

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS AND INDEPENDENT
AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2011**

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

SCOPE OF AUDIT

We have audited the accompanying statement of financial position of Al Sagr Cooperative 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' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the notes 1 to 32 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Saudi 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 statements 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:

1. Present fairly, in all material respects, the financial position of the Company as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
2. Comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

EMPHASIS OF MATTER

These financial statements have been 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.

Nasser M. Al-Sagga
License No. 322



28 Rabi' I, 1433H
February 20, 2012

Al Bassam
Certified Public Accountants &
Consultants

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AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

	Notes	2011 SR	2010 SR
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	6	127,900,126	59,415,894
Investments	13	11,620,088	18,778,247
Premiums and insurance balances receivable	7	55,596,323	77,810,053
Reinsurers' share of unearned premiums	8	13,841,389	16,009,815
Reinsurers' share of outstanding claims	9	26,874,211	35,827,062
Deferred policy acquisition costs	10	5,066,387	4,277,881
Prepayments and other assets	11	3,827,998	3,325,356
Due from shareholders' operations		17,644,707	4,744,591
Property and equipment, net	12	5,194,458	3,701,380
Software under development		-	950,510
TOTAL INSURANCE OPERATIONS' ASSETS		267,565,687	224,840,789
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	67,760,728	10,606,050
Time deposits		19,193,878	18,342,000
Investments	13	109,466,432	165,021,465
Prepayments and other assets	11	4,950,576	2,749,456
Due from insurance operations		60,218,905	25,212,062
Goodwill	5	25,513,750	25,513,750
Statutory deposit	14	20,000,000	20,000,000
TOTAL SHAREHOLDERS' ASSETS		307,104,269	267,444,783
TOTAL ASSETS		574,669,956	492,285,572

The accompanying notes 1 to 32 form an integral part of these financial statements.

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

	Notes	2011 SR	2010 SR
INSURANCE OPERATIONS' LIABILITIES			
Accounts payable		6,469,682	7,857,086
Reinsurance balances payable		2,086,961	7,828,896
Unearned commission income	17	2,194,972	3,372,288
Unearned premiums	8	90,092,754	95,091,455
Outstanding claims	9	81,484,878	68,476,051
Accrued expenses and other liabilities	15	13,153,910	10,299,921
Due to shareholders' operations		60,218,905	25,212,062
Due to a related party		419,498	256,621
Surplus distribution payable		6,690,989	2,801,340
End-of-service indemnities	16	4,753,138	3,645,069
TOTAL INSURANCE OPERATIONS' LIABILITIES		267,565,687	224,840,789
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Due to policyholders' operations		17,644,707	4,744,591
Due to a related party	22	17,537,988	27,462,320
Accrued expenses and other liabilities	15	16,999,709	12,345,342
TOTAL SHAREHOLDERS' LIABILITIES		52,182,404	44,552,253
SHAREHOLDERS' EQUITY			
Share capital	23	200,000,000	200,000,000
Statutory reserve	25	10,984,373	4,578,506
Retained earnings		43,937,492	18,314,024
TOTAL SHAREHOLDERS' EQUITY		254,921,865	222,892,530
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		307,104,269	267,444,783
TOTAL INSURANCE OPERATIONS' LIABILITIES, SHAREHOLDERS' LIABILITIES AND EQUITY		574,669,956	492,285,572

The accompanying notes 1 to 32 form an integral part of these financial statements.

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
YEAR ENDED DECEMBER 31, 2011

	Notes	2011 SR	2010 SR
Gross premiums written	22	234,667,423	239,556,198
Less: Reinsurance premium ceded		(41,195,643)	(45,387,583)
Excess of loss premium		(5,019,557)	(1,876,261)
NET PREMIUMS WRITTEN		188,452,223	192,292,354
Change in unearned premiums, net	8	2,830,275	(30,765,440)
NET PREMIUMS EARNED		191,282,498	161,526,914
Gross claims paid	9	(103,667,494)	(119,621,985)
Other expenses	9	(6,861,846)	(5,130,004)
Reinsurers' share of gross claims paid	9	23,257,323	16,957,849
Change in outstanding claims, net	9	(21,961,678)	6,460,466
NET CLAIMS INCURRED		(109,233,695)	(101,333,674)
Policy acquisition costs	10	(12,661,968)	(13,130,497)
Commission income	17	9,341,359	11,228,064
Other underwriting expenses	18	(4,596,715)	(4,991,735)
NET UNDERWRITING RESULT		74,131,479	53,299,072
General and administrative expenses	19	(35,707,642)	(28,260,181)
Other income (expenses), net	20	92,383	(3,405)
Investment income		380,272	12,956
INSURANCE OPERATIONS' SURPLUS		38,896,492	25,048,442
Insurance operations' surplus transferred to shareholders' comprehensive income		(35,006,843)	(22,543,598)
Insurance operations' surplus after shareholders' appropriation		3,889,649	2,504,844

The accompanying notes 1 to 32 form an integral part of these financial statements.

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2011

	Notes	2011 SR	2010 SR
REVENUE			
Insurance operations surplus		35,006,843	22,543,598
Investment and special commission income		4,532,004	5,276,921
		<u>39,538,847</u>	<u>27,820,519</u>
Expenses			
General and administrative expenses	19	(2,509,512)	(2,842,029)
NET INCOME FOR THE YEAR BEFORE ZAKAT		<u>37,029,335</u>	<u>24,978,490</u>
Zakat	21	(5,000,000)	(5,000,000)
NET INCOME		<u>32,029,335</u>	<u>19,978,490</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>32,029,335</u></u>	<u><u>19,978,490</u></u>
Earnings per share for the year	24	<u><u>1.60</u></u>	<u><u>1.00</u></u>
Weighted average number of outstanding shares		<u><u>20,000,000</u></u>	<u><u>20,000,000</u></u>

The accompanying notes 1 to 32 form an integral part of these financial statements.

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2011

	Share capital SR	Statutory reserve SR	Retained earnings SR	Total SR
January 1, 2010	200,000,000	582,808	2,331,232	202,914,040
Comprehensive income for the year	-	-	19,978,490	19,978,490
Transfer to statutory reserve	-	3,995,698	(3,995,698)	-
December 31, 2010	200,000,000	4,578,506	18,314,024	222,892,530
Comprehensive income for the year	-	-	32,029,335	32,029,335
Transfer to statutory reserve	-	6,405,867	(6,405,867)	-
December 31, 2011	200,000,000	10,984,373	43,937,492	254,921,865

The accompanying notes 1 to 32 form an integral part of these financial statements.

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	Note	2011 SR	2010 SR
OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		3,889,649	2,504,844
Adjustments to reconcile insurance operations' surplus to net cash provided from operating activities:			
Depreciation		1,620,497	852,542
End-of-service indemnities		1,258,569	1,660,907
Gain on disposal of property and equipment		(20,000)	(16,838)
Unrealized investment income		(281,841)	(12,956)
		<u>6,466,874</u>	<u>4,988,499</u>
Reinsurance share of unearned premiums		2,168,426	1,126,654
Reinsurers' share of outstanding claims		8,952,851	(7,294,090)
Deferred policy acquisition costs		(788,506)	(615,449)
Unearned premiums		(4,998,701)	29,638,786
Unearned commission income		(1,177,316)	(346,175)
Outstanding claims		13,008,827	833,624
Premiums and insurance balances receivable		22,213,730	9,725,949
Prepayments and other assets		(502,642)	(537,553)
Due from shareholder's operations		(12,900,116)	(3,661,114)
Accounts payable		(1,387,404)	(7,292,421)
Reinsurance balances payable		(5,741,935)	(5,072,528)
Accrued expenses and other liabilities		2,853,989	2,870,766
Due to a related party		162,877	(627,512)
Due to shareholders' operations		35,006,843	22,543,598
		<u>63,337,797</u>	<u>46,281,034</u>
Cash generated from operations		63,337,797	46,281,034
End-of-service indemnities paid		(150,500)	(37,412)
		<u>63,187,297</u>	<u>46,243,622</u>
Net cash from operating activities		63,187,297	46,243,622
INVESTING ACTIVITIES			
Purchase of property and equipment		(2,163,065)	(1,361,643)
Software under development		-	(950,510)
Proceeds from disposal of property and equipment		20,000	20,000
Investments, net		7,440,000	(17,520,863)
		<u>5,296,935</u>	<u>(19,813,016)</u>
Net cash from (used in) investing activities		5,296,935	(19,813,016)
Net change in cash and cash equivalents		68,484,232	26,430,606
Cash and cash equivalents, January 1		59,415,894	32,985,288
CASH AND CASH EQUIVALENTS, DECEMBER 31	6	<u><u>127,900,126</u></u>	<u><u>59,415,894</u></u>

The accompanying notes 1 to 32 form an integral part of these financial statements.

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)
STATEMENT OF SHAREHOLDERS' CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

	Note	2011 SR	2010 SR
OPERATING ACTIVITIES			
Net income for the year before zakat		37,029,335	24,978,490
Adjustment for:			
Unrealised investment and special commission income		(1,568,389)	(2,480,217)
Changes in assets and liabilities:			
Prepayments and other assets		53,969	(2,561,487)
Due from insurance operations		(35,006,843)	(22,543,598)
Due to policyholders' operations		12,900,116	3,661,114
Due to a related party		(9,924,332)	(2,704,998)
Accrued expenses and other liabilities		282,973	1,431,612
Cash from (used in) operations		3,766,829	(219,084)
Zakat paid		(628,606)	(63,173)
Net cash from (used in) operating activities		3,138,223	(282,257)
INVESTING ACTIVITIES			
Time deposit		(851,878)	(18,342,000)
Investments, net		54,868,333	9,031,807
Net cash from (used in) investing activities		54,016,455	(9,310,193)
Net change in cash and cash equivalents		57,154,678	(9,592,450)
Cash and cash equivalents, January 1		10,606,050	20,198,500
CASH AND CASH EQUIVALENTS, DECEMBER 31	6	67,760,728	10,606,050
Non-cash transaction			
Unrealised income on preference shares		2,255,089	-

The accompanying notes 1 to 32 form an integral part of these financial statements.

AL SAGR COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Al Sagr Cooperative Insurance Company (the "Company") is a Saudi Joint Stock Company registered on 26 Muharram 1429H (February 4, 2008) under commercial registration number 1010243765, which was later amended to 2051036871 dated 23 Rabi I, 1429H (March 31, 2008), issued in Dammam, Kingdom of Saudi Arabia.

The activities of the Company are to transact cooperative insurance and reinsurance operations and all related activities in accordance with the Law of Supervision of Cooperative Insurance Companies and its implementing regulations and laws and regulations in the Kingdom of Saudi Arabia. On 23 Rabi I, 1429H (March 31, 2008), the Company received the license from Saudi Arabian Monetary Agency (SAMA) to transact insurance business in the Kingdom of Saudi Arabia.

The Company commenced insurance operations on 4 Muharram 1430H (corresponding to January 1, 2009).

The Company's principal place of business is in Dammam, Kingdom of Saudi Arabia.

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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- classification of rights issue	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.

Listed below are standards and interpretations that have been issued, but have no significant impacts on the financial statements:

Improvements to IFRSs

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

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

Amendments to the other standards IFRSs did not have material effect to the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (continued)
Improvements to IFRSs (continued)

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
Amendments to IAS 19:	Employee Benefits	1 January 2013
Amendments 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

The Directors anticipate that, where applicable, the above Standards and Interpretations will be adopted in the Company's financial statements for the periods commencing or after January 1, 2012 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The management prepared these financial statements in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in Kingdom of Saudi Arabia.

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

Accounting convention

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

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.

Functional and presentational currency

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

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, cash at banks and time deposits with an original maturity of less than three months at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Purchase price paid in excess of fair value of net assets is considered as goodwill. Goodwill is tested for impairment by management at least once at the end of each financial year. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in the future periods.

Property and equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis based on the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	10
Furniture, fixtures and office equipment	4 - 10
Computers	4 - 10
Motor vehicles	4

Investments

All investments are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. Premiums and discounts are amortized on a systematic basis to their maturity. For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without any deduction for transaction costs.

(a) Available for sale investments

Investments which are classified as "available for sale" are subsequently measured at fair value. Available for sale investments are those investments that are not held-to-maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognised directly in the statement of shareholders' comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognised in the statements of shareholders' comprehensive income should be included in the statement of shareholders' comprehensive income for the year. Available for sale investments whose fair value can not be reliably measured are carried at amortised cost less impairment provision.

(b) Investments in held to maturity securities

Investments which have fixed or determined payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of shareholders' comprehensive income when the investment is derecognized or impaired.

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 group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of shareholders' comprehensive income. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between the carrying amount and fair value, less any impairment loss previously recognized in the statement of shareholders' comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
Impairment and uncollectibility of financial assets (continued)

- 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 determined based on future cash flows that are discounted at the original effective special commission rate.

Accounts payable, accrued expenses and other liabilities

Accounts payable, accrued expenses and other liabilities are carried at cost which is the fair value of the consideration to be paid in the future for the services received, whether or not billed to the Company.

Zakat

The Company is subject to the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accruals basis at the year end and is charged to statement of shareholders' comprehensive income in accordance with Saudi Arabian fiscal Regulations. The zakat charged is computed on the Saudi shareholder's/GCC Nationals' share of zakat base. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Special commission income

Special commission income from time deposits is recognized on an effective yield basis.

Provisions

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

Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, statutory deposit, held for trading investments, available for sale investments and other assets and its financial liabilities consist of payables and other liabilities.

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

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar 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.

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 of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Labor Regulations on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee be terminated at the statement of financial position date. End-of-service payments are based on employee's final salaries and allowances and their cumulative years of service, as stipulated by the Saudi Arabian Labor Regulations.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statements of insurance operations and accumulated surplus and shareholders' comprehensive income.

Statutory reserve

In accordance with its by-laws, the Company shall allocate 20% of its net income each year to the statutory reserve until it has built up a reserve equal to the share capital.

Offsetting financial assets and liabilities

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

Premiums earned and commission income

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

Premiums and commission income, which relate to unexpired risks beyond the end of the financial year, are reported as unearned and deferred based on the following methods:

- Premium written in last three months of the financial year for marine cargo business
- Actual number of days for other lines of business

Premiums receivable

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

Premium deficiency reserve

The Company carries out an analysis of loss/combined ratios for the expired period. Such ratios are being calculated by taking into account the relevant incurred but not reported provision and then used for the determination of premium deficiency reserve for each class of business.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Gross outstanding claims

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and are charged to statement of insurance operations and accumulated surplus as incurred.

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

Any difference between the provisions at the date of statement of financial position and settlements and provisions in the following year is included in the underwriting account for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

Liability adequacy test

At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operation and accumulated surplus and an unexpired risk provision is created.

Deferred policy acquisition costs

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned.

Reinsurance

The Company's reinsurance program is affected through proportional, non proportional and facultative placements based on the Company's net retention policy, treaty limits, nature and size of the risks. The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract,

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. 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 and accumulated surplus.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
Reinsurance (continued)

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Claims recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are also recognised as a liability and are measured at the amount expected to be recovered.

Unearned commission income

Commission income on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. Amortisation is recorded in the statement of insurance operations and accumulated surplus.

Operating segments

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on their products and services and has three reportable operating segments as follows:

- Health insurance, which covers medical costs, medicines, and all other medical services and supplies.
- Motor Insurance, which provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Other classes, which covers any other classes of insurance not included above.

Shareholders' income is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

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

Where intersegment transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

Surplus distribution payable

Surplus distribution payable represents policyholders' share of surplus generated by insurance operations during the year and calculated as 10% of the total surplus generated. The same is distributed to the policyholders in their relative proportions of profitability to the Company by way of reduction in their annual premiums.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the operating lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Use of estimates in the preparation of financial statements

The preparation of 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 note.

The preparation of the 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, 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 management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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 quarterly basis.

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

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.

Deferred acquisition costs

Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortized 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 realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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5. GOODWILL

The Company started its insurance operations on January 1, 2009. The Company's General Assembly approved on February 1, 2009 for the Company to enter into an agreement whereby it will acquire the insurance portfolio and net assets of Al Sagr Saudi Insurance Company with effect from January 1, 2009 at a goodwill of SR 39 million as set forth in SAMA's letter in this respect after completing the related procedures as required under SAMA's letter on November 10, 2008. The Company has later adjusted goodwill amount by reducing SR 13.5 million in line with SAMA correspondence in this respect bringing it to SR 25.5 million. In addition, the Company has paid SR 9.8 million during the year against goodwill to the shareholders of Al Sagr Saudi Insurance Company.

The Company acquired the insurance portfolio and the net assets of Al Sagr Saudi Insurance Company with effect from January 1, 2009, following the approval on the transfer from the respective authorities in 2010.

6. CASH AND CASH EQUIVALENTS

	Insurance Operations		Shareholders Operations	
	2011	2010	2011	2010
	SR	SR	SR	SR
Cash in hand	107,387	44,000	-	-
Cash at banks – Current accounts	42,792,739	59,371,894	2,760,728	10,606,050
– Deposit accounts	85,000,000	-	65,000,000	-
	127,900,126	59,415,894	67,760,728	10,606,050

7. PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2011	2010
	SR	SR
Premiums receivable	59,874,185	68,241,690
Receivables from insurance and reinsurance Companies	1,954,611	9,058,690
Receivables from related parties	11,478,244	13,601,442
	73,307,040	90,901,822
Less: allowance for doubtful debts	(17,710,717)	(13,091,769)
	55,596,323	77,810,053

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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7. PREMIUMS AND INSURANCE BALANCES RECEIVABLE (continued)

The aging analysis of premiums and insurance balances receivable is set out below as at December 31, 2011:

Premium receivable

	Total SR	Neither impaired nor past due SR	Past due but not impaired					More than 360 days SR
			30 days SR	31-60 days SR	61-120 days SR	121-180 days SR	181-360 days SR	
2011	59,874,187	20,852,756	5,977,668	6,757,026	5,333,301	3,369,914	8,075,388	9,508,134
2010	68,241,690	9,203,935	11,487,378	8,928,678	11,982,712	5,538,015	11,353,933	9,747,039

Receivable from insurance and reinsurance companies

	Total	Neither impaired nor past due	Past due but not impaired					More than 360 days
			30 days	31-60 days	61-120 days	121-180 days	181-360 days	
2011	1,954,611	-	73,262	500	326,400	164,821	589,806	799,822
2010	9,058,690	-	932,341	1,864,680	762,165	470,688	4,715,676	313,140

Receivables from related parties

	Total	Neither impaired nor past due	Past due but not impaired					More than 360 days
			30 days	31-60 days	61-120 days	121-180 days	181-360 days	
2011	11,478,242	2,604,362	-	74,587	773,931	736,106	1,950,563	5,338,693
2010	13,601,442	-	196,124	98,062	3,705,679	1,852,839	3,861,886	3,886,852

Premiums and insurance balances receivables comprise a large number of customers, related parties mainly within the Kingdom of Saudi Arabia as well as reinsurance companies. The Company's terms of business generally require premiums to be settled within 90 days. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. No individual or company accounts for more than 10% of the premiums receivable as at 31 December 2011. In addition, the five largest customers account for 19% (2010: 21%) of the premiums receivable as at 31 December 2011.

Unimpaired Premiums and insurance balances receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

8. MOVEMENT IN UNEARNED PREMIUMS

	2011 SR	2010 SR
Unearned premiums, gross:		
Closing balance	(90,092,754)	(95,091,455)
Opening balance	95,091,455	65,452,669
Movement in unearned premiums, gross	4,998,701	(29,638,786)
Reinsurers' share of unearned premiums:		
Closing balance	13,841,389	16,009,815
Opening balance	(16,009,815)	(17,136,469)
Movement in reinsurance share of unearned premiums	(2,168,426)	(1,126,654)
Movement in unearned premiums, net	2,830,275	(30,765,440)

9. CLAIMS

	2011	
	Gross SR	Reinsurers' share SR
Claims paid	103,667,494	(23,257,323)
Other expenses	6,861,846	-
Claims provided during the year	67,200,505	(23,778,645)
IBNR provided during the year	14,284,373	(3,095,566)
	192,014,218	(50,131,534)
Less: opening balance:		
Outstanding claims	59,475,448	(30,093,069)
Claims incurred but not reported (IBNR)	9,000,603	(5,733,993)
	68,476,051	(35,827,062)
Incurred during the year	123,538,167	(14,304,472)
As at December 31		
Outstanding claims	67,200,505	(23,778,645)
IBNR	14,284,373	(3,095,566)
	81,484,878	(26,874,211)
Less: opening balance:		
Outstanding claims	59,475,448	(30,093,069)
Claims incurred but not reported (IBNR)	9,000,603	(5,733,993)
	68,476,051	(35,827,062)
	13,008,827	8,952,851

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

9. CLAIMS (continued)

	2010		
	Gross SR	Reinsurers' share SR	Net SR
Claims paid	119,621,985	(16,957,849)	102,664,136
Other expenses	5,130,004	-	5,130,004
Claims provided during the year	59,475,448	(30,093,069)	29,382,379
IBNR provided during the year	9,000,603	(5,733,993)	3,266,610
	<u>193,228,040</u>	<u>(52,784,911)</u>	<u>140,443,129</u>
Less: opening balance:			
Outstanding claims	55,842,735	(21,036,609)	34,806,126
Claims incurred but not reported (IBNR)	11,799,692	(7,496,363)	4,303,329
	<u>67,642,427</u>	<u>(28,532,972)</u>	<u>39,109,455</u>
Incurred during the year	<u>125,585,613</u>	<u>(24,251,939)</u>	<u>101,333,674</u>
As at December 31			
Outstanding claims	59,475,448	(30,093,069)	29,382,379
IBNR	9,000,603	(5,733,993)	3,266,610
	<u>68,476,051</u>	<u>(35,827,062)</u>	<u>32,648,989</u>
Less: opening balance:			
Outstanding claims	55,842,735	(21,036,609)	34,806,126
Claims incurred but not reported (IBNR)	11,799,692	(7,496,363)	4,303,329
	<u>67,642,427</u>	<u>(28,532,972)</u>	<u>39,109,455</u>
	<u>833,624</u>	<u>(7,294,090)</u>	<u>(6,460,466)</u>

10. DEFERRED POLICY ACQUISITION COSTS

	2011 SR	2010 SR
At January 1	4,277,881	3,662,432
Cost incurred during the year	13,450,474	13,745,946
Charge for the year	(12,661,968)	(13,130,497)
At December 31	<u>5,066,387</u>	<u>4,277,881</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

11. PREPAYMENTS AND OTHER ASSETS

	Insurance Operations		Shareholders Operations	
	2011 SR	2010 SR	2011 SR	2010 SR
Prepaid rent	827,556	779,141	-	-
Employee advances	1,162,911	902,712	-	-
Prepaid expenses	531,975	307,545	-	-
Deferred supervision fees	1,070,556	1,097,011	-	-
Unrealised income	-	-	4,950,576	2,749,456
Other	235,000	238,947	-	-
	3,827,998	3,325,356	4,950,576	2,749,456

12. PROPERTY AND EQUIPMENT, NET (POLICYHOLDERS)

	Leasehold improvements SR	Furniture, fixtures and office equipment SR	Computers SR	Motor vehicles SR	Total SR
Cost:					
January 1, 2010	1,237,899	1,035,240	2,180,050	196,006	4,649,195
Additions	543,806	285,353	532,484	-	1,361,643
Disposals	-	-	-	(19,000)	(19,000)
December 31, 2010	1,781,705	1,320,593	2,712,534	177,006	5,991,838
Additions	598,588	204,388	2,111,299	199,300	3,113,575
Disposals	-	-	-	(37,506)	(37,506)
December 31, 2011	2,380,293	1,524,981	4,823,833	338,800	9,067,907
Depreciation:					
January 1, 2010	180,036	345,925	821,627	106,166	1,453,754
Provided during the year	152,672	103,092	558,950	37,828	852,542
Disposals	-	-	-	(15,838)	(15,838)
December 31, 2010	332,708	449,017	1,380,577	128,156	2,290,458
Provided during the year	200,541	126,362	1,246,475	47,119	1,620,497
Disposals	-	-	-	(37,506)	(37,506)
December 31, 2011	533,249	575,379	2,627,052	137,769	3,873,449
Net book value:					
December 31, 2011	1,847,044	949,602	2,196,781	201,031	5,194,458
December 31, 2010	1,448,997	871,576	1,331,957	48,850	3,701,380

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

13. INVESTMENTS

a) Investments are classified as follows:

	Insurance Operations		Shareholders Operations	
	2011	2010	2011	2010
	SR	SR	SR	SR
Available for sale investments	1,244,428	1,244,428	18,750,000	18,750,000
Held for trading investments	10,375,660	17,533,819	90,716,432	146,271,465
	11,620,088	18,778,247	109,466,432	165,021,465

b) The analysis of the composition of investments is as follows:

	2011		
	Quoted	Unquoted	Total
	SR	SR	SR
Mutual funds	67,235,097	-	67,235,097
Investment in companies	-	11,540,270	11,540,270
Preference shares	18,750,000	-	18,750,000
Bonds	20,728,433	-	20,728,433
Morabaha	-	2,832,720	2,832,720
Total	106,713,530	14,372,990	121,086,520

	2010		
	Quoted	Unquoted	Total
	SR	SR	SR
Mutual funds	122,627,737	-	122,627,737
Investment in companies	-	11,540,270	11,540,270
Preference shares	18,750,000	-	18,750,000
Bonds	20,868,750	-	20,868,750
Morabaha	-	10,012,955	10,012,955
Total	162,246,487	21,553,225	183,799,712

Investment in companies includes shares in Najm for Insurance Services and Saudi Next Care Company.

c) The analysis of investments by counterparties is as follows:

	2011	2010
	SR	SR
Companies	11,540,270	11,540,270
Banks and financial institutions	109,546,250	172,259,442
Total	121,086,520	183,799,712

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

13. INVESTMENTS (continued)

d) Determination of fair value and fair values hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar 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.

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

2011				
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Held for trading investments				
Mutual funds	-	67,235,097	-	67,235,097
Investment in companies	-	10,295,842	-	10,295,842
Bonds	-	20,728,433	-	20,728,433
Morabaha	-	-	2,832,720	2,832,720
Available for sale investments				
Preference shares	-	18,750,000	-	18,750,000
Investment in companies	-	-	1,244,428	1,244,428
Total investments	-	117,009,372	4,077,148	121,086,520
2010				
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Held for trading investments				
Mutual funds	-	122,627,737	-	122,627,737
Investment in companies	-	10,295,842	-	10,295,842
Bonds	-	20,868,750	-	20,868,750
Morabaha	-	-	10,012,955	10,012,955
Available for sale investments				
Preference shares	-	18,750,000	-	18,750,000
Investment in companies	-	-	1,244,428	1,244,428
Total investments	-	172,542,329	11,257,383	183,799,712

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

14. STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid-up capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. This statutory deposit cannot be withdrawn without the consent of Saudi Arabian Monetary Agency.

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	Insurance Operations		Shareholders Operations	
	2011	2010	2011	2010
	SR	SR	SR	SR
Accrued bonus	2,000,000	484,476	-	-
Accrued supervision fees	1,515,926	1,992,041	-	-
Accrued commission	6,470,752	6,937,233	-	-
Provision for zakat (note 21)	-	-	14,308,221	9,936,827
Directors' remuneration and fee payable	-	-	1,580,000	1,371,500
Other accrued expenses	3,167,232	886,171	1,111,488	1,037,015
	13,153,910	10,299,921	16,999,709	12,345,342

16. END-OF-SERVICE INDEMNITIES

	2011	2010
	SR	SR
January 1	3,645,069	2,021,574
Charged during the year (note 19)	1,258,569	1,660,907
Paid during the year	(150,500)	(37,412)
December 31	4,753,138	3,645,069

17. UNEARNED COMMISSION INCOME

	2011	2010
	SR	SR
January 1	3,372,288	3,718,463
Commission received during the year	8,164,043	10,881,889
Commission earned during the year	(9,341,359)	(11,228,064)
December 31	2,194,972	3,372,288

18. OTHER UNDERWRITING EXPENSES

	2011	2010
	SR	SR
Supervision and inspection fees	2,382,839	2,295,498
Withholding taxes on reinsurance payments	368,269	980,484
Others	1,845,607	1,715,753
	4,596,715	4,991,735

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Insurance Operations		Shareholders Operations	
	2011	2010	2011	2010
	SR	SR	SR	SR
Salaries and benefits	20,587,226	16,878,756	453,300	319,500
End of service indemnities (note 16)	1,258,569	1,660,907	-	-
Rent (note 30)	1,380,966	1,234,525	84,000	65,000
Provision for doubtful debts	4,618,948	4,000,000	-	-
Depreciation	1,620,497	852,542	-	-
Stationery	1,230,090	714,581	-	-
Utilities	1,016,840	917,396	-	-
Business travel and transport	379,229	343,170	-	-
Professional fees	965,743	392,599	17,500	165,359
Fee and subscription	-	-	220,000	220,000
Directors' remuneration and fee	-	-	1,580,000	1,618,075
Repair and maintenance	671,764	194,386	-	-
Promotion and advertising	722,378	87,865	-	79,220
Others	1,255,392	983,454	154,712	374,875
	35,707,642	28,260,181	2,509,512	2,842,029

20. OTHER INCOME (EXPENSES), NET

	2011	2010
	SR	SR
Gain on disposal of property and equipment	20,000	16,838
Others, net	72,383	(20,243)
	92,383	(3,405)

21. ZAKAT

a) Zakat charge for the year

The principal elements of zakat are as following:

	2011	2010
	SR	SR
Opening shareholder's equity	222,892,530	202,914,040
Non-current assets	25,194,458	24,651,890
Investment	121,086,520	183,799,712
Goodwill	25,513,750	25,513,750
Net income for the year before zakat	37,029,335	24,978,490

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

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b) Movement in the provision for zakat during the year

The movement in zakat provision is as follows:

	2011 SR	2010 SR
At January 1	9,936,827	5,000,000
Provision for the year	5,000,000	5,000,000
Paid during the year	(628,606)	(63,173)
At December 31	14,308,221	9,936,827

The charge for the year of zakat is as follows:

	2011 SR	2010 SR
Zakat for the year	5,000,000	5,000,000
	5,000,000	5,000,000

The Company has submitted its zakat return up to year ended December 31, 2010.

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Related parties	Nature of transactions	2011 SR	2010 SR
Shareholders	Rent expense	560,534	543,333
	Gross written premium	12,286,477	11,211,205
	Claims incurred on insurance policies	(5,313,539)	(3,009,233)
	Fee and remuneration of Board of Directors meeting	1,580,000	1,618,075
Balance at December 31			
Related parties	Nature of transactions	2011 SR	2010 SR
Affiliates	Due to an affiliate (Al Sagr Saudi Insurance Company) for purchasing assets and liabilities (note 5)	(15,625,000)	(25,513,750)
	Other expenses paid on behalf of the Company	(1,912,988)	(1,948,570)
Shareholders	Premium receivable	11,478,244	13,601,442
	Outstanding claims	5,545,940	3,316,279

Compensation of key management personnel

The remuneration of directors and other key management personnel during the year were as follows:

	2011 SR	2010 SR
Salaries and benefits	4,539,776	4,351,508
End-of-service indemnities	287,564	538,553
	4,827,340	4,890,061

NOTES TO THE FINANCIAL STATEMENTS (Continued)
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23. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 200 million at December 31, 2011 consisting of 20 million shares of SR 10 each (December 31, 2010: SR 200 million consisting of 20 million shares of SR 10 each).

24. EARNINGS PER SHARE FOR THE YEAR

Earnings per share have been calculated by dividing shareholders' comprehensive income by the weighted average number of ordinary shares outstanding during the year.

25. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the by-laws of the Company, the Company has established a statutory reserve by the appropriation of 20% of net income until the reserve equals 100% of the share capital. This reserve is not available for dividend distribution.

26. GEOGRAPHICAL DISTRIBUTION

All the assets and liabilities of the Company are located in the Kingdom of Saudi Arabia, except for investments held in Bahrain, UAE and in British Virgin Islands in addition to the reinsurance assets and liabilities which are held outside the Kingdom of Saudi Arabia.

27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets and liabilities include cash and cash equivalents, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of investments in certain companies which are carried at cost.

28. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business relating to policyholders' insurance claims. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position.

b) Capital commitments

At December 31, 2011, the Company had outstanding capital commitments of nil in respect of purchase of property and equipment (December 31, 2010: SR 500,000).

At December 31, 2011, the Company has outstanding commitment of SR 2.5 million in respect of purchase of investment (December 31, 2010: SR 2.5 million)

29. SEGMENTAL 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 as stated below.

Segment results do not include general and administration expenses and other expenses.

Segment assets do not include cash and cash equivalents, investment in companies, premiums and insurance balances receivable, prepayments and other receivables, due from related parties, and property and equipment.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

29. SEGMENTAL INFORMATION (Continued)

Segment liabilities do not include accounts payable, reinsurance balances payable, accrued expenses and other liabilities, due to shareholders' operations, unearned commission income and end-of-service indemnities.

Operating Segments

For the year ended December 31, 2011

	Medical SR	Motor SR	Others SR	Total SR
Insurance operations				
Gross premiums written	161,046,831	26,818,421	46,802,171	234,667,423
Net premiums written	156,959,579	23,949,376	7,543,268	188,452,223
Net premiums earned	159,310,285	24,618,474	7,353,739	191,282,498
Gross claims paid	(69,245,683)	(18,526,238)	(15,895,573)	(103,667,494)
Other expenses	(6,791,803)	(69,271)	(772)	(6,861,846)
Net claims incurred	(92,228,019)	(16,011,395)	(994,281)	(109,233,695)
Policy acquisition costs	(6,334,049)	(2,429,945)	(3,897,974)	(12,661,968)
Commission income	1,374	86,391	9,253,594	9,341,359
Net underwriting result before other underwriting expenses	60,749,591	6,263,525	11,715,078	78,728,194
Other underwriting expenses	-	-	-	(4,596,715)
General and administrative expenses, other expenses, net and investment income	-	-	-	(35,234,987)
Insurance operations' surplus	-	-	-	<u>38,896,492</u>

As at December 31, 2011

	Medical SR	Motor SR	Others SR	Total SR
Insurance operations' assets				
Reinsurers' share of unearned premiums	-	946,029	12,895,360	13,841,389
Deferred policy acquisition costs	3,449,065	656,133	961,189	5,066,387
Reinsurers' share of outstanding claims	677,277	3,667,465	22,529,469	26,874,211
Unallocated assets	-	-	-	221,783,700
				<u>267,565,687</u>
Insurance operations' liabilities				
Unearned premiums	65,559,210	8,826,164	15,707,380	90,092,754
Outstanding claims	36,945,159	19,346,286	25,193,433	81,484,878
Unearned commission income	-	40,875	2,154,097	2,194,972
Unallocated liabilities	-	-	-	93,793,083
				<u>267,565,687</u>

AL SAGR COOPERATIVE INSURANCE COMPANY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

29. SEGMENTAL INFORMATION (continued)

For the year ended December 31, 2010	Medical SR	Motor SR	Others SR	Total SR
Insurance operations				
Gross premiums written	156,593,666	32,035,659	50,926,873	239,556,198
Net premiums written	155,410,675	29,369,430	7,512,249	192,292,354
Net premiums earned	126,038,348	28,733,132	6,755,434	161,526,914
Gross claims paid	(84,884,358)	(22,595,803)	(12,141,824)	(119,621,985)
Other expenses	(5,130,004)	-	-	(5,130,004)
Net claims incurred	(78,706,027)	(21,555,533)	(1,072,114)	(101,333,674)
Policy acquisition costs	(5,985,676)	(2,828,912)	(4,315,909)	(13,130,497)
Commission income	836,452	100,248	10,291,364	11,228,064
Net underwriting result before other underwriting expenses	42,183,097	4,448,935	11,658,775	58,290,807
Other underwriting expenses	-	-	-	(4,991,735)
General and administrative expenses, other expenses, net and investment income	-	-	-	(28,250,630)
Insurance operations' surplus	-	-	-	25,048,442
As at December 31, 2010	Medical SR	Motor SR	Others SR	Total SR
Insurance operations' assets				
Reinsurers' share of unearned premiums	-	692,959	15,316,856	16,009,815
Deferred policy acquisition costs	2,368,386	696,263	1,213,232	4,277,881
Reinsurers' share of outstanding claims	376,060	1,717,487	33,733,515	35,827,062
Unallocated assets	-	-	-	168,726,031
				<u>224,840,789</u>
Insurance operations' liabilities				
Unearned premiums	67,909,915	9,242,192	17,939,348	95,091,455
Outstanding claims	13,536,756	19,125,984	35,813,311	68,476,051
Unearned commission income	-	33,999	3,338,289	3,372,288
Unallocated liabilities	-	-	-	57,900,995
				<u>224,840,789</u>

30. OPERATING LEASE ARRANGEMENTS

	Insurance Operations		Shareholders Operations	
	2011 SR	2010 SR	2011 SR	2010 SR
Payments under operating leases recognized as an expense during the year (note 19)	<u>1,380,966</u>	<u>1,234,525</u>	<u>84,000</u>	<u>65,000</u>

Operating lease payments represent rentals payable by the Company for certain office premises.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

31. RISK MANAGEMENT

Risk governance

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

Risk management structure

A cohesive organisational 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 centralised oversight of 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.

Audit Committee and Internal Audit Department

Risk management processes throughout the Company are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities.

The risks faced by the Company and the manner in which these risks are mitigated by management are summarized below:

Insurance risk management

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under such contracts is the occurrence of the insured events and the severity of reported claims. The Company's risk profile is improved by diversification of these risks of losses to a large portfolio of contracts as a diversified portfolio is less likely to be affected by an unexpected event in a single subset.

Underwriting and retention policies and procedures and limits and clear underwriting authorities precisely regulate who is authorized and accountable for concluding insurance and reinsurance contracts and at what conditions. Compliance with these guidelines is regularly checked and developments in the global, regional and local market are closely observed, reacting where necessary with appropriate measures that are translated without delay into underwriting guidelines if required.

The primary risk control measure in respect of the insurance risk is the transfer of risks to third parties via reinsurance. The reinsurance business ceded is placed on a proportional and non-proportional basis with retention limits varying by lines of business. The placements of reinsurance contracts are diversified so that the Company is not dependent on a single reinsurer or a reinsurance contract.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

31. RISK MANAGEMENT (continued)

Reinsurance is used to manage insurance risk. Although the Company has reinsurance arrangements, it does not, however, discharge the Company's liability as primary insurer and thus a credit risk exposure remains with respect to reinsurance ceded to the extent that any reinsurer may be unable to meet its obligations under such reinsurance arrangements. The Company minimizes such credit risk by entering into reinsurance arrangements with reinsurers having good credit ratings, which are reviewed on a regular basis. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. Reserve risks are controlled by constantly monitoring the provisions for insurance claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

Frequency and Severity of Claims

The frequency and severity of claims can be affected by several factors. The Company underwrites mainly medical, motor, fire and burglary, general accident and marine classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Fire and Burglary

Fire and burglary insurance contracts, with the main peril being fire damage and other allied perils resulting there from, are underwritten either on replacement value or an indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption are the main factors that influence the level of claims.

In respect of accumulation of the retentions under the property business, this is covered by proportional treaties.

Motor

For motor insurance contracts, the main elements of risk are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The Company has a concentration in motor insurance which accounts for 11% of gross written premium.

The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims. This risk is covered by per occurrence excess of loss treaties that also covers involvement of more than one vehicle in an accident.

General Accident and Workmen's Compensation

For miscellaneous accident classes of insurance such as loss of money, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

The insurance risks mainly emanate from Saudi Arabia. An arrangement has been made with reinsurers through proportional treaties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

31. RISK MANAGEMENT (continued)

Medical

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has reinsurance cover to limit the losses for any individual claim to SR 30,000.

Concentration of insurance risk

The Company does not have insurance contract covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risks that may involve significant litigation. The Company does not have any material claims where the amount and timing of payment is not resolved within one year of the reporting date.

Regulatory framework risk

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 insurance companies and to enable them to meet unforeseen liabilities as these arise.

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 statement of financial position.

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.
- 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 investment portfolio is managed by the investment committee in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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31. RISK MANAGEMENT (continued)

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

	Insurance operations		Shareholders operations	
	2011	2010	2011	2010
	SR	SR	SR	SR
Cash and cash equivalents	127,900,126	59,415,894	67,760,728	10,606,050
Time deposits	-	-	19,193,878	18,342,000
Investments	11,620,088	18,778,247	109,466,432	165,021,465
Premiums and insurance balances receivable	73,307,040	90,901,822	-	-
Reinsurers' share of outstanding claims	26,874,211	35,827,062	-	-
Other assets	254,250	238,947	771,505	911,592
	239,955,715	205,161,972	197,192,543	194,881,107

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 monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

Maturity profiles

The table below summarises the maturity profile of the financial assets and liabilities of the Company based on remaining expected undiscounted contractual obligations:

	2011		
	Up to one year SR	More than one year SR	Total SR
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	127,900,126	-	127,900,126
Investments	10,375,660	1,244,428	11,620,088
Premiums and insurance balances receivable	73,307,040	-	73,307,040
Reinsurers' share of outstanding claims	26,874,211	-	26,874,211
Other assets	254,250	-	254,250
Total insurance operations' financial assets	238,711,287	1,244,428	239,955,715
	2011		
	Up to one year SR	More than one year SR	Total SR
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	67,760,728	-	67,760,728
Time deposits	19,193,878	-	19,193,878
Investments	109,466,432	-	109,466,432
Other assets	771,505	-	771,505
Statutory deposit	-	20,000,000	20,000,000
Total shareholders' financial assets	197,192,543	20,000,000	217,192,543
TOTAL FINANCIAL ASSETS	435,903,830	21,244,428	457,148,258

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

31. RISK MANAGEMENT (continued)

Liquidity risk (Continued)

Maturity profiles (Continued)

	2010		
	Up to one year SR	More than one year SR	Total SR
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	59,415,894	-	59,415,894
Investments	17,533,819	1,244,428	18,778,247
Premiums and insurance balances receivable	90,901,822	-	90,901,822
Reinsurers' share of outstanding claims	35,827,062	-	35,827,062
Other assets	238,947	-	238,947
Total insurance operations' financial assets	203,917,544	1,244,428	205,161,972
	2010		
	Up to one year SR	More than one year SR	Total SR
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	10,606,050	-	10,606,050
Time deposits	18,342,000	-	18,342,000
Investments	165,021,465	-	165,021,465
Other assets	911,592	-	911,592
Statutory deposit	-	20,000,000	20,000,000
Total shareholders' financial assets	194,881,107	20,000,000	214,881,107
TOTAL FINANCIAL ASSETS	398,798,651	21,244,428	420,043,079
	2011		
	Up to one year SR	More than one year SR	Total SR
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Accounts payable	6,469,682	-	6,469,682
Reinsurance balances payable	2,086,961	-	2,086,961
Accrued expenses and other liabilities	11,558,057	-	11,558,057
Due to related parties	419,498	-	419,498
Outstanding claims	81,484,878	-	81,484,878
Total insurance operations' financial liabilities	102,019,076	-	102,019,076
	2011		
	Up to one year SR	More than one year SR	Total SR
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	1,678,026	-	1,678,026
Due to a related party	17,537,988	-	17,537,988
Total shareholders' financial liabilities	19,216,014	-	19,216,014
TOTAL FINANCIAL LIABILITIES	121,235,090		121,235,090

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

31. RISK MANAGEMENT (continued)

Liquidity risk (Continued)

Maturity profiles (continued)

	2010		
	Up to one year SR	More than one year SR	Total SR
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Accounts payable	7,857,086	-	7,857,086
Reinsurance balances payable	7,828,896	-	7,828,896
Accrued expenses and other liabilities	8,252,006	-	8,252,006
Due to related parties	256,621	-	256,621
Outstanding claims	68,476,051	-	68,476,051
Total insurance operations' financial liabilities	92,670,660	-	92,670,660

	2010		
	Up to one year SR	More than one year SR	Total SR
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	1,481,170	-	1,481,170
Due to a related party	27,426,320	-	27,426,320
Total shareholders' financial liabilities	28,907,490	-	28,907,490
TOTAL FINANCIAL LIABILITIES	121,578,150	-	121,578,150

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company principal transactions are carried out in Saudi Riyal. 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.

	2011		
	SR SR	US Dollar SR	Total SR
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	118,953,282	8,946,844	127,900,126
Investments	4,077,149	7,542,939	11,620,088
Premiums and insurance balances receivable	73,307,040	-	73,307,040
Reinsurers' share of outstanding claims	26,874,211	-	26,874,211
Other assets	254,250	-	254,250
Total insurance operations' financial assets	223,465,932	16,489,783	239,955,715

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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31. RISK MANAGEMENT (continued)
Foreign currency risk (continued)

	2011		
	SR	US Dollar	Total
	SR	SR	SR
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	67,760,728	-	67,760,728
Time deposits	-	19,193,878	19,193,878
Investments	50,126,995	59,339,437	109,466,432
Other assets	771,505	-	771,505
Total shareholders' financial assets	118,659,228	78,533,315	197,192,543
TOTAL FINANCIAL ASSETS	342,125,160	95,023,098	437,148,258

	2010		
	SR	US Dollar	Total
	SR	SR	SR
INSURANCE OPERATIONS' FINANCIAL ASSETS			
Cash and cash equivalents	57,646,210	1,769,684	59,415,894
Investments	11,257,384	7,520,863	18,778,247
Premiums and insurance balances receivable	83,164,860	7,736,962	90,901,822
Reinsurers' share of outstanding claims	35,827,062	-	35,827,062
Other assets	238,947	-	238,947
Total insurance operations' financial assets	188,134,463	17,027,509	205,161,972

	2010		
	SR	US Dollar	Total
	SR	SR	SR
SHAREHOLDERS' FINANCIAL ASSETS			
Cash and cash equivalents	10,606,050	-	10,606,050
Time deposit	-	18,342,000	18,342,000
Investments	104,476,299	60,545,166	165,021,465
Other assets	911,592	-	911,592
Total shareholders' financial assets	115,993,941	78,887,166	194,881,107
TOTAL FINANCIAL ASSETS	304,128,404	95,914,675	400,043,079

	2011		
	SR	US Dollar	Total
	SR	SR	SR
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Accounts payable	6,469,682	-	6,469,682
Reinsurance balances payable	2,086,961	-	2,086,961
Accrued expenses and other liabilities	11,558,057	-	11,558,057
Due to related parties	419,498	-	419,498
Outstanding claims	81,484,878	-	81,484,878
Total insurance operations' financial liabilities	102,019,076	-	102,019,076

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

31. RISK MANAGEMENT (continued)
Foreign currency risk (continued)

	2011		
	SR	US Dollar	Total
	SR	SR	SR
SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	1,678,026	-	1,678,026
Due to a related party	17,537,988	-	17,537,988
Total shareholders' financial liabilities	19,216,014	-	19,216,014
TOTAL FINANCIAL LIABILITIES	121,235,090	-	121,235,090

	2010		
	SR	US Dollar	Total
	SR	SR	SR
INSURANCE OPERATIONS' FINANCIAL LIABILITIES			
Accounts payable	7,857,086	-	7,857,086
Reinsurance balances payable	4,510,075	3,318,821	7,828,896
Accrued expenses and other liabilities	8,252,006	-	8,252,006
Due to related parties	256,621	-	256,621
Outstanding claims	68,476,051	-	68,476,051
Total insurance operations' financial liabilities	89,351,839	3,318,821	92,670,660

SHAREHOLDERS' FINANCIAL LIABILITIES			
Accrued expenses and other liabilities	1,481,170	-	1,481,170
Due to a related party	27,426,320	-	27,426,320
Total shareholders' financial liabilities	28,907,490	-	28,907,490
TOTAL FINANCIAL LIABILITIES	118,259,329	3,318,821	121,578,150

Commission rate risk

Commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. Floating rate instruments expose the company to cash flow commission risk, whereas fixed commission rate instruments expose the company to fair value interest risk.

The Company is exposed to commission rate risk on certain of its investments, cash and cash equivalents, and time deposits. The Company limits commission rate risk by monitoring changes in commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of statement of shareholders' comprehensive income to reasonably possible changes in commission rates, with all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEAR ENDED DECEMBER 31, 2011

31. RISK MANAGEMENT (continued)

The sensitivity of the statement of shareholders' comprehensive income is the effect of the assumed changes in commission rates on the Company's income for the year, based on the floating rate financial assets and financial liabilities held as at December 31:

	Change in basis points	Effect on comprehensive income for the year/period SR
2011	25	± 479,847
2010	25	± 463,262

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 interest 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 limits market risk by maintaining a diversified portfolio and by monitoring developments in equity market. The Company does not have significant market risk.

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of shareholders' comprehensive income will be impacted.

Capital management

Capital requirements are set and regulated by the Saudi Arabian Monetary Agency. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial period.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on February 20, 2012 corresponding to 28 Rabi' I, 1433H.