the Company.

Critical accounting judgments, estimates and assumptions
The preparation of financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the 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.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions concerning the future and other key sources of estimating uncertainty at the statement of financial position date is discussed below. Further details of the specific estimate and judgments made by management are given in the relevant accounting policies notes:

(i) 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 need 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 statement of financial position date, for which the insured event has occurred prior to the statement of financial position date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using the claims settlement trends to predict future claims settlement trends.

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.

(ii) 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.

(iii) Deferred acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs and are amortised in the statement of insurance operations and accumulated surplus 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 write-offs in the statement of insurance operations and accumulated surplus.

(iv) Reinsurance

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

3 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

Cash and cash equivalents

For the purpose of the statement of insurance operations and shareholders' cash flows, cash and cash equivalents comprise of bank current accounts and highly liquid investments with an original maturity of three months or less at the date of acquisition.

Insurance contracts

Insurance contracts are defined as those containing insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance of existence of insurance risk. This insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Insurance contracts are principally divided into marine, property, motor, engineering and accident and liability and are principally short term insurance contracts.

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

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover). For property insurance contracts, the main risks are fire, business interruption and burglary.

Motor insurance is designed to compensate contract holders for damages suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles. In Saudi Arabia, it is compulsory for all vehicles to have minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies cover damages to vehicles due to storm, tempest, flood, fire, theft and personal accident.

Accident insurance includes money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability insurance includes general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.

Engineering insurance covers two principal types (a) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs. (b) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery. The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Claim and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

Reinsurance
In the ordinary course of business, the Company cedes insurance premiums 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 reinsurers, net of commission income which represents income earned from reinsurance companies, 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.

The Company assesses its reinsurance assets, if any, for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in the statement of insurance operations and accumulated surplus. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated following the same method used for these financial assets.

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

- for financial assets at amortized cost, the impairment loss is based on the difference between the present value of future anticipated cash flows and the carrying amount;
- for financial assets at fair value, the impairment loss is based on the decline in fair value; and
- 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 presentation purposes, the resulting reserve is carried in the respective category within the statement of financial position and the related statements of insurance operations and accumulated surplus or shareholders' operations are adjusted.

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

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
  - adverse changes in the payment status of issuers or debtors in the Company; or
  - national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Deferred policy acquisition costs

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 recognized 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 and accumulated surplus.

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 values an impairment loss is recognized in the statement of insurance operations and accumulated surplus. Deferred policy acquisition cost is also considered in the liability adequacy test for each reporting period.

Financial assets at fair value through income statement (FVIS)

Financial assets at fair value through income statement are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

'Financial assets carried at fair value through income statement' are initially recognised at fair value, and transaction costs are expensed in the statement of shareholder's operations. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through income statement' category are presented in the statement of shareholders' operations within 'investment income' in the period in which they arise. Dividend income from 'financial assets at fair value through income statement' is recognised in the statement of shareholders' operations as part of 'investment income' when the Company's right to receive payments is established.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. The quoted market price used for financial assets held by the group is the current bid price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Available for sale investments
Available for sale financials assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Such investments are initially recognized at cost and subsequently measured at fair value. Cumulative changes in fair value of investments are shown as a separate component in the statement of financial position and shareholders' comprehensive income. Realized gains or losses on sale of these investments are reported in the related statements of insurance operations and accumulated surplus or shareholders' operations. Dividends, commission income and foreign currency gain/loss on available for sale investments are recognized in the statement of shareholders' comprehensive operations.

Any permanent decline in value of investments is adjusted for and reported in the related statements of insurance operations or shareholders' operations as impairment charges.

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

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

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

Property and equipment
Property and equipment are carried at cost less accumulated depreciation and impairment, except for capital work in progress which is stated at cost. Depreciation is charged to the statement of shareholders' operations, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Number of years
• Furniture and fixtures	5
• Office equipment	2 - 3
• Motor vehicles	4

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of shareholders' operations.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of shareholders' operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Provisions for obligations
Provisions are recognized 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.

Trade and other payables
Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Liabilities are recognized for amounts to be paid for services received, whether or not billed to the Company.

Foreign currency translation
Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the exchange rates prevailing at that date. Gains and losses from settlement of such transactions and from translation at year end exchange rate of monetary assets and liabilities denominated in foreign currencies are included in the statement of insurance operations and accumulated surplus or shareholders' operations.

Liability adequacy test
At each statement of financial position 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 and accumulated surplus initially by writing off 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.

Insurance and other receivables
Insurance and other receivable are non-derivative financial assets with fixed or determinable payments. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of insurance operations and accumulated surplus. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Subsequent recoveries, of amounts previously written off are credited in the statement of insurance operations and accumulated surplus. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of receivables.

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

Revenue recognition
Recognition of premiums and commission revenue
Gross premiums and commissions on insurance contracts are recognized when the insurance policy is issued. The portion of premiums and commissions that will be earned in the future is reported as unearned premiums and commissions, respectively, and is deferred on a basis consistent with the term of the related policy coverage, except for marine cargo. The unearned portion for marine cargo represents 25% of the total premiums written during the current financial period.

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

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

Claims
Gross claims consist of benefits and claims paid to policyholders, changes in the valuation of the liabilities arising on policyholders' contracts and internal and external claims handling expenses net of salvage recoveries.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs and a reduction for the expected value of salvage and other recoveries, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on Management's judgment and the Company's experience is maintained for the cost of settling claims incurred but not reported (IBNR) including related claims handling costs and the expected value of salvage and other recoveries at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following period is included in the statement of insurance operations and accumulated surplus for that year.

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

Salvage and subrogation reimbursements
Some insurance contracts permit the Company to sell a (usually damaged) vehicle or a property acquired in settling a claim (i.e. salvage). The Company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognized in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

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

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 recognized 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 operations and accumulated surplus and shareholders' operations unless required or permitted by any accounting standard or interpretation.

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

Zakat and income taxes
In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholders and to income taxes attributable to the foreign shareholders. Provisions for zakat and income taxes are charged to the equity accounts of the Saudi and the foreign shareholders, respectively. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

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 the following major reportable segments:

- Marine provides coverage against losses and liability related to marine vessels and marine cargo.
- Property provides coverage against fire insurance, and any other insurance included under this class of insurance.
- Motor provides coverage against losses and liability related to motor vehicles.

(All amounts in Saudi Riyals thousands unless otherwise stated)

- Engineering provides coverage for builder's risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance.
- Accident provides coverage against money insurance, fidelity guarantee insurance, business all risk insurance, business travel insurance and exhibition insurance. Liability provide general third-party liability, product liability, workmen's compensation/employer's liability and professional indemnity cover protecting the insured's legal liability arising out of acts of negligence during their business operations.
- Extended warranty provides coverage against damages to motor vehicles after the manufacturer warranty expires.

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

No inter-segment transactions occurred during the period. If any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expense and results will then include those transfers between business segments which will then be eliminated at the level of the financial statements of the Company.

Seasonality of operations
There are no seasonal changes that affect insurance operations.

Pre-incorporation expenses
Pre-incorporation expenses that are not of benefit beyond the current period are charged to the statement of changes in shareholders' operations.

4 Cash and cash equivalents

	December 31, 2011
Insurance operations	
Cash in hand	23
Cash at bank	41,036
	41,059
Shareholders' operations	
Cash at bank	50,547
	50,547

Cash at bank is with a bank which is a related party and registered in Saudi Arabia.

5 Premiums receivable

	December 31, 2011
Insurance operations	
Policy holders	47,762
Provision for doubtful receivables	(4,627)
	43,135

Movement in provision for doubtful receivables is as follows:

	December 31, 2011
April 26, 2010	-
Additions	4,627
December 31, 2011	4,627

(All amounts in Saudi Riyals thousands unless otherwise stated)

As at December 31, the ageing of unimpaired receivables is as follows:

	Total	Past due but not impaired			
		Less than 90 days	90 to 180 days	181 to 360 days	More than360 days
December 31, 2011	43,135	23,430	13,308	6,342	55

Receivables comprise a large number of customers and insurance companies mainly within the Kingdom of Saudi Arabia. The Company's terms of business require amounts to be paid at the date of the transaction.

No individual or company accounts for more than 10% of the receivables as at December 31, 2011. In addition, the five largest customers account for 32% of outstanding accounts receivable as at December 31, 2011.

Management considers its external customers to be individual policyholders. One major customer of the Company accounts for more than 10% of the gross written premiums for the period from April 26, 2010 to December 31, 2011. The total premiums attributable to the said customer was Saudi Riyals 32 million for the period, which is included in the marine, property and motor segments.

6 Movements in unearned premiums, unearned reinsurance commission, deferred policy acquisition costs and outstanding claims

	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
Insurance operations	
a) Unearned premiums	
April 26, 2010	-
Net written premiums	126,352
Net earned premiums	(98,690)
Changes in unearned premiums	27,662
Closing Reinsurers' share of unearned premiums	74,606
December 31, 2011	102,268
Insurance operations	
b) Unearned reinsurance commission	
April 26, 2010	-
Commission received	59,670
Commission earned	(31,845)
December 31, 2011	27,825
Insurance operations	
c) Deferred policy acquisition costs	
April 26, 2010	-
Incurred	54,071
Amortised	(30,659)
December 31, 2011	23,412

(All amounts in Saudi Riyals thousands unless otherwise stated)

Insurance operations
d) Outstanding claims

	Gross	**Reinsurers' Share**	**Net**
April 26, 2010	-	-	-
Claims incurred	175,143	(114,464)	60,679
Claims paid	(92,658)	49,975	(42,683)
December 31, 2011	**82,485**	**(64,489)**	**17,996**
Outstanding claims	64,479	(53,878)	10,601
Incurred but not reported	18,006	(10,611)	7,395
December 31, 2011	**82,485**	**(64,489)**	**17,996**

7 Reinsurers' share of outstanding claims

	December 31, 2011
Insurance operations	
Reinsurers' share of insurance liabilities	**64,489**
Impairment provision	-
	64,489

Substantially all of the amounts due from reinsurers are expected to be received within twelve months of the statement of financial position date. Reinsurers share of outstanding claims are calculated in proportion to the related risk distribution pattern.

Amounts due from reinsurers relating to claims already paid by the Company are included in due from reinsurers.

8 Due from reinsurers

These represent net claims due from reinsurers under facultative deals and treaty arrangements. Two reinsurers represents 82% of the total amount due from reinsurers.

9 Prepaid expenses and other assets

	Note	**December 31, 2011**
Insurance operations		
Prepayments		**743**
Staff receivables	20	**906**
Others		**2,051**
		3,700

10 Advance against an investment

Advance against an investment represents an advance made against an investment in a local unquoted security. Legal formalities in connection with the registration of ownership of such investment is in process.

11 Investments

	December 31, 2011
Investments designated as FVIS	
Quoted debt securities	**18,036**
Quoted equity securities	**974**
	19,010

(All amounts in Saudi Riyals thousands unless otherwise stated)

Movement in investments is as follows:

	December 31, 2011
April 26, 2010	-
Additions	18,750
Interest and dividends	264
Unrealized losses	(4)
December 31, 2011	19,010

All debt securities in this category are fixed rate instruments, and are listed government bonds.

These investments are managed by a professional fund manager in accordance with the guidelines approved by the Board of Directors.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	*Level 2*	*Level 3*	*Total*
Investments designated as FVIS				
Quoted debt securities	18,036	-	-	18,036
Quoted equity securities	974	-	-	974
	19,010	-	-	19,010

12 Statutory deposit

In compliance with Article 58 of the Implementing Regulations of the Saudi Arabian Monetary Agency ("SAMA"), the Company has deposited 10% of its Share capital, amounting to Saudi Riyals 10 million in a bank designated by SAMA. The statutory deposit is maintained with a reputed bank and can be withdrawn only with the consent of SAMA.

13 Property and equipment

	April 26, 2010	Additions	December 31, 2011
Shareholders' operations			
Cost			
Furniture and fixtures	-	79	79
Office equipment	-	2,310	2,310
Motor vehicles	-	356	356
Capital work in progress	-	609	609
	-	3,354	3,354
Accumulated depreciation			
Furniture and fixtures	-	(23)	(23)
Office equipment	-	(1,374)	(1,374)
Motor vehicles	-	(141)	(141)
	-	(1,538)	(1,538)
Net book value	-		1,816

14 Due to reinsurers, agents and brokers and third party administrator

	December 31, 2011
Insurance operations	
Reinsurers	15,561
Agents and brokers	6,843
Third party administrator	5,121
	27,525

(All amounts in Saudi Riyals thousands unless otherwise stated)

15 Accrued expenses and other liabilities

	December 31, 2011
Insurance operations	
Accrued expenses	2,690
Provision for reinsurance withholding tax	1,248
Payable to garages and workshops	1,920
End of service benefits	938
Commission payable	225
SAMA inspection fee	74
Other payable	75
	7,170

	Note	December 31, 2011
Shareholders' operations		
Directors' expenses payable	18, 20	27
Provision for withholding tax		1
Other payable	20	500
		528

16 Zakat and income tax

16.1 Components of zakat base

Significant components of zakat base of the Company attributable to the Saudi shareholders, which are subject to adjustment under zakat and income tax regulations, are as follows:

	December 31, 2011
Share capital	74,440
Property and equipment	(1,352)
Adjusted net loss for the period	(5,743)
Zakat base	67,345

16.2 Provision for zakat and income tax

Zakat is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to Saudi shareholders.

Provision for income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company. There is no provision for income tax for the period ended December 31, 2011 as the Company had taxable net loss for the period. There are no significant deferred tax assets / liabilities at December 31, 2011.

16.3 Status of final assessments

During the period the Company has filed its first zakat and income tax return for the twelve-month period ended April 25, 2011 with the Department of Zakat and Income tax (DZIT).

17 Share capital

The share capital of the Company is Saudi Riyals 100 million divided into ten million shares of Saudi Riyals 10 each. The founding shareholders of the Company have subscribed and paid for seven million shares with a nominal value of Saudi Riyals 10 each, which represents 70% of the shares of the Company, and the remaining three million shares with a nominal value of Saudi Riyals 10 each, which represents 30% of the shares of the Company, have been subscribed by the general public.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The Company incurred a sum of Saudi Riyals 4.65 million as transaction costs to raise capital of Saudi Riyals 30 million through an Initial Public Offering (IPO) which was charged to shareholders' equity.

18 General and administrative expenses

	Note	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
Insurance operations		
Employee costs		30,187
Provision for doubtful receivables	5	4,627
Office expenses		2,776
Legal and professional fees		1,431
Regulatory fees		1,213
Directors' expenses		50
Other		2,025
		42,309
Shareholders' operations		
Employee costs		4,060
Depreciation		1,538
Pre-incorporation expenses	18.1	1,495
Directors' expenses	15, 20	202
Other		326
		7,621

18.1 Pre-incorporation expenses

Pre-incorporation expenses which represent costs incurred by a shareholder on behalf of the Company and subsequently charged to the Company for the period up to April 26, 2010, being the date of the issuance of the Ministerial Resolution declaring the incorporation of the Company, are as follows:

Legal and professional fee	665
Bank guarantee renewal fee	288
Commission income	(117)
Directors' expenses	28
Others	631
	1,495

19 Investment income

	For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011
Commission on bank deposits	203
Interest and dividends	264
Unrealized losses	(4)
	463

(All amounts in Saudi Riyals thousands unless otherwise stated)

20 Related party matters

The significant transactions with related parties and the related amounts are as follows:

Related Party	**Nature of Transactions**	**For the period from April 26, 2010 (Date of Ministerial Resolution) to December 31, 2011**
Board Members	Directors' expenses	**280**
Key management personnel	- Remuneration and related expenses	**11,140**
	- Loans and advances	**339**
Shareholders' and related parties	- Insurance premiums	**17,125**
	- Claims payable	**1,379**
	- Facultative premiums (net)	**833**
	- Expenses reimbursement	**300**
	- Financing provided for fixed assets	**1,567**
	- Financing provided for investments	**2,423**
	- Financing provided for pre-operating and other expenses	**11,673**
	- Expenses incurred	**2,230**
	- Contribution towards fixed assets financing	**500**
	- Bank commission income	**320**

Balances with Related Parties	**Note**	**December 31, 2011**
Cash and cash equivalents	4	**91,583**
Directors' expenses payable	15	**27**
Due from key management (staff receivable)	9	**158**
Other payable (contribution towards fixed assets financing)	15	**500**

21 Loss per share

Loss per share has been calculated by dividing the net loss for the period by the weighted average number of issued and outstanding shares for the period.

22 Reinsurance assets

The reinsurers' share of insurance liabilities includes reinsurers' share of unearned premiums and outstanding claims amounting to Saudi Riyals 139 million. All amounts due from reinsurers are expected to be received within 12 months from the statement of financial position date.

23 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, receivables, investments and financial liabilities consisting of outstanding claims, due to reinsurers, agent and brokers and third party administrator, due to policyholders, accrued expenses and other liabilities and due to shareholders.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

Determination of fair value and fair value hierarchy.

The Company, if applicable, uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the identical assets or liabilities (i.e. without modification or repacking).

Level 2: quoted prices in active markets for similar financial assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

24 Segment information

Consistent with the Company's internal reporting process, operating segments have been approved by Management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker which is chief executive officer.

Segment results do not include general and administration expenses.

Segment assets do not include insurance operations' cash and cash equivalents, premiums receivable, due from reinsurers, and prepaid expenses and other assets.

Segment liabilities do not include due to reinsurers, agents and brokers and third party administrator, due to policyholders, accrued expenses and other liabilities and due to shareholders.

	Marine	Property	Motor	Engineering	Accident & Liability	Extended Warranty	Total
For the period from April 26, 2010 to December 31, 2011							
Gross written premiums	40,151	62,073	122,679	25,435	29,844	42,400	322,582
Less: Reinsurance premiums ceded	(31,642)	(56,076)	(22,115)	(21,418)	(22,579)	(42,400)	(196,230)
Net written premiums	8,509	5,997	100,564	4,017	7,265	-	126,352
Change in unearned premiums	(1,834)	(1,949)	(20,829)	(1,287)	(1,763)	-	(27,662)
Net earned premiums	**6,675**	**4,048**	**79,735**	**2,730**	**5,502**	**-**	**98,690**
Commission earned on ceded reinsurance	8,196	10,988	3,030	3,644	2,483	3,504	31,845
Total revenue	**14,871**	**15,036**	**82,765**	**6,374**	**7,985**	**3,504**	**130,535**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Marine	Property	Motor	Engineering	Accident & Liability	Extended Warranty	Total
Gross claims paid	8,911	37,105	43,461	1,008	2,173	-	92,658
Reinsurer's share of claims paid	(7,112)	(35,141)	(5,318)	(950)	(1,454)	-	(49,975)
Net claims paid	**1,799**	**1,964**	**38,143**	**58**	**719**	**-**	**42,683**
Changes in outstanding claims	1,492	1,398	14,540	128	438	-	17,996
Net claims incurred	**3,291**	**3,362**	**52,683**	**186**	**1,157**	**-**	**60,679**
Policy acquisition costs	4,338	5,828	13,819	2,075	1,769	2,830	30,659
Total cost	**7,629**	**9,190**	**66,502**	**2,261**	**2,926**	**2,830**	**91,338**
Net underwriting results	**7,242**	**5,846**	**16,263**	**4,113**	**5,059**	**674**	**39,197**
General and administrative expenses							(42,309)
Deficit from insurance operations							3,112
Shareholders' share of deficit from insurance operations							**(3,112)**
Accumulated surplus at the beginning of the period							-
Accumulated surplus the end of the period							-
As at December 31, 2011							
Insurance operations' assets							
Reinsurers' share of unearned premiums	5,649	9,888	6,091	8,762	8,548	35,668	74,606
Reinsurers' share of outstanding claims	4,726	52,588	5,374	533	1,268	-	64,489
Deferred policy acquisition costs	890	1,433	3,983	1,256	767	15,083	23,412
Unallocated assets	-	-	-	-	-	-	92,797
Total insurance operations' assets	**11,265**	**63,909**	**15,448**	**10,551**	**10,583**	**50,751**	**255,304**
Insurance operations' liabilities							
Unearned premiums	7,482	11,837	26,924	10,047	10,310	35,668	102,268
Outstanding claims	6,219	53,985	19,913	660	1,708	-	82,485
Unearned reinsurance commission	1,929	2,384	1,453	2,118	1,292	18,649	27,825
Unallocated liabilities	-	-	-	-	-	-	42,726
Total insurance operations' liabilities	**15,630**	**68,206**	**48,290**	**12,825**	**13,310**	**54,317**	**255,304**

25 Risk management

Risk governance

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

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

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

Senior management
Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

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

25.1 Insurance risk

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

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

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

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

Key assumptions

The principal assumption underlying the estimates is the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods as far as applicable.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions such as the ultimate loss ratio with all other assumptions held constant showing the impact on net liabilities and net income.

	Change in assumptions	Impact on net liabilities	Impact on net loss
Ultimate loss ratio	**± 5%**	**5,000**	**5,000**

25.2 Reinsurance risk

Similar to other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

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

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

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

25.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management assesses that there is minimal risk of significant losses due to exchange rate fluctuations and, consequently, the Company does not hedge its foreign currency exposure.

25.4 Commission rate risk

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

A hypothetical 100 basis points change in the effective commission rates of the floating rate financial assets balances at December 31, 2011 for the shareholders would impact commission income annually by approximately Saudi Riyals 0.55 million.

Effective commission rates of the Company's investments and their maturities as at December 31, 2011 are as follows:

	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Effective commission		
Insurance operations					
Cash and cash equivalents	-	-	-	41,059	41,059
December 31, 2011	-	-		41,059	41,059
Shareholders' operations					
Cash and cash equivalents	-	-	-	50,547	50,547
Statutory deposit	-	-	-	10,000	10,000
December 31, 2011	-	-		60,547	60,547

25.5 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 exposure to credit risk to the Company is the carrying value as disclosed in the balance sheet.

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

- The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

(All amounts in Saudi Riyals thousands unless otherwise stated)

- 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.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks, and counterparties having strong balance sheets and credit ratings.

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

	December 31, 2011
Insurance operations	
Cash and cash equivalents	41,059
Premiums receivable	43,135
Reinsurers' share of outstanding claims	64,489
Due from reinsurers	4,903
	153,586
Shareholders' operations	
Cash and cash equivalents	50,547
Advance against an investment	2,423
Statutory deposit	10,000
Investments	19,010
	81,980

25.6 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturities of the Company's undiscounted contractual obligations. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

Insurance operations' Liabilities	Less than 12 months	More than 12 months	Total
Outstanding claims	82,485	-	82,485
Due to reinsurers, agents and brokers, and third party administrator	27,525	-	27,525
Accrued expenses and other liabilities	7,170	-	7,170
Due to policyholders	7,643	-	7,643
Due to shareholders	388	-	388
	125,211		125,211
Shareholders' Liabilities			
Zakat payable	360	-	360
Accrued expenses and other liabilities	528	-	528
	888	-	888

25.7 Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is exposed to market price risk, in its investment portfolio of Saudi Riyals 19 million.

The Company limits market risks by monitoring a diversified portfolio and the professional fund manager continuously monitors the development in international treasury and equity markets.

(All amounts in Saudi Riyals thousands unless otherwise stated)

The sensitivity of the income on the assumed changes in the market prices of quoted held for trading investments on the statement of shareholders comprehensive operations is set out below:

	Change in market price	Impact on net loss
2011	± 5%	950

25.8 Capital management

The Company manages its capital to ensure that it is able to continue as going concern and comply with the SAMA's capital requirements while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid capital and retained earnings.

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Regulations detailing the solvency margin required to be maintained. According to the article, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA's Implementing Regulations:

- Minimum Capital Requirement of Saudi Riyals 100 million
- Premiums Solvency Margin
- Claims Solvency Margin

The Company is in compliance with the regulatory requirements and no change has been made to the capital base or to the objectives, policies and processes for managing capital.

25.9 Regulatory framework list

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the reinsurance companies and to enable them to meet unforeseen liabilities as these arise.

26 New standards and amendments

This note details (a) new standards and amendments effective for the first time for periods on or after January 1, 2011; (b) improvements to IFRSs; and (c) forthcoming requirements that is, new standards and amendments issued and effective after 1 January 2011.

(a) New standards and amendments

Below is a list of standards/interpretations that have been issued and are effective for periods starting on or after January 1, 2011.

Topic	Key Requirement	Effective date
Amendment to IAS 32, 'Financial instruments: Presentation – Classification of rights issues'	Amended to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.	February 1, 2010
IFRIC 19, 'Extinguishing financial liabilities with equity instruments'	Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.	July 1, 2010
Amendment to IFRS 1, 'First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters'	Provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendments to IFRS 7. Also clarifies the transition provisions of the amendments to IFRS 7	July 1, 2010
IAS 24, 'Related party disclosures' (revised 2009)	Amends the definition of a related party and modifies certain related-party disclosure requirements for government-related entities.	January 1, 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

(b) Improvements to IFRSs 2010

The amendments are applicable for annual periods beginning after January 1, 2011 unless otherwise stated.

Topic	Key Requirement	Effective date
IFRS 7, 'Financial instruments'	Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.	January 1, 2011. Applied retrospectively.
IAS 1, 'Presentation of financial statements'	Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.	January 1, 2011. Applied retrospectively.
IAS 34, 'Interim financial reporting'	Provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: • The circumstances likely to affect fair values of financial instruments and their classification; • Transfers of financial instruments between different levels of the fair value hierarchy; • Changes in classification of financial assets; and • Changes in contingent liabilities and assets	January 1, 2011. Applied retrospectively.

(c) Forthcoming requirements

Below is a list of standards/interpretations that have been issued and are effective for periods after January 1, 2011.

Topic	Key Requirement	Effective date
Amendments to IFRS 7, Financial instruments: Disclosures' on derecognition	This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.	July 1, 2011
Amendment to IAS 12, Income taxes', on deferred tax	IAS 12, Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. Lt can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued nondepreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.	January 1, 2012
Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income' (OCL) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCL.	July 1, 2012
Amendment to IAS 19, Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.	January 1, 2013
IFRS 9, 'Financial instruments'	IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.	January 1, 2013
IFRS 13, Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	January 1, 2013

The Directors anticipate that all of the above Standards and Interpretations as applicable, will be adopted in the Company's financial statements in future periods and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

27 Statutory reserve

In accordance with the Insurance Regulations in the Kingdom of Saudi Arabia, the Company is required to transfer 20% of the net income for the period to a statutory reserve until such reserve equals 100% of its share capital. No transfers have been made during the period from April 26, 2010 (date of Ministerial Resolution) to December 31, 2011 as the Company has incurred a net loss during the period.

28 Due to policyholders

These represent claims due to certain policyholders. One policyholder's balance comprises 42% of the outstanding due to policyholders balance as at December 31, 2011.

29 Approval of the financial statements

These financial statements have been approved by the Board of Directors on February 11, 2012.