



His Royal Highness  
**Prince Sultan**  
**Bin**  
**Abdulaziz Al-Saud**  
Crown Prince  
First Deputy Premier



**King Abdullah**  
**Bin**  
**Abdulaziz Al-Saud**  
Custodian  
of the  
Two Holy Mosques

# Chairman's Statement



## Dear Shareholders,

It is my privilege and pleasure to present, on behalf of the Board of Directors, the 1<sup>st</sup> Annual Report of the Saudi Fransi Cooperative Insurance Company (ASF).

The past financial year has been both challenging and successful for the Saudi Fransi Cooperative Insurance Company. Challenging, because of the developments that have been witnessed in the Saudi insurance market in 2008 - more than 28 insurance companies have obtained their initial license for incorporation or are approaching their final license to transact insurance business - successful, because we were able to demonstrate our position in adding value to the existing insurance market.

Our biggest achievement was the issuing of our Initial Public Offering in March 2007, followed by the successful incorporation of ASF in the Kingdom of Saudi Arabia during the First General Assembly held in June 2007. In addition to that, we have been granted the operation license in March 2008, providing us credibility and trust within the market.

Our figures for the fiscal year ending 31<sup>st</sup> December 2008 are showing SAR 77.9 millions of Gross Written Premiums, representing the achievement of the company since September 2008, whereby the Company has received products' approval for Medical & Engineering businesses. This is showing a very good potential for the company as soon as it will launch its full products range.

Furthermore, the General Assembly held on 18<sup>th</sup> January 2009 approved the transfer of the business to ASF, previously issued under InSaudi Insurance Company (Bahrain). The Portfolio of the Company will be transferred to ASF with effect from 1<sup>st</sup> January 2009 and represents Gross Written Premiums of SAR 139.7 millions approximately. This will further consolidate the position of the Company in the Kingdom of Saudi Arabia.

We are also looking forward to receiving the final green light to transfer Bancassurance Portfolio of Protection & Saving plans issued previously under Banque Saudi Fransi including Retirement and Education policies.

The focus for 2008 was definitely on implementation. We were stepping up the pace of change and we were striving to achieve substantial improvements for our customers through our distribution network. The company has moved to a new Head Office in Riyadh in addition to the launch of new offices covering Jeddah, Madinah, Dammam, Khobar and Al Hasa. The Company has also reinforced its human resources with highly experienced and trained insurance specialists. Of course, the latter would not have been possible without the help of the founders, the Allianz Group for the technical know-how and Banque Saudi Fransi for the local insights.

And above all, I would like to take the opportunity to express, on behalf of ASF shareholders, my sincere gratitude and appreciation to our esteemed customers for their continuous confidence.

I would like to express my deepest gratitude to King Abdullah Bin Abdulaziz and his Crown Prince for their continuous support to the Insurance industry. I would also like to thank the Saudi Arabian Monetary Agency, the Council of Cooperative Health Insurance, the Capital Market Authority and the Ministry of Commerce & Industry, as well as the Board of Directors members, the Executive Management and the staff for their support and dedication.

Yousef Al-Hamdan  
Chairman

# The Board of Directors' Report

The Board of Directors (BOD) of the Saudi Fransi Cooperative Insurance Company has the pleasure to present to the shareholders, the Company's first Annual Report accompanied with the audited financial statements of the fiscal year ending on 31<sup>st</sup> December 2008.

Following is a presentation of the most significant developments, operational activities and financial results:

## 1. Introduction

The Saudi Fransi Cooperative Insurance Company (ASF) is a joint stock company, founded upon the decision of the Council of Ministers No. 233 dated 16/9/1427 H, 9<sup>th</sup> October 2006 and the Royal Decree No. 60/M dated 18/09/1427 H, 11<sup>th</sup> October 2006.

The authorized and issued Capital of the Company is SAR 100 million as of 31<sup>st</sup> December 2008, consisting of 10 million shares. The ownership of ASF's shares is as follows:

- 32.50% Banque Saudi Fransi (BSF)
- 16.25% AGF International (AGF) – (100% owned by Allianz SE)
- 16.25% Allianz MENA Holding Bermuda – (100% owned by Allianz SE)
- 2% Mr. Mohammed Ali Aba Al Khail
- 2% Mr. Omran Mohammed Al Omran
- 31% Held by the public

Within the 31% public shareholders the following own more than 1% shares:

- 3.76% Mr. Sultan Mohammed Yehia
- 2.48% Mr. Saleh Al Ghamdi
- 1.32% Mr. Mohamed Al Qahtani
- 1.23% Ms. Ghadeer Al Rashed

The Company has received its operation license (Ref: TMN/11/20083) from the Saudi Arabian Monetary Agency SAMA on 30/02/1429 H, 8<sup>th</sup> March 2008.

## 2. The Company's Vision, Mission & Strategy

### Our Vision is

to be amongst top Saudi Insurers with global expertise and local insight,  
 providing world class products and services in all lines of business,  
 with nationwide reach, using diverse channels of distribution,  
 through highly trained and motivated employees.

### Our Mission Statement is

Create Trust – Deliver Excellence from A to z

### Our Strategy is

To provide insurance solutions in all lines of business through three axis of development:

- Banque Saudi Fransi: to provide Retail Bancassurance products.
- Direct Sales Force: to provide individual insurance solutions.
- Selected brokers and dedicated account executives: to provide comprehensive solutions for corporate customers.

The Company will invest strongly in the early years to develop the above channels of distribution enabling us to consolidate our market position in Property & Casualty Business, Health Business as well as in Protection & Saving products. In addition to that, the Company is investing in its distribution network, IT systems and Human Resources, therefore it is expecting to only start generating profits after the first development stages.

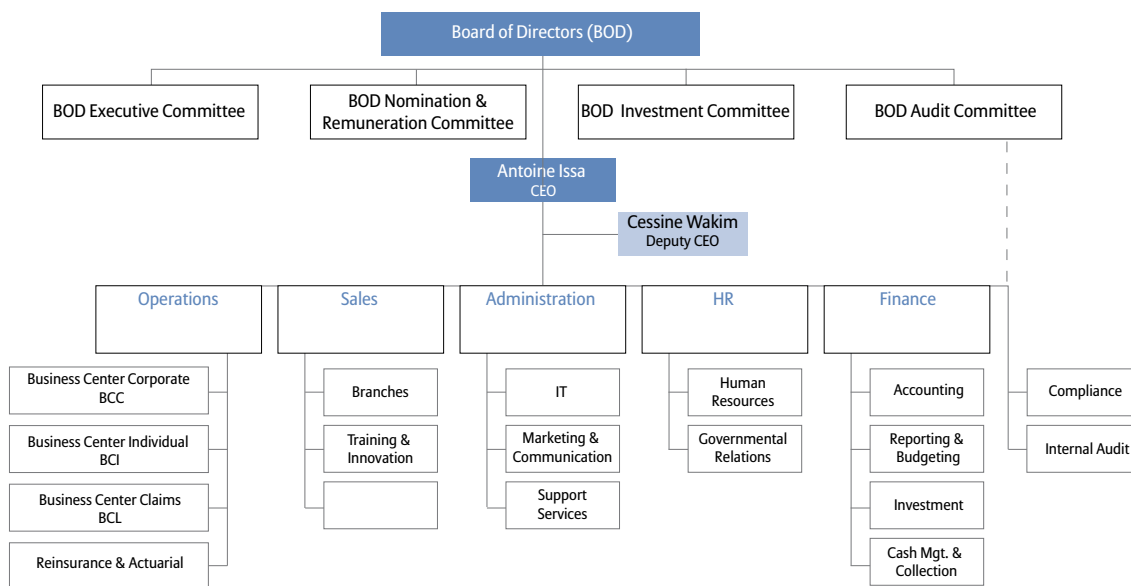
### 3. ASF Key Dates and Developments

ASF witnessed since its incorporation many significant developments mainly:

- The shareholders have received the authorization to establish the Company as per the Royal Decree No. 60/Mon October 2006.
- The Company went public through an Initial Public Offering on March 2007.
- The Constituting General Assembly was done on June 2007.
- The Operational License from SAMA (Ref: TMN/11/20083) was obtained on March 2008.
- The Company moved to the New Head Office in Riyadh on August 2008.
- The Company received its 1<sup>st</sup> products approval on September 2008.
- The Board of Directors has recommended on October 2008 to increase the Capital to SAR 200 million (refer to paragraph 11).
- The Company expanded its geographical presence to cover Riyadh, Jeddah, Medina, Dammam, Khobar, and Al Hasa as of December 2008.
- The General Assembly of January 2009 has agreed on the transfer of Insaudi Portfolio as of 1<sup>st</sup> January 2009 (refer to paragraph 10).
- The Company is expecting to receive SAMA approval for the transfer of the Protection & Saving Bancassurance Portfolio in early 2009 (refer to paragraph 10).

### 4. Organization Chart

The Organization chart of the Company including various Business units is shown here below:



## 5. Top Management

The Top Management of the Company is shown here below:

Name	Position	Year of Birth	Latest Degree
Antoine Issa	Chief Executive Officer	1966	Masters in Civil Engineering & Masters in Finance
Cessine Wakim	Deputy Chief Executive Officer	1959	Masters in Mathematics & Ph.D. In International Business Administration
Madeni Al Sumeiri	Head of HR & Gov. Relations	1963	Bachelor of Business Administration
Sayed Hassan	Head of Sales	1957	Masters of Science
Ayman Hegazy	Chief Financial Officer	1978	Certified Public Accountant & Masters in Business Administration
Mark Katteneh	Chief Administrator Officer	1964	Bachelor of Business Management

## 6. Human Resources

The Company's total staff as of 31<sup>st</sup> December 2008 was 176 employees, including 38% Saudis. The Management focus is to gradually increase the number of Saudis in the various levels of the organization.

## 7. Geographical Presence

Our geographical presence in the Kingdom of Saudi Arabia is shown here below:

Office	Address	Telephone & Fax
Head Office- Riyadh	Khorais Road, Al Khaleej Bridge, Malaz – Riyadh - KSA P.O. Box 3540, Riyadh 11481	Tel: 966 (1) 874 9700 Fax: 966 (1) 8749799
Riyadh Branch	Khorais Road, Al Khaleej Bridge, Malaz – Riyadh - KSA P.O. Box 3540, Riyadh 11481	Tel: 966 (1) 874 9700 Fax: 966 (1) 8749799
Jeddah Regional Office	Suite 102, 1st Floor, Ewan Center, Ibrahim Juffali Street, Andalus District, Jeddah, KSA	Tel: 966 (2) 2832444 283 2589 Fax: 966 (2) 283 0022
Jeddah Branch	Suite 33, 3rd Floor, Khayyat Tower, Madina Road Northbound Sharafiya District, Jeddah, KSA	Tel: 966 (2) 6678123, 669 2059 Fax: 966 (2) 663 2576
Madinah Branch	Qurban Street, Al Maimani Building, 6th floor, Medina, KSA	Tel: 966 (4) 834 3111 Fax: 966 (4) 834 0298
Dammam Regional Office	Business City Building, King Abdelaziz Street, KSA	Tel: 966 (3) 8315600 to 8315606 Fax: 966 (3) 8315609
Khobar Branch	Al-Salah Tower, Office G107, 28 <sup>th</sup> Street (Pepsi Road) Behind Banque Saudi Fransi Regional Office	Tel: 966 (3) 8679454, 8675230 / 867 2256 Fax: 966 (3) 867 8441
El-Hasa Branch	Al Bostan Mall, Al Thoraiyat Road, El-Hasa, KSA	Tel: 966 (3) 5825400 Fax: 966 (3) 582 8118

## 8. Financial Highlights

### a) Written premiums

The Gross Written Premiums amounted to SAR 77.9 million as of December 2008 split per line of business as follows:

a) Engineering & Liability:	SAR 61.8 million
b) Health:	SAR 16.1 million

Noting that, the Company has received the products approval for Engineering and Health, and has started its activity in these classes of business in September 2008. During January 2009 the Company has received approval for other Classes of Business and is under the process of getting new products approval.

### b) Net Premiums Earned

The Net Premiums Earned after deducting the premium ceded to reinsurers and the reserves for the unearned premiums has amounted to SAR 3.7 million.

The Net Premiums Earned for the Company are low due to the high reinsurance level for Engineering and due to the fact that the Company only started writing business in September 2008.

### c) Claims Incurred

The Net Claims Incurred during the period after deducting the reinsurance shares and reserves amounted to SAR (0.6) million.

### d) Commissions

The commission expense net of reinsurance commission has amounted to SAR (0.1) million.

### e) General Expenses

Since its incorporation the Company has incurred total expenses of SAR (28.3) million, split as follows:

■ General and administrative expenses	SAR 25.4 million
■ Depreciation expenses:	SAR 2.5 million
■ Inspection and Supervision fees:	SAR 0.4 million

### f) Deficit from Insurance Operations

The technical result before investment income is showing a deficit of SAR (25.3) million.

### g) Investments

The Company investments as of December 31<sup>st</sup> 2008 are summarized here below:

■ Cash & cash equivalents:	SAR 56.6 million
■ Bonds:	SAR 04.0 million
■ Funds:	SAR 10.1 million

The investment income has amounted to SAR 2.7 million as of 31<sup>st</sup> December 2008.

### h) Other expenses

The expenses allocated to Shareholders' operations and pre-incorporation expenses are SAR (10.8) million split as follows:

■ General expense:	SAR 0.3 million
■ Pre-incorporation expenses:	SAR 10.5 million

### i) Result of the Period (Loss)

The Company is still in its early stages of development and is investing on the needed infrastructure, systems, procedures, and human resources. Therefore the result of the first fiscal year is a loss amounting to SAR 33.5 million. This loss is equivalent to a net loss per share of SAR 3.35.

### j) Shareholder's Equity

The Shareholder's Equity as of 31<sup>st</sup> December 2008 amounted to SAR 65.9 million, split as follows:

■ Share Capital:	SAR 100 million
■ Accumulated Losses:	SAR (33.5) million
■ Zakat Provisions & Taxes:	SAR (0.7) million
■ Other Reserves:	SAR 0.1 million

## 9. Corporate Governance, Regulations & Committees

### a) Board of Directors

The Board of Directors (BOD) is composed of 8 members:

- 3 representing Banque Saudi Fransi (BSF)
- 3 representing AGF International & Allianz MENA Holding Bermuda
- 2 representing the public, including the Chairman

Name	Number of shares*	Board Member**	Representing	Members Classification
Yousef Al Hamdan	1,000	<ul style="list-style-type: none"> <li>■ National Installment Co.</li> <li>■ Yousef Hamdan Al Hamdan Ltd Trading Company</li> </ul>	Public	Independent
Sameer Al Hamidi	1,000	<ul style="list-style-type: none"> <li>■ Astra Industrial Company</li> </ul>	Public	Independent
Jean Marion	NIL	<ul style="list-style-type: none"> <li>■ Banque Saudi Fransi</li> <li>■ Banque Bemo Saudi Fransi</li> <li>■ Calyon Saudi Fransi.</li> <li>■ Caam Saudi Fransi.</li> <li>■ Sofinco Saudi Fransi.</li> <li>■ Fransi Tadawul.</li> </ul>	BSF	Non Executive
Abdurrahman Jawa	NIL	<ul style="list-style-type: none"> <li>■ Saudi Travellers Cheques.</li> <li>■ Banque Saudi Fransi</li> <li>■ Banque Bemo Saudi Fransi</li> <li>■ Calyon Saudi Fransi.</li> <li>■ Caam Saudi Fransi.</li> <li>■ Sofinco Saudi Fransi.</li> <li>■ Fransi Tadawul.</li> <li>■ Al Emthail.</li> </ul>	BSF	Non Executive
Nizar Al Qannas	NIL		BSF	Non Executive (BOD Secretary)
Kamesh Goyal	NIL		Allianz MENA Holding Bermuda	Non Executive
Hugues de Roquette Buisson	NIL		AGF International	Non Executive
Antoine Issa	NIL		AGF International	Executive (CEO)

\*Owned by the BOD members, their spouses or their children in ASF.

\*\*In another company in KSA

The top six executives including the CEO and the CFO and their spouses and children don't own any share in ASF.

## b) Remuneration and Compensation of Board Members and Top Executives

- Remuneration and Compensation of Board Members during the first fiscal year (June 2007 to 31<sup>st</sup> December 2008):

	Annual bonuses	Remuneration for Attending	Expenses
Chairman	NIL	SAR 27,000	SAR 20,039
Other Board Members	NIL	SAR 147,000	SAR 139,333
Total	NIL	SAR 174,000	SAR 159,372

- Top Executives

The top six executives (including the Chief Executive Officer and the Chief Financial Officer) were paid a sum of SAR 4,221,326 as salaries, allowances, reimbursement, and bonuses.

During 2008, there was no contract found in which the Company was a party and its Chief Executive Officer, Chief Financial Officer, or any other person who may have a relationship with any of them benefited from it. Moreover, there are no arrangements or agreements by which any of the members of the Board of Directors or any top executive or any of the shareholders of ASF waived their interests or rights to receive dividends.

In 2008, the Company did not record penalties, punishments or provisional restraints by the CMA or any regulatory authority, except a penalty of SAR 10,000 incurred due to the late submission of its first financials in 2007 to the CMA.

## c) BOD Committees

- BOD Executive Committee

The BOD Executive Committee is responsible for providing recommendations to the Board on various issues such as strategic and business plans. The committee is delegated with certain executive authorities of the board like studying the budget, drawing up the general company policy, following up the performance and achievements versus the plan, etc. The Committee is comprised of the following members:

BOD Executive Committee	
Hugues de Roquette Buisson	Chairman of Executive Committee
Jean Marion	Member
Abdurrahman Jawa	Member
Kamesh Goyal	Member
Antoine Issa	Member (CEO)

The BOD Executive Committee met three times with 100% attendance.

- BOD Audit Committee

The BOD Audit committee is responsible for discharging the Board's duties related to the supervision of the Company's financial reporting and evaluating the adequacy of internal and external audit processes. The Committee also evaluates and monitors ASF's control environment and risk management processes. The Committee is comprised of the following members:

BOD Audit Committee	
Hugues de Roquette Buisson	ASF Board Member
Riyadh Al Sharikh	External
Abdul Aziz Osman	External



The 3 members are non executive and only one is a board member. The BOD Audit Committee met on January 2009 to approve the Company's Financials for the 4th quarter 2008 and on February 2009 to approve the Financials for the first fiscal year. There is no financial or family relationship between the BOD members and the Audit Committee.

■ BOD Investment Committee members

The Investment Committee shall prepare, review, and approve the investment policy of the Company and set the investment strategy in accordance with the investment policy approved by the Board of Directors and in line with SAMA's regulations. The Committee is comprised of voting members and a permanent guest whom are as follows:

BOD Investment Committee	
Antoine Issa (CEO)	Member
Hugues de Roquette Buisson	Member
Abdul Rahman Jawa	Member
Ayman Hegazy (CFO)	Permanent Guest

■ Nomination & Remuneration Committee

The duties and responsibilities of the Nomination & Remuneration Committee are mainly:

- Recommend appointments of membership to the Board of Directors.
- Review the structure of the Board of Directors.
- Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in the Board of Directors.
- Carve clear policies regarding the indemnities and remuneration of the Board Members and Top Executives.

The Nomination & Remuneration Committee is comprised of:

BOD Nomination & Remuneration Committee	
Kamesh Goyal	Non Executive
Jean Marion or Abdul Rahman Jawa	Non Executive
Sameer Al Hamidi	Independent

The policy and names of the Nomination & Remuneration Committee will be submitted to the next General Assembly.

## d) BOD Meetings

The BOD met nine times during the first fiscal year:

BOD Meeting	Date	Attendances
1	05/06/2007	6 members attended the meeting and the others gave proxies.
2	17/07/2007	5 members attended the meeting and the others gave proxies.
3	08/09/2007	7 members attended the meeting and one gave a proxy.
4	21/11/2007	7 members attended the meeting and one gave a proxy.
5	23/01/2008	8 members attended the meeting.
6	30/04/2008	5 members attended the meeting and the others gave proxies.
7	05/06/2008	8 members attended the meeting.
8	22/10/2008	7 members attended the meeting and one gave a proxy.
9	03/12/2008	5 members attended the meeting and the others gave proxies.

### e) Zakat, Legal Payments, and Loans

ASF allocated SAR 770,942 for Zakat. There were no loans by the Company.

### f) External Financial Revisions and Accountant Measures

In 2007, the Ordinary General Assembly approved the BOD recommendation of appointing KPMG and Ernst & Young as joint external auditors of ASF for the fiscal year ending 31<sup>st</sup> December 2008. The Audit Committee has recommended the nomination of the auditors for 2009, which was approved by the Board of Directors, subject to the ratification of the General Assembly that is to be held in March 2009.

## 10. Portfolios Transfer

#### ■ Portfolio Transfer – “InSaudi Insurance Company “BSC” (InSaudi)

Following the SAMA approval on 28/11/1429H, 26<sup>th</sup> November 2008, ASF General Assembly held on 21/01/1430H, 18<sup>th</sup> January 2009 approved the transfer of the insurance Portfolio of the InSaudi with a cut-off date of 1<sup>st</sup> January 2009 and with no goodwill.

InSaudi is an insurance company incorporated in Bahrain in December 1993 and authorized by the Saudi Arabian Monetary Agency (SAMA) to operate in the Kingdom of Saudi Arabia until ASF becomes fully licensed and until the Portfolio of InSaudi is actually transferred.

InSaudi is owned by the founders of ASF (BSF & Allianz) and the aim of the transfer of its Portfolio - as announced in the IPO booklet – is to allow ASF to start with an existing Portfolio base. The Portfolio that will be transferred is showing as of 31<sup>st</sup> December 2008 Gross Written Premiums of SAR 139.9 million.

#### ■ Bancassurance Portfolio Transfer “Banque Saudi Fransi” (BSF)

The company also intends to transfer a Portfolio presently issued by Banque Saudi Fransi composed of Bancassurance Protection and Saving products: Al-Ghad for Retirement and Al-Anjal for Education.

This transfer is under review by SAMA for final approval expected in early 2009.

## 11. Capital Increase 2009

Following the successful development of the Company during its first fiscal year, the Board of Directors has recommended on 27<sup>th</sup> October 2008 to increase the Capital of the Company by an additional SAR 100 million to reach a total Paid Up capital of SAR 200 million. The initial founders have also confirmed their agreement on the increase.

This increase will be done in the form of a right issue during 2009 as soon as authorized by the competent authorities.



# Saudi Fransi Cooperative Insurance Company

A Saudi Joint Stock Company

## Financial Statements

For The Period Ending 31 December 2008

## Together with the Auditors' Report

# Independent Auditors' Report

## Independent Auditors' Report To The Shareholders Of Saudi Fransi Cooperative Insurance Company (A Saudi Joint Stock Company)

### Scope Of Audit

We have audited the accompanying balance sheet of Saudi Fransi Cooperative Insurance Company – a Saudi Joint Stock Company ('the Company') as at 31 December 2008 and the related statements of insurance operations, shareholders' operations, insurance operations' cash flows and shareholders' cash flows and changes in shareholders' equity for the period from 23 June 2007 to 31 December 2008 and notes 1 to 27 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 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. Except for the matter explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

### Qualification

As described in note 3 to the financial statements, management have prepared these financial statements in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia Based on evidence and information available to us, we have been unable to conclude whether the basis of preparation of these financial statements is appropriate.

### Qualified Opinion

In our opinion, subject to the matter described in the preceding paragraph, the financial statements taken as a whole:

1. Present fairly, in all material respects, the financial position of the Company as of 31 December 2008 and the results of its operations and its cash flows for the period 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.

Ernst & Young  
P. O. Box 2732  
Riyadh 11461  
Kingdom of Saudi Arabia

3 Rabi Al Awal 1430H  
(28 February 2009)

KPMG Al Fozan & Al Sadhan  
P. O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia



Fahad M. Al Toaimi  
Certified Public Accountant  
Registration No. 354



Tareq Al Sadhan  
Certified Public Accountant  
Licence No. 352



# Financial Statements

For The Period Ending 31 December 2008

## Balance Sheet

As of 31 December 2008

	Note	SR
<b>INSURANCE OPERATIONS' ASSETS</b>		
Office equipment and furniture	6	7,016,114
Reinsurers' share of outstanding claims	7	1,196,374
Reinsurers' share of unearned premiums		50,068,631
Deferred policy acquisition costs	8	632,839
Prepayments and others	9	1,149,167
Due from shareholders' operations		25,337,634
Premiums receivable	10	58,687,080
Cash and cash equivalents	11	3,923,431
<b>Total insurance operations' assets</b>		<b>148,011,270</b>
<b>SHAREHOLDERS' ASSETS</b>		
Statutory deposit	12	10,053,040
Advance on investments	13 (Iii)	800,000
Investments	13 (I),(Ii)	14,164,997
Prepayments and other assets	9	144,047
Due from an affiliate	14	9,545,361
Cash and cash equivalents	11	56,621,236
<b>Total shareholders' assets</b>		<b>91,328,681</b>
<b>TOTAL INSURANCE OPERATIONS' AND SHAREHOLDERS' ASSETS</b>		<b>239,339,951</b>
<b>INSURANCE OPERATIONS' LIABILITIES</b>		
Employees' end of service benefits		511,271
Unearned premiums		58,374,364
Outstanding claims	7	1,663,076
Unearned commission income	15	736,891
Reinsurance balances payable		49,304,621
Accrued expenses and other payables	16	7,476,863
Due to an affiliate	14	29,944,184
<b>Total insurance operations' liabilities</b>		<b>148,011,270</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>		
Due to insurance operations		25,337,634
Accrued expenses and other payables	16	53,040
Zakat payable	17	50,825
<b>Total shareholders' liabilities</b>		<b>25,441,499</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	18	100,000,000
Accumulated losses		(34,224,179)
Unrealized gain on available for sale investments	13 (I)	111,361
<b>Total shareholders' equity</b>		<b>65,887,182</b>
<b>TOTAL INSURANCE OPERATIONS' AND SHAREHOLDERS' LIABILITIES &amp; EQUITY</b>		<b>239,339,951</b>

## Statement of Insurance Operations

For the period from 23 June 2007 to 31 December 2008

	Note	SR
Gross written premiums		77,908,114
Reinsurance premiums ceded		(65,937,744)
<b>Net written premiums</b>		11,970,370
Unearned premiums		(58,374,364)
Reinsurance share of unearned premiums		50,068,631
<b>Net change in unearned premiums</b>		(8,305,733)
<b>Net premiums earned</b>		3,664,637
Commission earned during the period	15	214,344
<b>TOTAL REVENUES</b>		3,878,981
Gross claims paid		(439,300)
Reinsurance share of claims paid		329,475
<b>Net claims paid</b>		(109,825)
Gross outstanding claims		(1,663,076)
Reinsurance share of outstanding claims		1,196,374
<b>Net outstanding claims</b>	7	(466,702)
<b>Net claims incurred</b>		(576,527)
Policy acquisition costs	8	(318,704)
Inspection and supervision fees		(389,541)
General and administrative expenses	21	(27,931,843)
<b>TOTAL CLAIMS AND EXPENSES</b>		(29,216,615)
<b>NET DEFICIT FOR THE PERIOD FROM INSURANCE OPERATIONS</b>		(25,337,634)
Net deficit transferred to statement of shareholders' operations		25,337,634
<b>NET RESULT FOR THE PERIOD</b>		-

## Statement of Shareholders' Operations

For the period from 23 June 2007 to 31 December 2008

	Note	SR
Interest income		2,743,302
Amortisation of premium on investments		(34,905)
<b>Total revenues</b>		<b>2,708,397</b>
Net deficit transferred from statement of insurance operations		(25,337,634)
Pre-incorporation expenses, net	22	(10,504,494)
General and administrative expenses		(319,506)
<b>NET LOSS FOR THE PERIOD</b>		<b>(33,453,237)</b>
Basic and diluted loss per share	24	(3.35)

## Statement of Insurance Operations' Cash Flows

For the period from 23 June 2007 to 31 December 2008

	Note	SR
<b>OPERATING ACTIVITIES</b>		
Net result for the period		-
Adjustments for:		
Unearned premiums, net		8,305,733
Depreciation		3,167,449
Employees' end of service benefits		511,271
		<b>11,984,453</b>
Changes in operating assets and liabilities:		
Premiums receivable		(58,687,080)
Deferred policy acquisition costs		(632,839)
Unearned commission income		736,891
Reinsurance balances payable		49,304,621
Accrued expenses and other payables		7,476,863
Outstanding claims, net		466,702
Prepayments and others		(1,149,167)
<b>Net cash from operating activities</b>		<b>9,500,444</b>
<b>INVESTING ACTIVITIES</b>		
Due from shareholders' operations		(25,337,634)
Purchase of office equipment and furniture		(10,183,563)
<b>Net cash used in investing activities</b>		<b>(35,521,197)</b>
<b>FINANCING ACTIVITIES</b>		
Due to an affiliate		29,944,184
<b>Net cash from financing activities</b>		<b>29,944,184</b>
<b>INCREASE IN CASH AND CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	11	<b>3,923,431</b>



# Statement of Shareholders' Cash Flows

For the period from 23 June 2007 to 31 December 2008

	Note	SR
<b>OPERATING ACTIVITIES</b>		
Net loss for the period		(33,453,237)
Adjustments for:		
Amortisation of premium on investments		34,905
		(33,418,332)
Changes in operating assets and liabilities:		
Statutory deposit		(10,053,040)
Prepayments and others		(144,047)
Accrued expenses and other payables		53,040
Cash used in operations		(43,562,379)
Zakat paid during the period		(720,117)
<b>Net cash used in operating activities</b>		<b>(44,282,496)</b>
<b>INVESTING ACTIVITIES</b>		
Advance on investments		(800,000)
Purchases of held to maturity investments		(2,078,541)
Purchases of available for sale investments		(12,010,000)
<b>Net cash used in investing activities</b>		<b>(14,888,541)</b>
<b>FINANCING ACTIVITIES</b>		
Issue of share capital		100,000,000
Due to an affiliate		(9,545,361)
Due to insurance operations		25,337,634
<b>Net cash from financing activities</b>		<b>115,792,273</b>
<b>INCREASE IN CASH AND CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	11	<b>56,621,236</b>
<i>Non-cash supplemental information:</i>		
Net changes in fair value of available for sale investments	13(i)	111,361
<i>Operational cash flows from interest income:</i>		
Interest received		2,886,008

## Statement of Changes In Shareholders' Equity

For the period from 23 June 2007 to 31 December 2008

	SR			
	<i>Share capital</i>	<i>Accumulated losses</i>	<i>Unrealized gain on available for sale investments</i>	<i>Total</i>
Issue of share capital	100,000,000	-	-	100,000,000
Net loss for the period	-	(33,453,237)	-	(33,453,237)
Provision for Zakat (note 17 a)	-	(770,942)	-	(770,942)
Net changes in fair value of available for sale investments (note 13 (i))	-	-	111,361	111,361
<b>Balance at 31 December 2008</b>	<b>100,000,000</b>	<b>(34,224,179)</b>	<b>111,361</b>	<b>65,887,182</b>

The accompanying notes 1 to 27 form part of these financial statement



**Nizar Al Qannas**  
Board Member



**Antoine Issa**  
Chief Executive Officer



**Ayman Hegazy**  
Chief Financial Officer

# Notes To The Financial Statements

31 December 2008

## 1. Organization and Principal Activities

Saudi Fransi Cooperative Insurance Company ('the Company') is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010235601 dated 26 Jumada Thani 1428H corresponding to 12 July 2007. The Company operates through its seven branches in the Kingdom of Saudi Arabia, employing 176 employees as of 31 December 2008. The registered office of the Company is located at Al Safwa Commercial Building, P O Box 3540, Riyadh 11481, Kingdom of Saudi Arabia.

The objectives of the Company are to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock exchange on 9 Rajab 1428H, corresponding to 23 July 2007.

During 2007, the Company resolved to change its name from 'Saudi Fransi Cooperative Insurance Company' to 'Allianz Saudi Fransi Company for Cooperative Insurance'. The legal formalities to effect this name change are currently in progress.

As per the Company's by-laws, the Company's first fiscal year commenced on the issuance date of the Ministerial Resolution declaring the incorporation of the Company, which was 8 Jumada Thani 1428H corresponding to 23 June 2007, and ended on 31 December 2008. Accordingly, these are the first financial statements of the Company.

## 2. Asset Purchase Agreement, Transfer of Insurance Portfolio and Commercial Operations

The Company has been licensed to conduct insurance business in Saudi Arabia under cooperative principles in accordance with Royal Decree number 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to Council of Ministers resolution number 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering on 26 March 2007, an application was submitted to His Excellency the Minister of Commerce and Industry (MOCI) in the Kingdom of Saudi Arabia, requesting the announcement of the incorporation of the Company. On 8 Jumada Thani 1428H corresponding to 23 June 2007, MOCI issued a resolution declaring the incorporation of the Company.

During 2007, the Company entered into an asset purchase agreement (the Agreement), pursuant to which it offered to purchase the insurance business and related net assets (insurance portfolio) of InSaudi Insurance Company B.S.C's operations in the Kingdom of Saudi Arabia (the Operations) at a valuation to be approved by the Saudi Arabian Monetary Agency (SAMA) and agreed by the concerned parties. The Company, in accordance with the purchase agreement, submitted a due diligence study (which consisted of valuation of the Operations) completed by an independent auditor to SAMA during 2007. During December 2008, the Company received an approval from SAMA for the transfer of InSaudi Insurance Company's portfolio. The transfer of the insurance portfolio has been unanimously approved by the shareholders in their meeting held on 18 January 2009.

During March 2008, SAMA granted the Company an authorisation to commence operations as soon as product approval and related formalities were completed. During 2008, the Company obtained SAMA's approval for issuance of policies under three main classes namely Engineering, Medical and Fidelity Guarantee. In addition, the Company received an approval from SAMA during December 2008 for issuance of Bancassurance products.

The Company expects to launch its full commercial operations during 2009.

## 3. Basis of Preparation

### Basis of measurement

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

### Statement of compliance

The financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards (IFRS), which is in line with the letter issued by the Capital Market Authority (CMA) dated 27 August 2008 expressing no objection to the publication of financial statements under International Financial Reporting Standards (IFRS).

The Company's by-laws require that separate accounts be maintained for Insurance and Shareholders' activities. 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 management and the Board of Directors.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheets 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 liabilities simultaneously. Income and expense will not be offset in the statement of insurance operations or statement of shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

### Functional and presentational currency

The functional and presentational currency of the Company is Saudi Riyals (SR). The financial statement values are presented in Saudi Riyals, unless otherwise indicated.

## 4. Summary of Significant Accounting Policies

The significant accounting policies adopted are as follows:

### New standards and interpretation issued but not yet effective

The following standards and interpretation have been issued by International Accounting Standard Board (IASB) but are not yet mandatory for these financial statements.

- IFRS 8 Operating Segments.
- IAS 1 (revised) Presentation of Financial Statements.
- IAS 32 Financial Instruments: Presentation and IAS 1 of Financial Statements - Puttable Financial Instruments and Obligation Arising on Liquidation.

The application of the above standards is not expected to have a material impact on financial statements as and when they become effective. However, the application of these standards will result in amendments to the presentation of the financial statements.

### Cash and cash equivalents

For the purpose of statements of cash flows, cash and cash equivalents comprise cash at banks.

### Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the 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 balance sheet date. All differences are taken to the statement of shareholders' operations and insurance operations.

### Revenue recognition

#### Gross premiums

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. The change in the provision for unearned premiums is taken to the "statement of insurance operations", over the period of risk.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

#### Reinsurance premiums

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognized from the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

#### Fees and interest income

Insurance policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over future periods. Interest income is recognized on an effective yield basis taking account of the principal outstanding and the interest rate applicable.

#### Cash-settled share-based payment

For cash-settled share-based payments, the Company measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company re-measures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in statement of shareholders' operations for the period.

### Claims

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

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. In addition, a provision based on management's judgement and the Company's prior experience, is maintained for the cost of settling claims "incurred but not reported" at the balance sheet date. Any difference between the provisions at the balance sheet date and settlements and provisions for the following period is included in the underwriting account for that period.

### Deferred policy acquisition costs (DPAC)

Commissions and other costs directly related to the acquisition and renewal 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 straight-line basis based on the term of expected future premiums. Amortization is recorded in the statement of insurance operations. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

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

### Fair values

For investments traded in the organized markets, fair value is determined by reference to quoted market bid prices. The fair value of unquoted interest-bearing items is estimated based on discounted cash flows using interest rates 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.

### Reinsurance

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 period. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in statement of insurance operations.

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. 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.

### Investments

All investments are initially recognized at fair value, including acquisition charges associated with the investment. Premiums are amortized and discounts accreted using the effective yield method and are taken to the statements of shareholders' operations. Following initial recognition of the various classes of investment securities, the subsequent period-end reporting values are determined on the basis as set out in the following paragraphs:

- i. **Held to maturity**  
Investments which have fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are subsequently measured at amortized cost using the effective interest method, 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 recognized in the statement of shareholders' operations when the investment is derecognized or impaired.
- ii. **Available for sale**  
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. For an available for sale investment, any gain or loss arising from a change in its fair value is recognized directly in statement of shareholders' equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously recognized in the shareholders' equity should be included in the statement of shareholders' operations for the period. Available for sale investments whose fair value can not be reliably measured are carried at amortized cost.

### Premiums receivable

Premiums receivable are recognized when due 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. Premiums receivable are derecognized when the derecognition criteria for financial assets have been met.

### Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet 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 statements of shareholders' operations and insurance operations. Impairment is determined as follows:

- i. For assets carried at fair value, impairment is the difference between the cost and fair value;
- ii. 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
- iii. For assets carried at amortized cost, impairment is based on estimated cash flows that are discounted at the original effective interest rate.

### Derecognition 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 balance sheet 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 is not offset in the statement of shareholders' operations and insurance operations unless required or permitted by any accounting standard or interpretation

### 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.

### Office equipment and furniture

The cost of office equipment and furniture is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

Computer and office equipments	4 years
Vehicles	4 years
Furniture and fittings	7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

### Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of 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.

### Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

### Liability adequacy test

At each balance sheet 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 operations and an unexpired risk provision created. The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the balance sheet date.

### Leases

Operating lease payments are recognised as an expense in the statements of shareholders' operations and insurance operations on a straight-line basis over the lease term.

### Zakat and income tax

Zakat is computed on the Saudi shareholders' share of equity or net adjusted income using the basis defined under the Zakat regulations in the Kingdom of Saudi Arabia. Income taxes are computed on the foreign shareholders' share of net adjusted income. Zakat and income tax is accrued and charged to the Statement of Changes in Shareholders' Equity.

### Segmental reporting

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

- Engineering and liability provides coverage for builder's risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance. Fire provides coverage against fire, and any other insurance included under this class of insurance.
- Shareholders' Funds is a non-operating segment. Income earned from 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 are allocated to this segment on an appropriate basis.
- The health care products provide medical cover to policyholders.

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

No inter-segment transactions occurred during the period. If any transaction 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 income, expense and results will then include those transfers between business segments which will then be eliminated at the level of financial statements of the Company. As the Company carries out its activities entirely in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

### Employee end of service benefits

Employees' end of service benefits are accrued currently and are payable as a lump sum to all employees under the term and conditions of Saudi labor regulations on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled should the employee leave at the balance sheet 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.

### Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of condition that arose after the balance sheet are disclosed, but do not result in an adjustment of the financial statements themselves.

## 5. Significant Accounting Estimates and Assumptions

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, 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 balance sheet date, that have significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

### Impairment of investments

The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities (if any).

### Reserve for insurance activities

The estimation of the ultimate liability arising from claims made under general 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 balance sheet date, for which the insured event has occurred prior to the balance sheet date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

#### Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized 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 policy acquisition cost

Certain acquisition cost related to sale of new policies are recorded as deferred acquisition cost and are amortised over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortisation of these costs could be accelerated and this may also require additional impairment.

#### Classification of held-to-maturity investments

The Company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Company evaluates its intention and ability to hold such investments to maturity.

## 6. Office Equipment and Furniture

	SR			
	Computer and office equipment	Vehicles	Furniture and fittings	Total 2008
Cost:				
Additions during the period and balance at the end of the period (note 22)	5,753,690	682,190	3,747,683	10,183,563
Depreciation:				
Charge for the pre-incorporation period	529,548	56,532	32,904	618,984
Charge for the post-incorporation period	1,836,512	222,767	489,186	2,548,465
Balance at the end of the period	2,366,060	279,299	522,090	3,167,449
<i>Net book value at 31 December 2008</i>	3,387,630	402,891	3,225,593	7,016,114



## 7. Outstanding claims, net

	SR
Outstanding claims, gross	1,215,000
Incurred but not reported (IBNR) claims, net	448,076
Total outstanding claims	1,663,076
Reinsurance share of outstanding claims	1,196,374
	466,702

## 8. Deferred policy acquisition costs

	SR
Incurred during the period	951,543
Amortisation for the period	(318,704)
	632,839

## 9. Prepayments and others

	Insurance operations	Shareholders' operations
Prepaid rent	713,981	-
Deferred incentive plan costs (note 19)	435,186	-
Accrued interest	-	144,047
	1,149,167	144,047

## 10. Premiums Receivable

The ageing analysis of unimpaired premiums receivable balances is set out below.

Amount in SR	Total	Neither past due nor impaired	Past due but not impaired	
			91 to 180 days	More than 180 days
Premiums receivable	58,687,080	23,390,451	20,967,533	14,329,096

The Company classifies balances as 'past due and impaired' on a case to case basis. Unimpaired premiums receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over premiums receivable, and vast majority of such balances therefore, is unsecured. There were no impaired premiums receivable balances at the year end.

## 11. Cash and cash equivalents

	SR
Cash at bank:	
Insurance operations	3,923,431
Shareholders' operations	56,621,236
	60,544,667

Cash at bank balances are maintained with Banque Saudi Fransi, a founding shareholder with a credit rating of B from Fitch.

## 12. Statutory deposit

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 10,000,000 in a bank designated by SAMA and includes accrued interest amounting to SR 53,040. This deposit cannot be withdrawn without SAMA's consent. The Statutory deposit is maintained with Banque Saudi Fransi.

## 13. Investments

Investments are classified as follows:

		SR
Available for sale	(i)	12,121,361
Held to maturity	(ii)	2,043,636
		14,164,997

### (i) Available for sale

Investment in available for sale comprise the following:

	Cost	Market Value	SR Unrealised gain (loss)
SR Money Market Fund (managed by CAAM Saudi Fransi)	5,000,000	5,096,868	96,868
Al Badr Fund (managed by CAAM Saudi Fransi)	5,000,000	5,084,493	84,493
SEC Sukuk	2,010,000	1,940,000	(70,000)
	12,010,000	12,121,361	111,361

### (ii) Held to maturity

Held to maturity investment represents Saudi Government Development Bonds (SGDB) amounting to SR 2,078,541 (premium of SR 78,540) maturing in October 2009. The carrying value net of amortisation, as at 31 December 2008 amounted to SR 2,043,636. The fair value of the SGDB is not materially different from its carrying value.

### (iii) Advance on investments

During 2008, the Company subscribed an amount of SR 800,000 representing a 16% equity interest in the capital of "Saudi Nextcare", a medical Third Party Administrator which was under formation as at the balance sheet date.

## 14. Related Party Transactions And Balances

The following are the details of major related party transactions during the period from 23 June 2007 to 31 December 2008 and the related affiliates balances as at 31 December 2008:

Related party	Nature of transaction	SR
InSaudi Insurance B.S.C (Affiliate)	Pre-incorporation expenses and general and administration expenses paid on behalf of the Company	29,725,853
	Office equipment and furniture acquired on behalf of the Company (note 6)	10,183,563
	Reimbursement of expenses paid	(19,510,592)
	Net premiums received	282,693
Banque Saudi Fransi (Founding shareholder)	Interest income	(2,944,449)
Board members	Fees and related expenses	333,372
Key management personnel	Remuneration and related expenses	4,221,326

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly and comprise top management executives including the Chief Executive Officer and the Chief Financial Officer of the Company.

Certain significant available for sale investments are managed by an affiliate (CAAM Saudi Fransi).

The above significant transactions with the affiliate are included in the following balances as at the balance sheet date:

InSaudi Insurance B.S.C (Affiliate)		SR
Due to an affiliate (Insurance operations)	(i)	29,944,184
Due from an affiliate (Shareholders' operations)	(ii)	9,545,361

## 15. Unearned Commission Income

	SR
Received during the period	951,235
Earned during the period	(214,344)
	736,891

## 16. Accrued Expenses And Other Payables

	Insurance operations	Shareholders' operations
Withholding taxes	2,541,588	-
Accrued bonus	2,071,841	-
Consultation fees	874,637	-
Accrued leave	789,486	-
Commission payable	723,662	-
Inspection and supervision fees	389,541	-
Others	86,108	53,040
	7,476,863	53,040

## 17. Zakat And Income Tax

### a) Zakat Charge for the year

Provision for zakat amounting to SR 770,942 has been made for the period ended 31 December 2008, out of which SR 720,117 has been paid before the period end. Accordingly, the balance of SR 50,825 has been reported as zakat payable as at balance sheet date. The provision has been charged to the statement of changes in shareholders' equity.

The provision for zakat charge relating to the Saudi shareholders is based on the following:

	SR
Equity	43,678,000
Book value of long term assets	(3,787,717)
	39,890,283
Adjusted loss for the period	(10,674,187)
Zakat base	29,216,096
Zakat due at 2.5% on Saudi shareholders	730,402

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of adjusted loss.

### b) Income tax

No income tax provision has been provided due to negative tax base. For the period ended 31 December 2008, the Company incurred tax adjusted losses which may be carried forward to future years without limitation of time.

### c) Status of assessments

The Company has filed tax and Zakat returns for the period ended 31 December 2008 with the Department of Zakat and Income Tax. The assessment has not yet been received by the Company.

## 18. Share Capital

The authorized and issued share capital of the Company is SR 100,000,000 as at 31 December 2008 consisting of 10,000,000 shares of SR 10 par value.

During December 2008, the Board of Directors has recommended an increase in the share capital by SR 100,000,000 through rights issue, which is subject to the approval of the Annual General Meeting and regulatory agencies.

## 19. Equity Incentive Plan

During 2008, key management personnel of the Company became eligible for a Global Equity Incentive (GEI) plan of Allianz Group, a major shareholder of the Company. The GEI plan consists of two instruments Stock Appreciation Rights (SAR) and Restricted Stock Units (RSU). In accordance with the pre-requisites of these cash-settled equity plans, key management personnel (the eligible personnel) of the Company would be granted, certain number of SAR's and RSU's if at the time of exercise, provided the eligible personnel were still employed within the Allianz Group.

Further details of these plans are set out below:

Particulars	SAR plan	RSU plan
Grant date	6 March 2008	6 March 2008
Term of the plan	7 years	5 years
Vesting period	2 Years	5 Years
Exercise period / date	5 years	6 March, 2013
Method of settlement	Settled in cash	Settled in cash

The obligation under the above plans is measured at fair value at the balance sheet date based on pricing information provided by Allianz Group. The fair value of such obligation determined is recognised in the statement of insurance operations on a straight line basis over the vesting period. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in statement of shareholders' operation for the period. Any future changes from the grant date of the options in the fair value of SAR's and RSU's have been fully covered for absolute amounts with Allianz Group thus restricting / capping the liability of the Company.

## 20. 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 capital. In view of the net loss for the period, no such transfer has been made.

## 21. General and Administrative Expenses

For the period from 23 June 2007 to 31 December 2008	SR	
	Insurance operations	Shareholders' operations
Employees' costs	14,766,695	256,706
Withholding taxes	2,848,200	-
Depreciation	2,548,465	-
Rent	2,243,545	-
Consultation fees	2,110,167	-
Advertisement and promotion	891,632	-
Repair and maintenance	563,508	-
Board expenses	483,043	62,800
Software maintenance	287,118	-
Licensing and registration fees	110,000	-
Incentive plan costs	203,054	-
Others	876,416	-
	27,931,843	319,506

The basis of allocation of expenses from operations was completed by management and the Board of Directors and accordingly, expenses relating to insurance activities were reclassified and charged to the statement of insurance operations in these financial statements.

## 22. Pre-incorporation Expenses, Net

	SR
Office support costs	3,351,914
Transaction costs	2,913,205
Legal and professional fees	1,789,446
Advertising	1,263,355
Depreciation	618,984
Office rent	572,715
Others	281,628
	10,791,247
Less: Interest earned from bank balances up to the date of Ministerial resolution (23 June 2007)	(286,753)
	10,504,494

## 23. 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, interest 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 and the Board Executive Committee providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

### Senior management

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

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

#### a) Insurance risk

Insurance risk is the risk that actual claims payable to policy holders in respect of insurance events may exceed expectations. This could occur because the frequency or amounts of claims could be more than expected. Insurance risk is monitored regularly by the Company to make sure the levels are within the projected frequency bands. The Company underwrites mainly property, fire and general and medical (health) risks.

The Company issues short term insurance policies and they are expected to produce only short tail claims; therefore it is unlikely to have significant reserve movements or requirements. This helps to mitigate insurance risk. The risks arising from the above insurance contracts are mainly concentrated in the Kingdom of Saudi Arabia.

#### Property and fire and general

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

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

## 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 and family medical history, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The Company further enforces a policy of actively managing and promptly pursuing 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 25% of the incurred cost and maximum of SR 62,500 per insured.

## b) Reinsurance risk

In order to minimize its financial exposure to potential losses arising from large claims the Company enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under proportional treaty, proportional facultative and excess-of-loss reinsurance contracts.

To minimize its exposure to significant losses arising 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.

Reinsurers are selected using the following parameters and guidelines set by the Company's management:

- Minimum acceptable credit rating by recognized rating agencies. The Company normally uses the Standard & Poor's (S&P) rating criteria and selects reinsurers having an S&P rating that is not lower than 'BBB'.
- The Company also uses the services of local reinsurers who are not rated. Accordingly, the Company evaluates and limits its exposure to those reinsurance companies that are registered and approved by the local insurance regulator
- A recommended list of reinsurers set out by Allianz Group, a major shareholder
- Reputation of particular insurance companies
- Existing or past business relationship with the reinsurers
- The financial strength, managerial and technical expertise, as well as historical performance, wherever applicable, are reviewed by the Company

## c) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk on its bank balances and available for sale money market funds.

The sensitivity of the income is the effect of the assumed changes in the interest rates, with all other variable held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2008. A hypothetical 10 basis points change in the weighted average interest rate of the floating rate cash at bank balances at 31 December 2008 would impact interest income by approximately SR 60,545, annually in aggregate.

The Company is exposed to interest rate risk on its investments in money market funds, as the underlying investments comprise placements in the money markets. However, as the Company is merely an investor in these money market funds, it is not able to reliably predict the sensitivity of its income to reasonable possible changes in the underlying commission rates affecting the funds in which it invests

## d) Credit risk

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

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

- To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company only enters into insurance and reinsurance contracts with recognized, creditworthy 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 the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

- Premiums receivable are mainly receivable from individuals and corporate customers (unrated). The Company seeks to limit the credit risk with respect individuals and corporate customers by setting credit limits and monitoring outstanding receivables.
- Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company's investments mainly comprise of debt securities and mutual funds. The Company does not have an internal grading mechanism for investments. The Company limits its credit risk on investments by setting out a minimum acceptable security rating level affirming their financial strength.

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

31 December 2008	SR	
	Insurance operations	Shareholders' operations
Premiums receivable	58,687,080	-
Reinsurance share of outstanding claims	1,196,374	-
Cash at bank	3,923,431	56,621,236
Statutory deposit	-	10,053,040
Advances on investments	-	800,000
Investments	-	14,164,997
Due from an affiliate	-	9,545,361
	63,806,885	91,184,634

#### e) Liquidity risk

Liquidity risk is the risk that a Company will encounter difficulty in meeting obligations associated with the financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing difference between gross cash out-flow and expected reinsurance recoveries.

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

- A Company liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's catastrophic excess-of-loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

#### Maturity profile

The table below summarizes the maturity profile of the financial assets and financial liabilities of the Company based on remaining expected obligations, including premiums receivable. For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized insurance liabilities. Unearned premiums and the reinsurance share of unearned premiums have been excluded from the analysis as they are not contractual obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

As at 31 December 2008	SR		
	Less than 1 year	More than 1 year	Total
<b>Policyholders' assets</b>			
Due from shareholders	25,337,634	-	25,337,634
Premium receivable	44,357,984	14,329,096	58,687,080
Cash and cash equivalents	3,923,431	-	3,923,431
	73,619,049	14,329,096	87,948,145
<b>Shareholders' assets</b>			
Statutory deposit	-	10,053,040	10,053,040
Advance on investments	-	800,000	800,000
Investments	-	14,164,997	14,164,997
Due from an affiliate	9,545,361	-	9,545,361
Cash and cash equivalents	56,621,236	-	56,621,236
	66,166,597	25,018,037	91,184,634
<b>Policyholders' liabilities</b>			
Employees' end of service benefits	-	511,271	511,271
Outstanding claims	1,663,076	-	1,663,076
Reinsurance balance payable	35,929,390	13,375,231	49,304,621
Accrued expenses and other payables	6,861,144	615,719	7,476,863
Due to an affiliate	29,944,184	-	29,944,184
	74,397,794	14,502,221	88,900,015
<b>Shareholders' liabilities</b>			
Due to policyholders	25,337,634	-	25,337,634
Accrued expenses	-	53,040	53,040
Zakat payable	50,826	-	50,826
	25,388,460	53,040	25,441,500

All financial liabilities, other than certain employee benefits, are contractually payable as of the balance sheet date. Financial liabilities are not interest bearing and consequently all liabilities on the balance sheet date represent undiscounted amounts.

#### f) Currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, as the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant and have not been disclosed separately.

#### g) Capital management

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

The 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.

#### **h) Fair values of financial instruments**

Financial instruments consist of financial assets and financial liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables, accrued expenses and gross outstanding claims.

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

#### **i) Regulatory framework risk**

The operations of the Company are subject to local regulatory requirements within the jurisdiction where it is incorporated. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

## **24. Loss Per Share**

Basic loss per share is calculated by dividing the net loss for the period by ordinary shares outstanding at the balance sheet date of 10 million shares.

The basis and diluted loss per share are same as there are no dilutive effects.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## **25. Contingencies and Commitments**

### **a) Legal proceedings and regulations**

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

### **b) Capital commitments and operating lease obligations**

The Company has no capital commitments or operating lease commitments as at balance sheet date.

## 26. Segment Information

### a) Business segments

The classes of insured risks for departmental (segment) purposes is as follows:

Fire and general	Engineering and Liability
Health	Medical

				SR
	Shareholders' Funds	Engineering & Liability	Medical	Total
Gross written premiums	-	61,810,850	16,097,264	77,908,114
Net written premiums	-	5,634,463	6,335,907	11,970,370
Net premiums earned	-	1,265,997	2,398,640	3,664,637
Net claims incurred	-	(24,214)	(552,313)	(576,527)
Reinsurer's share of outstanding claims	-	1,196,374	-	1,196,374
Gross outstanding claims	-	(1,220,588)	(442,488)	(1,663,076)
Interest income	2,743,302	-	-	2,743,302
Pre-incorporation expenses, net	(10,504,494)	-	-	(10,504,494)
Premiums receivable		48,843,685	9,843,395	58,687,080
Unallocated corporate assets				128,755,027
Unallocated corporate liabilities				63,373,818
Capital expenditure during the period				10,183,563
Depreciation during the period				3,167,449

### b) Geographical segments

The Company, as of 31 December 2008, operated only in the Kingdom of Saudi Arabia.

## 27. Approval of the Financial Statements

These financial statements have been approved by the Board of Directors on 29 Safar 1430H, corresponding to 24 February 2009.