

# PROSPECTUS

رؤية جديدة / للتأمين التعاوني  
redefining / cooperative insurance



Offering of 25,000,000 (twenty-five million) Shares through a rights issue at an offer price of SAR 10 per Share (the "Offer Price"). The Offering represents an increase in the Company's share capital from SAR 200,000,000 (two hundred million) to SAR 450,000,000 (four hundred and fifty million) (representing an increase of 125% (one hundred and twenty five per cent.) in the share capital) (the "Offering")

## AXA Cooperative Insurance Company

A Saudi joint stock company established pursuant to ministerial resolution number Q/192 dated 10/6/1430H (corresponding to 3/6/2009G) and with commercial registration number 1010271203 issued on 20/7/1430H (corresponding to 13/7/2009G)

First Offering Period: from Tuesday 28/04/1436H (corresponding to 17/02/2015G) until Thursday 07/05/1436H (corresponding to 26/02/2015G)

Second Offering Period: from Sunday 10/05/1436H (corresponding to 01/03/2015G) until Tuesday 12/05/1436H (corresponding to 03/03/2015G)

AXA Cooperative Insurance Company ("AXA" or the "Company") was founded as a joint stock company in Saudi Arabia pursuant to ministerial resolution number Q/192 dated 9/6/1430H (corresponding to 13/6/2009G) with commercial registration number 1010271203 dated 20/7/1430H (corresponding to 13/7/2009G) and an initial share capital of SAR 200,000,000 (two hundred million) consisting of 20,000,000 (twenty million) shares with a nominal value of SAR 10 (ten) per share (each a "Share"). As at the date of this prospectus (the "Prospectus"), the share capital of the Company is SAR 200,000,000 (two hundred million) consisting of 20,000,000 (twenty million) Shares, all of which are fully paid.

Pursuant to a board resolution dated 20/09/1435H (corresponding to 17/07/2014G), the Board recommended to increase the Company's share capital from SAR 200,000,000 (two hundred million) to SAR 450,000,000 (four hundred and fifty million) by the creation of 25,000,000 (twenty-five million) new Shares (the "Capital Increase"), subject to obtaining all necessary regulatory approvals. At the Company's Extraordinary General Meeting held on Tuesday 21/04/1436H (corresponding to 10/02/2015G) (the "Offering EGM"), the Shareholders (as defined below) approved the Capital Increase.

AXA Insurance (Gulf) B.S.C.(c) ("AXA Gulf") and AXA Mediterranean Holding S.A. ("AXA Mediterranean") are the only major Shareholders with shareholdings of 32% (thirty two per cent.) and 18% (eighteen per cent.), respectively, of the Shares as at the date of this Prospectus.

The Offering consists of the issuance of 25,000,000 (twenty-five million) new Shares (the "Rights Issue Shares" or the "New Shares") at the Offer Price of SAR 10 (ten) per Share.

The Offering will comprise tradable securities (referred to collectively as the "Rights" and each a "Right") to be issued to Shareholders registered in the Company's register (referred to collectively as the "Qualifying Shareholders" or "Registered Shareholders" and each a "Qualifying Shareholder" or a "Registered Shareholder", respectively) as at the close of trading on the date of the Offering EGM being on Tuesday 21/04/1436H (corresponding to 10/02/2015G) (the "Eligibility Date"), provided that such Rights are deposited in the account of each Registered Shareholder within two (2) days of the Eligibility Date in the ratio of one and a quarter (1.25) Rights for every one (1) Share held on the Eligibility Date. Each Right grants its holder the right to subscribe for one (1) New Share at the Offer Price.

Registered Shareholders and other persons may trade the Rights on the Saudi Stock Exchange (the "Exchange" or "Tadawul") from Tuesday 28/04/1436H (corresponding to 17/02/2015G) until the close of trading on Thursday 07/05/1436H (corresponding to 26/02/2015G) (the "Trading Period").

The subscription for the New Shares will be in two (2) phases:

- First Offering Period (Phase 1): from Tuesday 28/04/1436H (corresponding to 17/02/2015G) until the close of trading on Thursday 07/05/1436H (corresponding to 26/02/2015G) (the "First Offering Period"), during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the Offering EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The First Offering Period coincides with the Trading Period during which Registered Shareholders and Qualifying Investors may trade in the Rights.
- Second Offering Period (Phase 2): from Sunday 10/05/1436H (corresponding to 01/03/2015G) until the close of trading on Tuesday 12/05/1436H (corresponding to 03/03/2015G) (the "Second Offering Period"), during which all Rights' holders whether Registered Shareholders or purchasers of Rights during the Trading Period (referred to collectively as "Eligible Persons" and each an "Eligible Person"), may exercise their Rights to subscribe for the New Shares. No trading of Rights will be permitted during this period.

Subscription Application Forms may be submitted during both the First Offering Period and the Second Offering Period at any of the branches of the Receiving Agents (the "Receiving Agents") listed in pages IX of this Prospectus.

In the event that any Rights Issue Shares remain unsubscribed for after the Second Offering Period (the "Rump Shares"), they will be offered (the "Rump Offering") to a number of institutional investors (the "Institutional Investors") provided that such Institutional Investors submit offers to purchase the Rump Shares from 10:00 am on Sunday 17/05/1436H (corresponding to 08/03/2015G) until 10:00 am on 18/05/1436H (corresponding to 09/03/2015G). The Rump Shares will be allocated to the Institutional Investors in order of priority based on the price per Share offered by the relevant Institutional Investor until all of the Rump Shares have been allocated, with any remaining Rump Shares being allocated on a proportional basis among those Institutional Investors that tendered offers at the same price. Fractional entitlements to Shares (the "Fractional Shares") will be added to and, for allocation purposes, will form part of, and be treated the same as, the Rump Shares. All proceeds resulting from the sale of the Rump Shares and the Fractional Shares up to the Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed to the Eligible Persons no later than Thursday 28/05/1436H (corresponding to 19/03/2015G).

In the event that any Rump Shares are not purchased by the Institutional Investors, such Shares will be allocated to the Underwriter, who will purchase such Shares at the Offer Price (see Section 17 ("Subscription Terms and Conditions")). After completion of the Offering, the Company's share capital will become SAR 450,000,000 divided into 45,000,000 Shares. The net proceeds of the Offering will be utilised to meet the Company's financial solvency requirements, to fund the acquisition of new headquarters and expansion plans and to satisfy part of the consideration payable for the Portfolio Transfer (see Section 10 ("Use of Proceeds")). The final allocation will be announced no later than Wednesday 20/05/1436H (corresponding to 11/03/2015G) (the "Allocation Date") (see Section 17.6 ("Subscription Terms and Conditions - Allocation")).

The Company has one class of shares and no Shareholder benefits from any preferential voting rights. The New Shares will be fully paid-up and shall rank pari passu with the existing Shares. Each Share entitles the holder to one (1) vote, and each shareholder (a "Shareholder") with at least 20 Shares has the right to attend and vote at a General Assembly. The New Shares will entitle holders to receive dividends declared by the Company after they are issued and in respect of subsequent fiscal years (see Section 8 ("Dividend Policy") and Section 2.3.8 ("Risk Factors - Dividends").

The Company has previously issued 20,000,000 Shares, which were listed on Tadawul on 05/08/1430H (corresponding to 27/07/2009G). The Founding Shareholders subscribed for 12,000,000 Shares representing sixty per cent. (60%) of the share capital of the Company, while the remaining 8,000,000 Shares, representing forty per cent. (40%) of the share capital, were offered for public subscription through an IPO.

Currently, the existing Shares are traded on Tadawul. The Company has made an application to the Capital Market Authority in the Kingdom of Saudi Arabia ("CMA") for the admission of the New Shares to listing, all supporting documents required by the CMA have been supplied, and this Prospectus has been approved by the CMA. Following admission of the New Shares to listing, Saudi nationals and nationals of other GCC countries, companies, banks and funds, as well as non-Saudi individuals who are residents in the Kingdom, will be permitted to trade in the New Shares. Furthermore, non-Saudi natural persons who are not residents in the Kingdom and who are not nationals of GCC countries and institutions incorporated outside the Kingdom (each, a "Foreign Investor") are permitted to acquire an economic interest in the New Shares by entering into a swap agreement with a person authorised by the CMA to acquire, hold and trade in shares on the Tadawul on behalf of a Foreign Investor (the "Authorised Person"). Under such swap agreements, the Authorised Person will be the registered legal owner of such Shares. Trading in the New Shares is expected to commence on the Exchange shortly after the final allocation of the New Shares (see "Key Dates for Eligible Persons").

The "Important Notice" and Section 2 ("Risk Factors") of this Prospectus should be considered carefully prior to making a decision to invest in the New Shares.

## Financial Advisor, Lead Manager and Underwriter

السعودي الفرنسي كابيتال  
Saudi Fransi Capital



## Receiving Agents



رؤية جديدة / للتأمين التعاوني  
redefining / cooperative insurance



## Important Notice

This Prospectus contains detailed information relating to the Company and the New Shares. When applying for the New Shares, investors will be treated as applying solely on the basis of the information contained in this Prospectus, copies of which are available for collection from the Company, the Lead Manager, the Receiving Agents or by visiting the websites of the Company ([www.axa-cooperative.com](http://www.axa-cooperative.com)) or the CMA ([www.cma.org.sa](http://www.cma.org.sa)).

Saudi Fransi Capital ("SFC") has been appointed by the Company to act as a financial advisor in respect of the Offering (the "Financial Advisor"). SFC has also been appointed as lead manager (the "Lead Manager") and as the sole underwriter (the "Underwriter") in relation to the Offering.

This Prospectus includes information given in compliance with the Listing Rules of the CMA. The Directors, whose names appear in Section 5.1 (the "Board"), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, a substantial portion of the information in this Prospectus which is relevant to the market and industry in which the Company operates is derived from external sources, and while neither the Financial Advisor, the Company nor any of the Company's advisors, whose names appear on page VII of this Prospectus (the "Advisors") nor the Founding Shareholders, has any reason to believe that any of the market and industry information is materially inaccurate, neither the Company nor any of the Advisors has independently verified such information, and no representation or assurance is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial condition of the Company and the value of the New Shares may be adversely affected by future developments in inflation, interest rates, taxation or other economic, political and other factors, over which the Company has no control (see Section 2 ("Risk Factors")). Neither the delivery of this Prospectus nor any oral or written information in relation to the New Shares is intended to be, or should be construed as or relied upon in any way as, a promise, affirmation or representation as to future earnings, results or events.

This Prospectus is not to be regarded as a recommendation on the part of the Company, the Directors, the Founding Shareholders or the Advisors to participate in the Offering. Moreover, information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, financial situations or particular investment needs. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice from an authorised financial advisor in relation to the Offering and must rely on its own examination of the Company and the appropriateness of both the investment opportunity and the information herein with regard to the recipient's individual objectives, financial situation and needs.

The Offering is directed at Registered Shareholders and Qualifying Investors from Tuesday 28/04/1436H (corresponding to 17/02/2015G) until the close of trading on Thursday 07/05/1436H (corresponding to 26/02/2015G). The subscription for the New Shares will be in two (2) phases:

- (a) First Offering Period (Phase 1): from Tuesday 28/04/1436H (corresponding to 17/02/2015G) until the close of trading on Thursday 07/05/1436H (corresponding to 26/02/2015G), during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the Offering EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account, at the end of the Trading Period. The First Offering Period coincides with the Trading Period during which Registered Shareholders and Qualifying Investors may trade in the Rights.
- (b) Second Offering Period (Phase 2): from Sunday 10/05/1436H (corresponding to 01/03/2015G) until the close of trading on Tuesday 12/05/1436H (corresponding to 03/03/2015G), during which all Eligible Persons, whether Registered Shareholders or Qualifying Investors, may exercise their Rights to subscribe for the New Shares. No trading of Rights will be permitted during this period.

Rump Shares, if any, will be offered to a number of Institutional Investors, provided that such Institutional Investors shall submit offers to purchase the Rump Shares from 10:00 am on Sunday 17/05/1436H (corresponding to 08/03/2015G) until 10:00 am on 18/05/1436H (corresponding to 09/03/2015G). The Rump Shares will be allocated to Institutional Investors in order of priority based on the price per Share offered by the relevant Institutional Investor until all of the Rump Shares have been allocated, with any remaining Rump Shares being allocated on a proportional basis among those Institutional Investors that tendered offers at the same price. Fractional Shares will be added to the Rump Shares and, for allocation purposes, will form part of, and be treated the same as, the Rump Shares. All proceeds resulting from the sale of Rump Shares and the Fractional Shares up to the Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed to the Eligible Persons no later than on Thursday 28/05/1436H (corresponding to 19/03/2015G). In the event that any Rump Shares are not purchased by the Institutional Investors, such Shares will be allocated to the Underwriter, who will purchase such Shares at the Offer Price (see Section 17 ("Subscription Terms and Conditions")).

The distribution of this Prospectus and the sale of the New Shares in any country other than Saudi Arabia are expressly prohibited. The Company, the Current Shareholders and the Financial Advisor require recipients of this Prospectus to inform themselves of any legal or regulatory restrictions relevant to this Offering and the sale of the New Shares and to observe all such restrictions.

## Industry and Market Data

In this Prospectus, information and data on the insurance industry in the Kingdom and outside the Kingdom have been obtained or derived from (i) the market research in respect of the insurance sector conducted on behalf of the Company by Business Monitor International (the "Market Consultant"), an independent consulting firm specialising in the industry; (ii) publicly available information in respect of the insurance sector, including the Saudi Insurance Market Report 2013 issued by the Saudi Arabian Monetary Agency ("SAMA"); and (iii) the reinsurance report issued by the Swiss company "Swiss Re" ("Swiss Re"), details of which are set out below.

The Company believes that third party information and data included in this Prospectus, including the information obtained or derived from the market research in respect of the insurance sector conducted by the Market Consultant, are reliable and the Company has no reason to believe that such information is materially inaccurate, but none of the Directors, the Founding Shareholders or the Advisors have independently verified such information and data, and no guarantee can be provided as to its accuracy or completeness. The Company has made reasonable efforts to verify the third party information and data included in the Market Study, however, the Market Consultant remains responsible for all information supplied by it to the Company. Whilst neither the Company nor any of its Directors have any reason to believe that the information on the insurance industry and other data regarding the insurance market segment are materially inaccurate, such information has not been independently verified by any party and no representation is made by any party with respect to the accuracy or completeness of any of this information.

Neither the Market Consultant nor any of its affiliates, shareholders, directors and their relatives hold any shareholding or any interest in the Company. The Market Consultant has given and, as at the date of this Prospectus, has not withdrawn its written consent to the use of the information supplied by it to the Company in the manner and format set out in this Prospectus, and the Directors believe that this information, these sources and these estimates are authentic and have no cause to believe that their findings are materially inaccurate.

### Saudi Arabian Monetary Agency (SAMA)

Ma'azar Street  
P.O. Box: 2992 Riyadh 11169 Saudi Arabia  
Tel: +966 1 4633000  
Fax: +966 1 4662966  
Website: [www.sama.gov.sa](http://www.sama.gov.sa)



SAMA is the central bank of the Kingdom of Saudi Arabia and was established in 1952G.

The information obtained from SAMA is publicly available and accessible over the internet, therefore no consent has been obtained in relation to the use of such information. The information was obtained from SAMA's forty-ninth annual report (entitled "Latest Economic Developments in 2013G") and the Saudi Insurance Market Report 2013G.

### Swiss Re

Swiss Re, was founded in 1863G in Zurich, Switzerland, and is considered one of the leading companies in the field of insurance. Swiss Re is located in more than 25 countries.

The information obtained from Swiss Re is publicly available and accessible over the internet, therefore no consent has been obtained in relation to the use of such information

## Financial and Statistical Information

The financial statements for the financial years ended 31 December 2011G, 2012G, 2013G and the interim financial information for the six-month period ended 30 June 2014G, and the notes thereto which were audited by PricewaterhouseCoopers and Al-Ghanem Certified Public Accountants (the "Auditors") have been prepared in conformity with International Financial Reporting Standards ("IFRS") as required by the Implementing Regulations issued by SAMA and are therefore not in compliance with the Generally Accepted Accounting Principles published by the Saudi Organization for Certified Public Accountants ("SOCPA"). The Company publishes its financial statements in Saudi Arabian riyals.

The financial and statistical information contained in this Prospectus is subject to rounding. Accordingly, where numbers have been rounded up or down, percentages may not add up to 100%.

Where statistical information has been sourced for publication in this Prospectus, the Company believes that the information represents the latest information available from the relevant particular source.

The Riyal has been pegged to the U.S. dollar since November 1986. The current midpoint between the official buying and selling rates for the Riyal is at a fixed rate of SAR 3.75 = US\$1.00. This rate has been used to translate all SAR amounts into U.S. dollar amounts and vice versa in this document.

An exchange rate of SAR 5.10626 = 1 Euro has been used to translate all SAR amounts into Euro amounts and vice versa in this document.

An exchange rate of SAR 9.9423 = 1 Bahraini Dinar has been used to translate all SAR amounts into Bahraini Dinar amounts and vice versa in this document.

## **Forecasts and Forward-Looking Statements**

Forecasts set forth in this Prospectus have been prepared on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used and consequently no affirmation, representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute "forward-looking statements". Such statements can generally be identified by their use of forward-looking words such as "plans", "estimates", "believes", "expects", "anticipates", "may", "will", "should", "expected", "would be", or the negative thereof or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (see Section 2 ("Risk Factors") and Section 4 ("The Company")). Should any one or more of the risks or uncertainties materialise or any underlying assumptions prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus.

Subject to the requirements of the Listing Rules, the Company must submit a supplementary prospectus to the CMA if at any time after this Prospectus has been approved by the CMA and before the admission of the New Shares to listing, the Company becomes aware that (i) there has been a significant change in any material information contained in this Prospectus or any document required by the Listing Rules, or (ii) additional significant matters have become known which would have been required to be included in the Prospectus.

Except in the aforementioned circumstances, the Company does not intend to update or otherwise revise any industry or market information in this Prospectus, whether as a result of new information, future events or otherwise. As a result of the foregoing and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

## **Definitions and Abbreviations**

For an explanation of certain defined terms and abbreviations, please see Section 1 ("Definitions and Abbreviations").

## Corporate Directory

**Table 1-1: Board of Directors**

Name	Nationality	Age	Position	Date of appointment to the Board	Representing	Status	Independence	Number of Shares*
Jerome Drosch	French	46	Chairman	13/04/2011G	AXA Mediterranean	Non-executive Director	Non-independent	1,000 Shares
Ali Abdulla Ali Kanoo	Saudi	45	Director	27/03/2013G	AXA Gulf	Non-executive Director	Non-independent	1,000 Shares
Yousef Bin Saleh Bin Mansoor Abalkhail	Saudi	54	Director & Chairman of Nomination & Remuneration Committee	05/04/2010G	-	Non-executive Director	Independent	1,000 Shares
Paul Adamson	British	47	Managing Director & Chairman of Executive Committee	13/04/2010G	AXA Gulf	Executive Director	Non-independent	1,000 Shares
Kamel Salahuddin Abdallah Al Munajjed	Saudi	54	Director & Chairman of Audit Committee	13/07/2009G	-	Non-executive Director	Independent	1,000 Shares
Iain Logan Reid	British	62	Director	24/07/2010G	AXA Gulf	Non-executive Director	Non-independent	1,000 Shares
François-Aissa Touazi	French	47	Director	13/04/2010G	AXA Mediterranean	Non-executive Director	Non-independent	1,000 Shares
Mazen Ibrahim Shihata Hassounah	Saudi	53	Director & Chairman of Finance Committee	13/07/2009G	-	Non-executive Director	Independent	1,000 Shares

Source: Company

\* Ownership of Shares does not signify membership of the Board. Pursuant to the Companies Regulations, each Board member must own Shares to the value of SAR 10,000 (as guarantee shares). These Shares (totalling 8,000 Shares for all Directors) are pledged by AXA Gulf in favour of each Director. Upon resignation, retirement or termination of any of the above Directors, the Shares held by the relevant Director will be transferred to the new Director taking his place on the Board.

#### Registered Office

AXA Cooperative Insurance Company  
2nd Floor, Kanoo Tower  
King Abdul Aziz Road  
P.O. Box 753  
Riyadh 11421  
Kingdom of Saudi Arabia  
Tel: +966 (11) 477 6706  
Fax: +966 (11) 478 0418  
Email: info.Riyadh@axa-gulf.com  
www.axa-cooperative.com

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#### Company Representatives

Paul Adamson  
Managing Director  
AXA Cooperative Insurance Company  
2nd Floor, Kanoo Tower  
King Abdul Aziz Road  
P.O. Box 753  
Riyadh 11421  
Kingdom of Saudi Arabia  
Tel: +966 (11) 477 6706  
Fax: +966 (11) 478 0418  
Mobile: +966 503 606 125  
Email: paul.adamson@axa-gulf.com  
www.axa-cooperative.com

Gary Lewin  
Chief Executive Officer  
AXA Cooperative Insurance Company  
2nd Floor, Kanoo Tower  
King Abdul Aziz Road  
P.O. Box 753  
Riyadh 11421  
Kingdom of Saudi Arabia  
Tel: +966 (11) 477 6706  
Fax: +966 (11) 478 0418  
Mobile: +966 504 156 419  
Email: gray.lewin@axa-gulf.com  
www.axa-cooperative.com

#### Board of Directors' Secretary

Khalid Al-Shuwaier  
AXA Cooperative Insurance Company  
2nd Floor, Kanoo Tower  
King Abdul Aziz Road  
P.O. Box 753  
Riyadh 11421  
Kingdom of Saudi Arabia  
Tel: +966 (11) 477 6706  
Fax: +966 (11) 478 0418  
Email: khalid.shuwaier@axa-gulf.com  
www.axa-cooperative.com

#### Share Registrar

The Saudi Stock Exchange (Tadawul)  
Abraj Attuwenya  
700 King Fahad Road  
P.O. Box 60612  
Riyadh 11555  
Kingdom of Saudi Arabia  
Tel: +966 (11) 218 9999  
Fax: +966 (11) 218 1220  
Email: webinfo@tadawul.com.sa  
www.tadawul.com.sa



## Advisors

### Financial Advisor and Lead Manager

Saudi Fransi Capital  
King Fahad Road  
P.O. Box 23454, Riyadh 11426, Kingdom of Saudi Arabia  
Tel: +966 (11) 1282 6666  
Fax: +966 (11) 1282 6823  
Email: info@fransicapital.com.sa  
www.fransicapital.com.sa

السعودية الفرنسية كابيتال  
Saudi Fransi Capital



### Legal Advisor to the Company

Clifford Chance Law Firm  
Building 15  
The Business Gate  
King Khaled International Airport Road  
Cordoba District, Riyadh  
P.O. Box: 90239, Riyadh 11613, Kingdom of Saudi Arabia  
Tel: +966 (11) 481 9700  
Fax: +966 (11) 481 9701  
Email: info.axa@cliffordchance.com  
www.cliffordchance.com

**C L I F F O R D**  
**C H A N C E**

### Auditors of the Company

PricewaterhouseCoopers  
Kingdom Tower – 21st floor  
King Fahd Highway  
P.O. Box 8282  
Riyadh 11482, Kingdom of Saudi Arabia  
Tel: +966 (11) 465 4240  
Fax: +966 (11) 465 1663  
Email: farrukh.faizi@sa.pwc.com  
www.pwc.com/middle-east



Al-Ghanem Certified Public Accountants  
Ulaya Street  
Riyadh, Kingdom of Saudi Arabia  
Tel: +966 (11) 460 04055  
Fax: +966 (13) 834 9568  
Email: malik@alghanem.com.sa  
www.integra-international.com



### Professional Financial Diligence Advisor

KPMG Al Fozan & Al Sadhan  
Salahuddin Street, KPMG Tower  
P.O. Box 92876  
Riyadh, 11663, Kingdom of Saudi Arabia  
Tel: +966 (11) 874 8500  
Fax: +966 (11) 874 8600  
Email: marketingsa@kpmg.com  
www.kpmg.com



### Market Consultant

Business Monitor International (BMI)  
Mermaid House  
2 Puddle Dock Blackfriars  
London EC4V 3DS  
United Kingdom  
Tel: +44 20 7248 0468  
Fax: +44 20 7248 0467  
Email: AAdio@businessmonitor.com  
www.businessmonitor.com



Note: The above Advisors have given and, as at the date of this Prospectus, have not withdrawn their written consent to the publication of their names, addresses, logos and the statements attributed to each of them in the context in which they appear in this Prospectus, and do not themselves, and nor do their employees or their employees' relatives, have any shareholding or interest of any kind in the Company.



#### Underwriter

Saudi Fransi Capital  
Riyadh – King Fahad Road  
P.O. Box 23454  
Riyadh 11426  
Kingdom of Saudi Arabia  
Tel: +966 (11) 1282 6666  
Fax: +966 (11) 1282 6823  
Email: [info@fransicapital.com.sa](mailto:info@fransicapital.com.sa)  
[www.sfc.sa/](http://www.sfc.sa/)  
[www.fransicapital.com.sa](http://www.fransicapital.com.sa)

السعودي الفرنسي كابيتال  
Saudi Fransi Capital



#### Principal Commercial Banking Relationship

The Saudi British Bank  
Prince Abdulaziz Bin Musa'ed Bin Jlawy Street  
P.O. Box 9084, Riyadh 11413  
Kingdom of Saudi Arabia  
Tel: +966 (11) 405 0677  
Fax: +966 (11) 405 0660  
Email: [sabb@sabb.com](mailto:sabb@sabb.com)  
[www.sabb.com](http://www.sabb.com)

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## Receiving Agents

Arab National Bank	King Faisal Street P.O. Box 9802, Riyadh 11423 Kingdom of Saudi Arabia Tel: +966 (11) 402 9000 Fax: +966 (11) 402 7747 Email: abinayba@anb.com.sa www.anb.com.sa	
Banque Saudi Fransi	Maathar Street P.O. Box 56006, Riyadh 11554 Kingdom of Saudi Arabia Tel: +966 (11) 404 2222 Fax: +966 (11) 404 2311 Email: communications@alfransi.com.sa www.alfransi.com.sa	
The National Commercial Bank	King Abdulaziz Road P.O. Box 3555, Jeddah 21481 Kingdom of Saudi Arabia Tel: +966 (12) 649 3333 Fax: +966 (12) 643 7426 Email: contactus@alahli.com www.alahli.com.sa	
Riyad Bank	King Abdulaziz Road P.O. Box 22622, Riyadh 11614 Kingdom of Saudi Arabia Tel: +966 (11) 401 3030 Fax: +966 (11) 404 2618 Email: customercare@riyadbank.com www.riyadbank.com	
Samba Financial Group	King Abdulaziz Road P.O. Box 833, Riyadh 11421 Kingdom of Saudi Arabia Tel: +966 (11) 477 4770 Fax: +966 (11) 479 9402 Email: customercare@samba.com.sa www.samba.com.sa	

## Summary of the Offering

This summary of the offering intends to provide a brief overview of the information contained in this Prospectus and does not contain all the information that may be of interest to Subscribers. Accordingly, recipients should read the entire Prospectus before making an investment decision with respect to the Rights Issue. In addition, the "Important Notice" on pages II to IV and "Risk Factors" in Section 2 of this Prospectus should be considered carefully prior to making an investment decision on the New Shares.

The Company	AXA Cooperative Insurance Company, a Saudi Joint Stock Company established pursuant to ministerial resolution number Q/192 dated 9/6/1430H (corresponding to 3/6/2009G) and with commercial registration number 1010271203 dated 20/7/1430H (corresponding to 13/7/2009G).
Activities of the Company	The Company's core business is the transaction of cooperative insurance operations and all related activities including reinsurance in Saudi Arabia in accordance with the Insurance Law.
Substantial Shareholders Strategic Shareholders	<p>The Strategic Shareholders of the Company are AXA Gulf (32%) and AXA Mediterranean (18%). They are considered as Strategic Shareholders given their participation in determining the Company's strategy through their representation on the Board and their substantial holding in the Company.</p> <p>AXA Gulf and AXA Mediterranean fully support and are in favour of the Rights Issue and the related Capital Increase and have confirmed to the Company and SAMA that they will participate fully in the Rights Issue and take up all their respective rights to subscribe for New Shares. Subject to the rules and regulations issued by the CMA, there are no restrictions placed on the ability of AXA Gulf and AXA Mediterranean to trade their Rights except for the need to obtain SAMA's approval.</p> <p>The ownership structure of each of AXA Gulf and AXA Mediterranean is set out in Section 4.4 ("Overview of AXA Gulf and AXA Mediterranean").</p>
Nature of the Offering	Capital increase by way of a rights issue.
Number of issued Shares prior to the Offering	20,000,000 ordinary shares fully paid up
Nominal Value	SAR 10
Share Capital prior to the Offering	SAR 200,000,000
Capital Increase	The increase in the Company's share capital from SAR 200,000,000 to SAR 450,000,000.
Total Number of New Shares	25,000,000 Shares
Offer Price	SAR 10
Total Offering Value	SAR 250,000,000
Adjusted Price	The Company's share price on Tadawul, as at the close of trading on the day of the Offering EGM, and after the approval of the Capital Increase by the Shareholders, was adjusted to SAR 21.8 per Share. This represents a reduction of SAR 14.75, or 40.4 per cent. (40.4%) per Share when compared against the Company's share price on Tadawul as at the close of trading on the day of the Offering EGM.
Registered Shareholders	Shareholders registered in the Company's register as at close of trading on the day of the Offering EGM.
Rights Issue	Rights are issued as tradable securities giving their holders the priority to subscribe for the New Shares, upon approval of the Capital Increase. All Shareholders registered in the Company's register at the close of trading on the day of the Offering EGM will be entitled to receive Rights. Each Right grants its holder the right to subscribe to one (1) New Share at the Offer Price. Rights will be deposited within two (2) days after the date of the Offering EGM. The Rights will appear in the portfolios of Registered Shareholders under a new symbol specifying the Rights Issue. Registered Shareholders will be informed of the deposit of the Rights in their accounts.
New Shares	The Shares offered for subscription by Registered Shareholders resulting from the Capital Increase.
Rights Issue Ratio	One and a quarter (1.25) Rights for every one (1) existing Share owned by a Registered Shareholder. This ratio is the result of dividing the number of New Shares by the number of the Company's existing shares.
Number of Issued Rights	25,000,000 Rights
Number of Underwritten New Shares	25,000,000 Shares
Value of Underwritten New Shares	SAR 250,000,000

Number of Issued Shares Post Offering	45,000,000 Shares
Share Capital post Offering	SAR 450,000,000
Percentage Increase in Share Capital	The Company's capital will be increased by SAR 250,000,000 representing an increase of 125% of the Company's capital prior to the Offering.
Offering Expenses approximately	SAR 10,000,000
Total Offering Proceeds after Deduction of Offering Expenses approximately	SAR 240,000,000
Eligibility Date	Close of trading on the date of the Offering EGM, being 21/04/1436H (corresponding to 10/02/2015G).
First Offering Period	Starting on Tuesday 28/04/1436H (corresponding to 17/02/2015G) until the close of trading on Thursday 07/05/1436H (corresponding to 26/02/2015G), during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the Offering EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The first Offering Period coincides with the Trading Period during which Registered Shareholders and Qualifying Investors may trade in the Rights.
Trading Period	The trading period will coincide with the start of the First Offering Period and will commence on Tuesday 28/04/1436H (corresponding to 17/02/2015G) and will last for 8 working days up to and including the last day of the First Offering Period, being Thursday 07/05/1436H (corresponding to 26/02/2015G).
Second Offering Period	Starting on Sunday 10/05/1436H (corresponding to 01/03/2015G) until the close of trading on Tuesday 12/05/1436H (corresponding to 03/03/2015G), during which all Eligible Persons, whether Registered Shareholders or Qualifying Investors, may exercise their Rights to subscribe for Rights Issue Shares. No Trading of Rights will be permitted during this period.
Rump Shares	New Shares which were not subscribed for by the end of the Second Offering Period.
Rump Offering	The Rump Shares will be offered to a number of Institutional Investors, provided that such Institutional Investors submit offers to purchase the Rump Shares from 10:00 am on 17/05/1436H (corresponding to 08/03/2015G) until 10:00 am on 18/05/1436H (corresponding to 09/03/2015G). The Rump Shares will be allocated to the Institutional Investors in order of priority based on the price per Share offered by the relevant Institutional Investor until all of the Rump Shares have been allocated, with any remaining Rump Shares being allocated on a proportional basis among those Institutional Investors that tendered at the same price. Fractional Shares will be added to and, for allocation purposes, will form part of, and be treated the same as, the Rump Shares.
Eligible Persons	All holders of Rights, whether they are Registered Shareholders or Qualifying Investors.
Listing of/Trading in the Rights	<p>Tadawul has in place mechanisms that enable the trading of Rights.</p> <p>A separate symbol will be given to the Company's Rights Issue (separate from the Company's trading symbol for the existing Shares on the Tadawul screen). Registered Shareholders shall have the following options during the First Offering Period (which coincides with the Trading Period) in relation to the trading of the Rights:</p> <ol style="list-style-type: none"> <li>1. keeping the Rights they have as at the Eligibility Date and exercising their Rights to subscribe for the New Shares;</li> <li>2. selling some or all of their Rights through the Exchange;</li> <li>3. purchasing additional Rights on the Exchange; and</li> <li>4. refraining from taking any action relating to the Rights, whether selling their Rights or exercising the right to purchase additional Rights. The Rump Shares resulting from not exercising, or selling, their Rights will be offered in the Rump Offering.</li> </ol> <p>Qualifying Investors may, during the Trading Period, purchase and sell Rights through the Exchange and (provided the Rights are held until the end of the First Offering Period) may exercise such Rights to subscribe for New Shares during the Second Offering Period. The Tadawul system will cancel AXA's Rights Issue symbol on the Tadawul screen after the end of the Trading Period. As such, the Rights trading will end at the end of the Trading Period.</p>
Indicative Value of the Right	<p>The indicative value of a Right reflects the difference between the trading price of the Company's shares during the Trading Period and the Offer Price.</p> <p>Tadawul will continuously calculate and publish the indicative value of a Right during the First Offering Period on its website with a five (5) minute delay. The market information service providers will also publish this information. This provides investors with the indicative value of a Right when entering the orders.</p>

Right Trading Price	The price at which the Right is traded. This price is set through the market offer and demand mechanism, therefore it may differ from the Indicative Value of the Right.
Exercising the Issued Rights	<p>Eligible Persons may subscribe for New Shares by completing a Subscription Application Form and paying the relevant fee at any of the Receiving Agents' branches or by subscribing electronically through those Receiving Agents offering such services to applicants. Eligible Persons may exercise their Rights as follows:</p> <ol style="list-style-type: none"> <li>1. During the First Offering Period, only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the Offering EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The First Offering Period coincides with the Trading Period during which Registered Shareholders and Qualifying Investors may trade in the Rights.</li> <li>2. During the Second Offering Period, all Rights' holders, whether Registered Shareholders or purchasers of Rights during the Trading Period, may exercise their Rights to subscribe for Rights Issue Shares. No Trading of Rights will be permitted during this period.</li> </ol> <p>In the event that Rights have not been exercised by Eligible Persons before the end of the Second Offering Period, the Rump Shares will be offered in the Rump Offering.</p>
Use of Proceeds	<p>The net proceeds from the Offering, which after deducting the Offering expenses of approximately SAR 10,000,000, are expected to be approximately SAR 240,000,000, will be received by the Company in full. The Company intends to use the proceeds from the Offering as follows:</p> <ol style="list-style-type: none"> <li>1. maintain an adequate solvency margin and the required statutory reserve to support future growth plans;</li> <li>2. develop the existing operations of the Company including the investment in a new head office and infrastructure; and</li> <li>3. the payment of SAR 50,000,000 (being 20% of the capital raised) towards the consideration payable for the portfolio acquired pursuant to the Portfolio Transfer.</li> </ol> <p>For further information on the use of proceeds, see Section 10 ("Use of Proceeds").</p>
Allocation of Rights Issue Shares	<p>New Shares will be allocated to Eligible Persons according to the number of Rights subscribed for by them. Fractional Shares will be aggregated and offered to the Institutional Investors during the Rump Offering.</p> <p>All proceeds resulting from the sale of Rump Shares and Fractional Shares up to the Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed to the Eligible Persons no later than on Thursday 28/05/1436H (corresponding to 19/03/2015G).</p>
Payment of Compensation Amounts (if any)	Cash compensation amounts will be paid to Eligible Persons who did not subscribe wholly or partially for New Shares, as well as to the holders of Fractional Shares on Thursday 28/05/1436H (corresponding to 19/03/2015G) at the latest (please see Section 17 ("Subscription Terms and Conditions")). Compensation amounts represent the remaining proceeds (if any) resulting from the sale of the Rump Shares and Fractional Shares (in excess of the Offer Price) through the Rump Offering.
Restrictions on Trading in Rights (if any)	<p>Other than any restrictions stipulated under the Listing Rules and the need to obtain SAMA's approval on trading the Rights held by the Strategic Shareholders, there are no restrictions on the trading of Rights.</p> <p>AXA Gulf and AXA Mediterranean fully support and are in favour of the Rights Issue and the related Capital Increase and have confirmed to the Company and SAMA that they will participate fully in the Rights Issue and take up all their respective rights to subscribe for New Shares. Subject to the rules and regulations issued by the CMA, there are no restrictions placed on the ability of AXA Gulf and AXA Mediterranean to trade their Rights except for the need to obtain SAMA's approval.</p> <p>The ownership structure of each of AXA Gulf and AXA Mediterranean is set out in Section 4.4 ("Overview of AXA Gulf and AXA Mediterranean").</p>
Trading in New Shares	Trading in the New Shares will commence on the Tadawul upon the completion of all procedures relating to the registration, allocation and listing of the New Shares.
Dividends	The New Shares will carry the same right to receive dividends (if any) declared by the Company after the Offering Period and in respect of subsequent fiscal years as all the other Shares (see Section 8 ("Dividend Policy")).
Voting Rights	The Company has one class of shares. Each Share entitles the holder to one vote, and each Shareholder holding at least 20 Shares has the right to attend and vote at the General Assembly meeting. A Shareholder may delegate to another Shareholder, other than the members of the Board of Directors of the Company, to attend the General Assembly meeting on his behalf. No Shareholder shall benefit from any preferential voting rights (see Section 7.11 ("Voting Rights")).

Restrictions on Dealings in Shares	The Company was incorporated on 10/6/1430H (corresponding to 3/6/2009G) and the Shares have been listed on Tadawul on 05/08/1430H (corresponding to 27/07/2009G). The Founding Shareholders were subject to a three year lock-up period commencing on the date of the Company's incorporation. During this period, the Founding Shareholders could not dispose of their Shares. Accordingly, other than any restrictions stipulated under the Listing Rules or any other relevant regulations, all restrictions on dealings in the Shares have lapsed. Although the lock-up period has expired, the Founding Shareholders are still required to obtain the CMA's and SAMA's approval before disposing of their shares.
Previously listed Shares	The Company listed 20,000,000 Shares on the Exchange following the completion of its initial public offering on 05/08/1430H (corresponding to 27/07/2009G). The Founding Shareholders subscribed for sixty per cent. (60%) of the Company's share capital while the remaining forty per cent. (40%) were offered to investors in Saudi Arabia.
Risk Factors	There are certain risks relating to an investment in the Offering. These risks can be generally categorised into: (i) risks related to the Company's operations; (ii) risks related to the market; (iii) risks related to the New Shares; and (iv) political and regulatory risks. These risks should be considered carefully prior to making an investment decision in the New Shares (see Section 2 ("Risk Factors")).
Costs	The Company will be responsible for all costs associated with the Offering, which are estimated to be approximately SAR 10,000,000, and will be deducted from the gross proceeds of the Offering amounting to SAR 250,000,000. This figure includes the fees of each of the Financial Advisor, Lead Manager, Legal Advisors (to the Company and the Underwriter), Auditors, Market Consultant, media and public relations consultants, other advisors, printing and distribution expenses, in addition to underwriting expenses and other fees and expenses related to the Offering.

## Key Dates for Eligible Persons

Offering EGM, setting the Eligibility Date and determining Registered Shareholders	Tuesday 21/04/1436H (corresponding to 10/02/2015G)
First Offering Period and Trading Period	From Tuesday 28/04/1436H (corresponding to 17/02/2015G) To Thursday 07/05/1436H (corresponding to 26/02/2015G)
Second Offering Period	From Sunday 10/05/1436H (corresponding to 01/03/2015G) To Tuesday 12/05/1436H (corresponding to 03/03/2015G)
Offering Period End Date and deadline for submitting Subscription Application Forms	From Tuesday 12/05/1436H (corresponding to 03/03/2015G)
Rump Offering Period	From Sunday 17/05/1436H (corresponding to 08/03/2015G) To Monday 18/05/1436H (corresponding to 09/03/2015G)
Final Allocation Notification	Wednesday 20/05/1436H (corresponding to 11/03/2015G)
Payment of Compensation Amounts (if any) for Eligible Persons who did not participate in the Offering and those entitled to fractions of New Shares	Thursday 28/05/1436H (corresponding to 19/03/2015G)
Expected date for the commencement of trading in New Shares	After completing all necessary procedures.

The above timetable and all dates therein are indicative. Actual dates will be communicated through local newspapers published in the KSA and on the Tadawul website ([www.tadawul.com.sa](http://www.tadawul.com.sa)).

## Key Announcement Dates

Announcement	Announcing Party	Announcement Date
Announcement regarding the Offering EGM (Eligibility Date)	Company	Tuesday 21/04/1436H (corresponding to 10/02/2015G)
Announcement regarding the Offering outcome of the EGM, including the approval of the Capital Increase	Company	Tuesday 21/04/1436H (corresponding to 10/02/2015G)
Announcement regarding the change in Company's share price, Rights' deposit and the Indicative Value of the Right	Tadawul	Wednesday 22/04/1436H (corresponding to 11/02/2015G)
Announcement regarding the subscription periods	Company	Tuesday 21/04/1436H (corresponding to 10/02/2015G)
Announcement regarding the commencement of the First Offering Period and the Trading Period	Company	Sunday 26/04/1436H (corresponding to 15/02/2015G)
Reminder announcement of the last trading day for the Rights Issue and the importance of selling Rights by those not intending to exercise such Rights	Tadawul	Thursday 07/05/1436H (corresponding to 26/02/2015G)
Announcement regarding the end of the First Offering Period and the commencement of the Second Offering Period	Company	Sunday 10/05/1436H (corresponding to 01/03/2015G)
Reminder announcement of the last day for submitting Subscription Application Forms for the Second Offering Period	Company	Thursday 12/05/1436H (corresponding to 03/03/2015G)
Announcement regarding: <ul style="list-style-type: none"> <li>the outcome of the First Offering Period and the Second Offering Period;</li> <li>the details of the sale of unsubscribed New Shares (if any); and</li> <li>the commencement of the Rump Offering</li> </ul>	Company	Thursday 14/05/1436H (corresponding to 05/03/2015G)
Announcement regarding the outcome of the Rump Offering and Final Allocation Notification	Company	Wednesday 20/05/1436H (corresponding to 11/03/2015G)
Announcement regarding the deposit of New Shares in the investors' accounts	Tadawul	Sunday 24/05/1436H (corresponding to 15/03/2015G)

Announcement	Announcing Party	Announcement Date
Announcement regarding Payment of the Compensation Amounts (if any) to Eligible Persons	Company	Thursday 28/05/1436H (corresponding to 19/03/2015G)

The above timetable and all dates therein are indicative. Actual dates will be communicated through local newspapers published in the KSA and on the Tadawul website ([www.tadawul.com.sa](http://www.tadawul.com.sa)).

## HOW TO APPLY

Subscription for the New Shares shall be limited to Eligible Persons. In the event that Eligible Persons do not subscribe for all the New Shares, the unsubscribed New Shares shall be offered to the Institutional Investors through the Rump Offering.

Eligible Persons wishing to subscribe for the New Shares shall complete the Subscription Application Forms, copies of which are available from branches of the Receiving Agents, during the First Offering Period and the Second Offering Period (as applicable). It is also possible to apply through the internet, phone or ATMs of any of the Receiving Agents that offer one or all of these services to the applicants, provided that (i) the applicant has a bank account with the Receiving Agent which offers such services; and (ii) the personal information of the applicant is up-to-date.

Subscription Application Forms must be completed in accordance with the instructions mentioned under Section 17 ("Subscription Terms and Conditions"). The Company reserves the right to reject, in full or in part, any application for New Shares that does not comply with any of the subscription terms or requirements. No amendment to the Subscription Application Form, or any attempt to withdraw it, can be made after submission to the Receiving Agents. Eligible Persons may subscribe by completing two separate Subscription Application Forms. One Subscription Application Form will be required for subscriptions during the First Offering Period, and the second during the Second Offering Period. Once accepted by the Company, a Subscription Application Form shall represent a legally binding contract between the Company and the Eligible Person (see Section 17 ("Subscription Terms and Conditions") for further information).

## FAQS ABOUT THE RIGHTS ISSUE

### 1. What is a Rights Issue?

A Rights Issue is one way for publicly listed companies to raise money. Companies raise money through a rights issue by issuing shares for cash and giving their existing shareholders a right to buy these shares, typically at a discount to the market price for the shares, in proportion to their existing shareholdings.

As such, the Rights Issue is an offering of a Right or Rights that give their holders the priority to subscribe for New Shares upon approval of the capital increase of the Company. Each Right grants its holder the right to subscribe for one New Share at the Offer Price. Rights may be traded in accordance with the mechanism set out in this Prospectus.

### 2. How will this Prospectus assist a Registered Shareholder and Qualifying Investors?

This Prospectus should provide Registered Shareholders and Qualifying Investors with sufficient information on the Rights Issue to assist them to participate in the Offering.

### 3. Who is granted the Rights?

The Rights are granted to all Shareholders in the Company's register as at the close of trading on the date of the Offering EGM.

### 4. What is the size of the Offering?

The Company intends to issue 25,000,000 New Shares pursuant to the Rights Issue at the Offer Price. This will represent an increase of the Company's share capital from SAR 200,000,000 to SAR 450,000,000, which represents an increase of 125% (one hundred and twenty-five per cent.) to the existing share capital.

### 5. When are the Rights deposited?

The Rights are deposited within two days after the Offering EGM. The Rights will appear in the portfolios of Registered Shareholders under a new symbol specifying the Rights Issue. These Rights cannot be traded or exercised by Registered Shareholders until the beginning of the First Offering Period.



## **6. How are Registered Shareholders notified of the Rights being deposited in their accounts?**

Registered Shareholders are notified through an announcement on the Tadawul website.

## **7. How many Rights are allocated to each Registered Shareholder?**

The number of Rights allocated to each Registered Shareholder is based on the Rights Issue Ratio and the number of Shares held by the Registered Shareholder as at the close of trading on the date of the Offering EGM.

## **8. What is the Rights Issue Ratio?**

It is the ratio that informs the Registered Shareholder how many Rights he is entitled to in relation to the Shares that he owned at the close of trading on the date of the Offering EGM. It is calculated by dividing the number of New Shares by the number of the Company's existing Shares. This has been calculated to be one and a quarter (1.25) for every one (1) Share held by a Registered Shareholder as at the close of trading on the date of the Offering EGM. Accordingly, if a Registered Shareholder held 1,000 Shares at such date, he will be allocated 1,250 Rights in relation to such existing Shares.

## **9. What is the First Offering Period, the Trading Period and the Second Offering Period?**

The First Offering Period and the Trading Period are for the same duration and are from 11:00 am on Tuesday 28/04/1436H (corresponding to 17/02/2015G) to 3:30 pm on Thursday 07/05/1436H (corresponding to 26/02/2015G). During the First Offering Period, the Rights allocated to each of the Registered Shareholders (as explained above) will be deposited in their accounts and Registered Shareholders can choose to exercise their right to subscribe for New Shares in relation to such Rights. In addition, as this is also the Trading Period, both Registered Shareholders and Qualifying Investors can buy/sell the Rights on the Tadawul. Following the expiry of such periods, the Second Offering Period will commence from 11:00 am on Sunday 10/05/1436H (corresponding to 01/03/2015G) to 3:30 pm on Tuesday 12/05/1436H (corresponding to 03/03/2015G) during which the holders of any Rights (that were bought during the Trading Period) can exercise their right to subscribe for New Shares (corresponding to the number of Rights they hold). No trading of Rights is permitted during the Second Offering Period.

## **10. What is the value of the Rights upon the commencement of the Trading Period?**

The opening price of each Right is the difference between the closing price of a Share on the last trading day preceding the commencement of the Trading Period, and the Offer Price. For example, if the closing price of a Share is SAR 35 (thirty-five Saudi Riyals) and the Offer Price is SAR 10 (ten Saudi Riyals), the opening price of the Rights will be SAR 25 (twenty-five Saudi Riyals).

## **11. What do I need to do as a Registered Shareholder in relation to the Rights allocated to me?**

You have the following options in relation to the Rights during the First Offering Period/Trading Period:

1. keep the Rights and exercise the right to subscribe for New Shares in relation to such Rights;
2. sell some or all of the Rights allocated to you on the Tadawul;
3. purchase additional Rights on the Tadawul which can then be exercised during the Second Offering Period; or
4. not take any action in relation to such Rights including selling them or exercising the right to subscribe for New Shares. In this case, such New Shares as corresponding to such Rights will be allocated to the Rump Offering as Rump Shares (for further details see, Section 17 ("Subscription Terms and Conditions")).

## **12. Can Registered Shareholders subscribe for more Shares than the number of Rights allocated to them?**

As explained above, during the Trading Period, Registered Shareholders can purchase additional Rights which can be exercised to subscribe for additional New Shares during the Second Offering Period.

## **13. Is it possible to subscribe for New Shares through multiple Subscription Application Forms with different Receiving Agents?**

Yes, provided that the total number of New Shares that are included in all Subscription Application Forms does not exceed the number of Rights owned by the applicant at the end of the Trading Period. The Subscription Application Form will be cancelled if the number of New Shares subscribed for exceeds the number of Rights owned by the relevant applicant at the end of the Trading period.

**14. If my Shares in the Company are deposited in multiple investment portfolios, in which investment portfolio will the Rights be deposited?**

The Rights will be deposited in the same portfolio that contains the Shares to which the Rights relate. For example, if a Registered Shareholder owns 1000 shares in the Company, of which 800 Shares are held in portfolio (a) and 200 shares are held in portfolio (b), the total number of Rights that will be deposited in the investment portfolios of such Registered Shareholder will be 1,250 Rights (based on the Rights Issue Ratio) of which 1000 will be deposited in portfolio (a) and 250 will be deposited in portfolio (b).

**15. If I submit the Subscription Application Forms to different Receiving Agents, in which investment portfolio will the New Shares be deposited following their allocation?**

All New Shares allocated to you will be deposited in the investment portfolio that you specified in the first Subscription Application Form.

**16. How do I exercise my right to subscribe for New Shares?**

You need to submit a completed Subscription Application Form at any branch of the Receiving Agents (mentioned in this Prospectus) during the First Offering Period and/or the Second Offering Period (only in relation to Rights purchased during the Trading Period). For further details, see Section 17 ("Subscription Terms and Conditions").

**17. Are share certificate holders allowed to subscribe and trade?**

Yes, they are allowed to subscribe. However, they will only be able to trade after depositing their certificates in investment accounts through the Receiving Agents or the Tadawul's depository centre and submitting all other necessary documents.

**18. If I buy Shares after the Eligibility Date, will I be eligible to participate in the Rights Issue?**

No, Shares purchased after the Eligibility Date will not carry the right to participate in the Rights Issue. However, you will be able to purchase Rights during the Trading Period which can then be exercised to subscribe for New Shares in the Second Offering Period.

**19. If I take up my Rights, when will my New Shares be admitted to trading?**

If you take up your rights under the Rights Issue, the New Shares are expected to be admitted to trading after the completion of all procedures relating to the registration, allocation and listing of all the New Shares. The actual date(s) will be communicated through local newspapers published in KSA as well as on Tadawul's website: [www.tadawul.com.sa](http://www.tadawul.com.sa).

**20. What happens if a Registered Shareholder exercises his right to subscribe for New Shares but then sells the underlying Rights during the Trading Period?**

In such a scenario, unless such Registered Shareholder has bought sufficient Rights at the end of the Trading Period corresponding to the number of New Shares he applied for during the First Offering Period, his subscription application for New Shares will be rejected entirely and he will be notified by the Receiving Agent and refunded any amounts paid towards such subscription.

**21. Can persons who purchase additional Rights trade them again?**

Yes, purchasers of additional Rights may sell them and purchase other Rights but only until the end of the Trading Period.

**22. Is it possible to sell only a portion of the Rights held by a Registered Shareholder?**

Yes, it is possible to sell only a portion of these Rights and subscribe for New Shares for the remaining portion of such Rights.

**23. Is it possible to subscribe during the weekend between the First and Second Offering Periods?**

No, that is not possible.

**24. Can the Eligible Person sell the Right after expiry of the Trading Period?**

No, that is not possible. After the expiry of the Trading Period, the Eligible Person may only exercise the right to subscribe for the New Shares corresponding to the number of Rights he holds. In case the Right is not exercised, the New Shares corresponding to such Rights will be offered to the Institutional Investors during the Rump Offering.

## **25. What happens to Rights that have not been exercised at the end of the Second Offering Period?**

The New Shares corresponding to such Rights will be Rump Shares and will be sold through the Rump Offering. During the Rump Offering, such Rump Shares will be allocated to Institutional Investors in order of priority based on the price per Share offered by the relevant Institutional Investor until all of the Rump Shares have been allocated. Any remaining Rump Shares will be allocated on a proportional basis among those Institutional Investors that tendered offers at the same price. All Fractional Shares will be added to and, for allocation purposes, will form part of and be treated the same as the Rump Shares.

## **26. Will the Rights Issue affect my shareholding in the Company?**

Yes, the Rights Issue will affect your shareholding in the Company in the following ways:

1. If you choose not to exercise the right to subscribe for New Shares corresponding to the Rights allocated to you, your ownership interest in the Company will be diluted correspondingly which will result in a decrease in your voting power and the value of your investment portfolio.
2. If you choose to exercise the right to subscribe for all the New Shares corresponding to the Rights allocated to you during the First Offering Period, your ownership interest in the Company will remain unchanged.
3. If you choose to exercise the right to subscribe for all the New Shares corresponding to the Rights allocated to you and any additional Rights you decide to purchase during the Trading Period, your ownership interest in the Company will be greater than before the Rights Issue.

By way of example, a Registered Shareholder who currently holds 10,000 Shares will have an ownership interest of approximately 0.05 per cent. in the Company's share capital. The number of Rights allocated to him during the First Offering Period will be 12,500. Accordingly:

1. If he does not exercise the right to subscribe for 12,500 New Shares, his ownership interest in the new share capital of the Company will be reduced and then represent approximately 0.02%.
2. If he exercises the right to subscribe for 12,500 New Shares, his ownership interest in the new share capital of the Company will remain unchanged and continue to represent approximately 0.05%.
3. If he exercises the right to subscribe for more than 12,500 New Shares, his ownership interest in the new share capital of the Company could represent more than 0.05%.

## **27. Will I be entitled to Fractional Shares as part of the Rights Issue?**

No, all Fractional Shares will be allocated to the Rump Offering.

## **28. Will there be any additional fees for the trading in Rights?**

The same commissions that apply to the trading of Shares will also apply on the sale and purchase of Rights, without a minimum commission being imposed.

## **29. Can I sell the New Shares for which I have subscribed for?**

After the commencement of dealings in the New Shares, you will be able to sell your New Shares in the ordinary course.

## **30. Can I change my decision to take up my rights?**

Once you have submitted your Subscription Application Form through the Receiving Agents, you cannot withdraw your application or change the number of New Shares for which you have subscribed.

## **Further Assistance**

If you have any other questions, please email the Company's designated email address: [khalid.shuwaier@axa-gulf.com](mailto:khalid.shuwaier@axa-gulf.com). For legal reasons, the Company will only be able to provide information contained in this document and information relating to the Company's register of members and will not be able to give advice on the merits of the Rights Issue or to provide financial, tax, legal or investment advice.

Your attention is drawn to the further terms and conditions of the Rights Issue in Section 17 ("Subscription Terms and Conditions") and the rest of the information in this Prospectus.

## **SUMMARY OF KEY INFORMATION**

This summary of key information is intended to give an overview of the information contained in this Prospectus. As such, it does not contain all of the information that may be important to prospective investors. Accordingly, this summary must be read as an introduction to this Prospectus, and recipients of this Prospectus are advised to read the entire Prospectus in full and any decision to invest in the New Shares by prospective investors should be based on a consideration of this Prospectus as a whole.

Your attention is drawn to the "Important Notice" and the "Industry and Market Data" Sections on pages II to IV which contain a summary of the sources of the information used in this Summary of Key Information Section.

## 1. The Company

### 1.1 Overview of the Corporate History

The Company was incorporated in 2008G as a Saudi joint stock company in accordance with (i) Royal Decree No. M/36 dated 27/6/1429H (corresponding to 01/07/2008G) and (ii) ministerial order number Q/192 dated 10/6/1430H (corresponding to 03/06/2009G). On 11/02/1431H (corresponding to 26/1/2010G), the Company obtained license number TMN/25/20101 from SAMA to undertake general insurance, medical insurance and reinsurance business in Saudi Arabia.

The Company entered into an agreement with AXA Insurance (Saudi Arabia) B.S.C ("AXA Saudi") in 2009 to implement the Portfolio Transfer. AXA Saudi is a closed joint stock company incorporated in Bahrain, which had carried out insurance activities in Saudi Arabia since 1985. The portfolio was transferred after obtaining regulatory approval and subsequently shareholder approval at the Shareholders' meeting on 27/01/1434H (corresponding to 10/12/2012G). The Company acquired title and beneficial ownership to assets and liabilities associated with the insurance portfolio, including customers, distributors, employees and equipment. The portfolio transfer was effective from 05/01/1430H (corresponding to 01/01/2009G) and the Company restated its financial statements for prior years which were approved by the appropriate regulatory authorities and Shareholders.

### 1.2 The Company's principal activities

The principal activities of the Company include co-operative insurance operations and related activities, including reinsurance. The Company carries out these activities under the Insurance Law and its Implementing Regulations, its By-Laws and other relevant regulations in Saudi Arabia. On 11/02/1431H (corresponding to 26/1/2010G), the Company obtained license number TMN/25/20101 from SAMA to practice general insurance, medical insurance and reinsurance business in Saudi Arabia. On 04/3/1431H (corresponding to 18/2/2010G), the Company commenced insurance operations upon full product approval for certain products and temporary approval for the remaining products. Full approval applications for all product lines are under review by SAMA.

The table below sets out a list of all products offered by the Company and the corresponding approvals granted by SAMA (both temporary and full) in respect of each product.

**Table 1-2: Company Product Type**

Fully Approved Products			
Product	Approval Date	SAMA Letter Number	
Motor Comprehensive – Private	31/03/2013G	341000062927	
Motor Comprehensive – Commercial	31/03/2013G	341000062927	
Third Party Liability	31/03/2013G	341000062927	
Group Credit Life	30/04/2010G	-	
Healthcare	26/01/2010G	220/IS/7721	
Group Term Life (EB)	16/09/2010G	1764/IS/48202	

Temporary Approval			
Product	Initial Approval	Extension	Valid Until
Business All Risks	16/02/2010G	22/06/2014G	22/12/2014G
Business Secure	16/02/2010G	22/06/2014G	22/12/2014G
Office Secure	16/02/2010G	22/06/2014G	22/12/2014G
Personal Accident-Individual	16/02/2010G	22/06/2014G	22/12/2014G
Professional Indemnity	16/02/2010G	22/06/2014G	22/12/2014G
Employer's Liability	31/01/2010G	22/06/2014G	22/12/2014G
Workmen's Compensation	31/01/2010G	22/06/2014G	22/12/2014G
Product Liability	31/01/2010G	22/06/2014G	22/12/2014G
Public Liability	31/01/2010G	22/06/2014G	22/12/2014G

Temporary Approval			
Product	Initial Approval	Extension	Valid Until
Money Insurance	28/09/2009G	22/06/2014G	22/12/2014G
Personal Accident - Group	28/09/2009G	22/06/2014G	22/12/2014G
Contractors All Risks	31/01/2010G	22/06/2014G	22/12/2014G
Machinery Insurance	16/02/2010G	22/06/2014G	22/12/2014G
Erection All Risks	31/01/2010G	22/06/2014G	22/12/2014G
Machinery Loss of Profits Insurance	31/01/2010G	22/06/2014G	22/12/2014G
Electronic Equipment	31/01/2010G	22/06/2014G	22/12/2014G
Industrial All Risks	16/02/2010G	22/06/2014G	22/12/2014G
Plant All Risks	31/01/2010G	22/06/2014G	22/12/2014G
Deterioration of Stock	31/01/2010G	22/06/2014G	22/12/2014G
Cargo Plus Insurance	16/02/2010G	22/06/2014G	22/12/2014G
Goods In Transit	16/02/2010G	22/06/2014G	22/12/2014G
Home Comfort	31/01/2010G	22/06/2014G	22/12/2014G
Property All Risks	16/02/2010G	22/06/2014G	22/12/2014G
Property All Risks (Loss of Profits Insurance)	11/01/2010G	22/06/2014G	22/12/2014G
Business Travel	11/01/2010G	22/06/2014G	22/12/2014G
Travel Insurance (Travel Smart)	11/01/2010G	22/06/2014G	22/12/2014G
Fire and Special Perils Insurance	31/01/2010G	22/06/2014G	22/12/2014G
Fire and Special Perils (Loss of Profits)	31/01/2010G	22/06/2014G	22/12/2014G

Not Approved to Date*		
Product	Submission Date	Date of Last Resubmission
Relocation Plus	02/10/2010G	10/07/2014G
Commercial Hull	02/10/2010G	10/07/2014G
Fidelity Guarantee	26/10/2010G	10/07/2014G
Theft (Business Premises)	02/10/2010G	10/07/2014G
Sail Master	02/10/2010G	10/07/2014G
Travel In Bound	02/10/2010G	10/07/2014G
Individual Life**	07/01/2009G	—
Industrial All Risk (LOP)	02/10/2010G	10/07/2014G
Travel Signature	03/07/2013G	10/07/2014G
Travel Infinite***	03/07/2013G	—

\* On 29 April 2012G, SAMA requested that the Company resubmit all previous documents for new insurance products including the policies, terms and conditions and pricing terms. On 27 August 2014G, SAMA requested the provision of additional documentation in relation to certain new products.

\*\*SAMA has sent a letter to the Company with respect to Individual Life insurance product on 25 March 2014G requesting a resubmission with a comprehensive set of submission documents. The Company has not re-submitted the documents to date.

\*\*\* SAMA has not responded to the Company's submission in respect of the Travel Infinite product.

## 2. Shareholding Structure of the Company

The following table summarises the shareholding in the Company as at the date of this Prospectus.

**Table 1-3: Shareholding Structure of the Company**

Shareholder	Shares	Capital (SAR)	%
Public	10,000,000	100,000,000	50
AXA Insurance (Gulf) B.S.C.(c)	6,400,000	64,000,000	32
AXA Mediterranean Holding S.A.	3,600,000	36,000,000	18
<b>Total</b>	<b>20,000,000</b>	<b>200,000,000</b>	<b>100</b>

Source: Company

AXA Gulf and AXA Mediterranean fully support and are in favour of the Rights Issue and the related Capital Increase and have confirmed to the Company and SAMA that they will participate fully in the Rights Issue and take up all their respective rights to subscribe for New Shares. Subject to the rules and regulations issued by the CMA, there are no restrictions placed on the ability of AXA Gulf and AXA Mediterranean to trade their Rights except for the need to obtain SAMA's and the CMA's approval.

The ownership structure of each of AXA Gulf and AXA Mediterranean is set out in Section 4.4 ("Overview of AXA Gulf and AXA Mediterranean").

### 3. Vision, Objective, Mission and Strategy

#### Vision

The Company's vision is to become the preferred insurance company in Saudi Arabia for its clients, stakeholders and employees.

#### Objective

The Company's objective is to become the first choice insurance company to its clients. The Company aims to provide its clients with the highest standard of insurance and reinsurance services. Furthermore, the Company aims to focus on its growth and the promotion of its reputation and the consolidation of its strong position as a provider of insurance and reinsurance services.

#### Mission

The Company aims to be the trusted market leader in Saudi Arabia, employing the best people to provide confidence, outstanding value and superior service to its clients.

#### Strategy

The Company's core strategy is based on the following pillars:

##### Acceleration

- Expansion and enhancement of distribution networks focused on growth of retail and SME segments
- Differentiated commercial health proposition to drive future growth supported by specialised and dedicated employee benefits (EB) teams
- Cross-selling of group life protection with health insurance
- Improved price competitiveness through strengthened procurement, network management and claims management to reduce claims costs

##### Selectivity

- Maximise the profitability of new and renewed business in key lines through regular rate reviews, portfolio reduction and enhanced underwriting management
- Develop and increase profitable retail and SME portfolio
- Improve profitability on Property and Casualty (P&C) commercial lines with more cross-selling of profitable lines

##### Efficiency

- Continue industrialisation of the Company via its efficiency programme
- Improve health care procurement and anti-fraud expertise
- Sales efficiency to continue to be enhanced through better sales activity management and staff training

##### Customer Centricity

- Maintain high level of quality of service as a differentiator
- Continue to build "multi-access" competitive advantage by making it easier for customers to do business with the Company
- Continue to build an adapted and differentiated value proposition for the SME and retail segments supported by optimised distribution and marketing

##### Trust and Achievement

- Investment in the recruitment, development and retention of Saudi nationals



#### 4. Competitive Advantages

There are a number of factors that give the Company an advantage over competitors and provide a platform for sustainable and profitable growth. The key advantages are outlined below:

##### Global and Regional Presence

The Company is part of AXA Group which operates primarily in Europe, North America and the Asia-Pacific Region. In the Middle East and North Africa ("MENA") region, AXA has operations in Bahrain, United Arab Emirates, Qatar, Oman, Saudi Arabia (through the Company), Lebanon, Jordan (through partnerships and joint ventures), Turkey, Morocco and Algeria. This regional cover enables the Company to leverage off the AXA Group's size and experience to differentiate their products and services to meet the needs of individual and corporate clients in Saudi Arabia. By sharing best practices and building on the strength of a globally recognized brand, the Company intends to continue to fully leverage its international reach to develop a clear competitive edge in the Saudi market.

AXA Group is a worldwide leader in financial protection. Based on available information at 31 December 2013G, the AXA Group was one of the world's largest insurance groups, with consolidated gross revenues of €91 billion for the year ended 31 December 2013G. The AXA Group was also one of the world's largest asset managers, with total assets under management as at 31 December 2013G of €1,113 billion. Based on available information at 31 December 2013G, AXA was the world's 9th largest manager.<sup>1</sup>

AXA has five operating business segments: Life & Savings, Property & Casualty, International Insurance, Asset Management and Banking. In addition, various holding companies within the AXA Group conduct certain non-operating activities.

##### Established Business

AXA Group has an established insurance operation in the region with a total of 13 offices across Saudi Arabia, Bahrain, Qatar, UAE and Oman supported by over 800 staff. AXA Group's operations in Saudi Arabia originated in 1985, with offices now located in each of the three key economic regions of the Kingdom: Jeddah, Riyadh and Al-Khobar. The Company has a well-established customer base and distribution network that has been developed over 25 years which was acquired from AXA Saudi, pursuant to the Portfolio Transfer.

##### Diverse Insurance Services

The Company offers a diverse range of insurance and reinsurance services. The Company offers a wide range of commercial insurance products which include property, casualty, marine, engineering and health care. The Company's ability to offer a diverse product range to each client enables it to develop a distinct competence with corporate clients who prefer one insurance carrier to satisfy their insurance needs. AXA Group entities are known locally and internationally for innovating and developing market-leading personal line products.

##### Qualified and Experienced Team of Staff

The Company has a competent, qualified and professional management team to run it and to lead it to achieve its objectives efficiently. The Company will continue to invest in the recruitment, training, development and retention of local staff throughout the organisation to deliver a superior quality of service to clients. AXA Group is committed to developing the skills of its insurance employees through adopting a policy that is based on employing and training local employees and improving their professional skills. Training local employees and improving their professional skills is important for boosting the Company's ambition for growth and development and will allow the Company to proceed with developing high-quality products and services in the long run.

##### Reinsurance Programme

The main objective of the Company is to retain risk locally to maximise potential returns for Shareholders. This is achieved through prudent reinsurance arrangements, providing high-quality security at a competitive price. The reinsurance programme used by the Company aims to ensure that the Company is able to achieve stable and continuing growth consistent with its strategic objectives. AXA Global P&C (formerly AXA Cessions) facilitates all reinsurance treaties for the Company. AXA Global P&C is an intra-Group reinsurance company in charge of analysis, structuring and placement of reinsurance treaties on behalf of AXA Group companies after a selection of third party reinsurers. By 'pooling' risks throughout the AXA Group, the Company can obtain competitive prices for the required capacity with leading reinsurers with an acceptable security rating. With additional support from AXA Corporate Solutions Assurance which is the AXA Group subsidiary dedicated to large corporations in terms of property and casualty loss prevention, risk management, underwriting and claims handling and to specialty markets (marine, aviation, space) worldwide, the Company also has the capacity to target large insurance projects in Saudi Arabia.

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<sup>1</sup> Ranking established by AXA based on the information available as at 30 September 2013.

## Centralised Client Service

The Company's strategy is to centralise high volume and high frequency processes, which currently include medical and motor insurance. The objective is to achieve greater efficiency and at the same time deliver a superior quality of service to clients.

## Information Technology

The Company has core insurance software in place in order to facilitate the operational, financial, statutory and management information requirements. Management information systems help with planning, monitoring and evaluating the operations and performance of individual units. With this core insurance software and management information system, the Company has an orderly and disciplined methodology to provide for the accurate recording of data and the timely extrapolation and transmission of management information used in the decision making process. This helps in the making of strategic, tactical and operational decisions at all levels of its organisation. Inter-branch connectivity contributes to providing effective business management, disaster recovery support and authority controls. The integrated systems facilitate centralized processing, improved utilisation of expertise and lower processing costs.

## 5. Market and Industry Overview

### 5.1. Overview of the Saudi Economy

The Saudi economy continued its strong growth in 2013 as a result of significant developments and achievements made during the year. This was mainly ascribed to continuous Government investment and expenditure, specifically on infrastructure projects, and continuous high-paced growth due to improving regulations and enhancement of the business environment, which promoted domestic and foreign investments. Structural and regulatory reforms were introduced and aimed at achieving sustainable economic growth through diversifying the economic bases by increasing the contribution of non-oil sectors to GDP.

### 5.2. Overview of the Saudi Arabian Insurance Industry

The Saudi Arabian insurance sector is the second largest in the GCC and has experienced a robust rate of growth over the past few years, primarily attributed to a set of structural reforms implemented by the Government in 2005. Prior to this period, the insurance industry framework in the Kingdom was highly unregulated. Mandatory health insurance regulations launched by the Government in 2006 and compulsory motor insurance in 2007 helped fuel demand for insurance products in the Kingdom.<sup>2</sup>

The insurance sector in Saudi Arabia is characterised by tough competition. As at the date of this Prospectus, thirty-five (35) insurance companies are currently licensed and listed on the Saudi Stock Exchange. The competition is expected to intensify between more established insurance companies that are seeking to maintain and increase their market share and those that have recently entered the market and are seeking to obtain and increase their market share by offering competitive prices and innovative insurance products.

### 5.3. Future Outlook

The insurance industry in Saudi Arabia is expected to undergo significant development as a result of not only the new insurance regulations, but also changes in the macroeconomic outlook as well as Government policies.

The entry of international insurance companies in the market is expected to continue to bring expertise and modern techniques to improve the product offering and the level of insurance services provided in the Kingdom.

Competition has increased and is expected to continue, with the increase in the number of licensed insurance companies in the Kingdom. Strong competition may continue to cause a reduction in premium rates.

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<sup>2</sup> Alpen Capital: GCC Insurance Sector, 2013.

## 6. Summary of Financial Information

The selected financial information presented below should be read together with the audited reissued financial statements for the year ended 31 December 2011G "2011 Financial Statements", the audited financial statements for the financial year ended 31 December 2012G "2012 Financial Statements", the audited financial statements for the financial year ended 31 December 2013G "2013 Financial Statements", and the interim condensed financial statements for the six-month period ended 30 June 2013G and 30 June 2014G "Q1 2014 Financial Statements", including, in each case, the notes thereto.

**Table 1-4: Key Financial Highlights (SAR '000)**

	2011G Audited	2012G Audited	2013G Audited	H1 -2013G Unaudited	H1-2014G Unaudited
<b>Statement of Insurance Operations and Accumulated Surplus (Losses)</b>					
Gross written premium	427,790	460,486	775,596	385,990	497,826
Total Revenues	373,080	373,306	622,730	319,884	381,760
Cost and Expenses	(387,321)	(367,734)	(651,719)	(309,427)	(373,154)
Net surplus (deficit) from insurance operations after appropriation of surplus	-	557	1,101	1,046	861
Commission income	1,055	1,620	4,805	2,183	3,518
Shareholders' operations expenses	(440)	(1,378)	(1,759)	(590)	(784)
Provision for zakat and income tax	(3,341)	(4,617)	(1,805)	(3,790)	(2,970)
Net Income/(Loss)	(16,044)	5,685	12,942	7,872	8,806
<b>Balance Sheet</b>					
Insurance operations' assets	437,775	543,815	643,838	555,668	726,125
Shareholders' assets	229,947	261,566	212,663	196,219	250,875
<b>Total Assets</b>	<b>667,722</b>	<b>805,381</b>	<b>856,501</b>	<b>751,887</b>	<b>977,000</b>
Insurance operations liabilities and fair value reserves	437,775	543,315	643,838	555,668	726,125
Shareholders' liabilities	59,183	81,214	21,288	11,548	49,265
Shareholders' equity	170,764	180,352	191,375	184,671	201,610
Total shareholders' liabilities and equity	229,947	261,566	212,663	196,219	250,875
Total Insurance operations, liabilities and fair value reserves and Shareholders' liabilities and equity	667,722	805,381	856,501	751,887	977,000
<b>Insurance operations' Cash Flows</b>					
Operating Activities	(57,719)	78,433	174,296	80,523	29,677
Investment Activities	(44,130)	(94,682)	(76,809)	(138,472)	66,429
Financing Activities	-	-	-	-	-
Net Cash Flows	(101,849)	(16,249)	97,487	(57,949)	(36,752)
<b>Shareholders' Cash Flows</b>					
Operating Activities	22,736	26,042	(45,105)	(58,707)	(36,573)
Investment Activities	1,395	(155,597)	45,671	58,977	(28,247)
Financing Activities	-	-	-	-	-
Net Cash Flows	24,131	(129,555)	566	270	8,326
<b>Earnings per share (SAR)</b>					
• basic and diluted earnings (loss) per share	(0.635)	0.515	0.740	0.58	0.59

	2011G Audited	2012G Audited	2013G Audited	H1 -2013G Unaudited	H1-2014G Unaudited
Liability ratio	75.60%	74.60%	83.60%	83.1%	84.00%
Interest coverage ratio	28.60%	24.30%	15.40%	14.20%	14.60%
Overall combined ratio	104.20%	98.90%	99.00%	97.29%	98.62%
Reinsurance percentage	17.30%	20.9%	13.50%	11.13%	11.19%
The net earned premiums ratio of total premiums	82.70%	79.10%	86.50%	88.87%	88.81%
Retention ratio	6.80%	21.00%	19.20%	23.88%	12.09%
Commission expenses ratio of total premiums	9.53%	7.21%	4.48%	4.45%	4.36%
Commission income ratio of the total premiums	1.43%	1.68%	4.60%	5.08%	6.31%
Surplus from insurance operations as a percentage of total premiums	(2.44%)	1.21%	1.42%	2.71%	1.73%

Source: Audited Financial Statements for years ended 2011G, 2012G and 2013G and the six month periods ended 30 June 2013G and 2014G.

### Comparability of the Company's Financial Information

As explained in note 24 of the 2012G Financial Statements, the financial information corresponding to the year ended 31 December 2011G included in the 2011G Financial Statements differs from the financial information corresponding to the year ended 31 December 2011G included, as comparative financial information, in the 2012G Financial Statements. The financial information for the year 2011G included in the 2012G Financial Statements reflects a reclassification to appropriately reflect the nature of balances and to conform with the 2012G Financial Statements presentation as follows:

- a reclassification from shareholders' accrued and other liabilities to policyholders' accrued and other liabilities in the amount of SAR 2,500,000;
- a reclassification from due to insurance operations to due from shareholders in the amount of SAR 2,500,000; and
- a reclassification from shareholders' withholding tax to policyholders' general and administrative expenses in the amount of SAR 3,800,000.

Additionally, as explained in note 24 of the 2013G Financial Statements, the financial information corresponding to the year ended 31 December 2012G included in the 2012G Financial Statements differs from the financial information corresponding to the year ended 31 December 2012G included, as comparative financial information, in the 2013G Financial Statements. The financial information for the year 2012G included in the 2013G Financial Statements reflects a reclassification to appropriately reflect the nature of balances and to conform with the 2013G Financial Statements presentation as follows:

- a reclassification from policyholders' premiums and insurance balances receivable to policyholders' advance premiums in the amount of SAR 3,700,000; and
- a reclassification from shareholders' short-term deposits to shareholders' long-term deposits in the amount of SAR 36,300,000.

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# 1. DEFINITIONS AND ABBREVIATIONS

The following sets out certain definitions and abbreviations used in this Prospectus.

Defined Term or Abbreviation	Definition
Adjusted Price	The Company's share price on Tadawul, as at the close of trading on the day of the Offering EGM, and after the approval of the Capital Increase by the Shareholders, was adjusted to SAR 21.8 per Share. This represents a reduction of SAR 14.75, or 40.4 per cent. (40.4%) per Share when compared against the Company's share price on Tadawul as at the close of trading on the day of the Offering EGM
Admission	Admission of the New Shares to listing and to trading on the Exchange in accordance with Article 19 of the Listing Rules
Advisors	The Company's advisors in relation to the Offering whose names appear on pages VII to VIII of this Prospectus
Affiliate	A person who (directly or indirectly) Controls another person or is Controlled by that other person, or who is under common Control with that person by a third person
Allocation Date	Wednesday 20/05/1436H (corresponding to 11/03/2015G)
ATM	Automated teller machine
Auditors	PricewaterhouseCoopers and Al-Ghanem Certified Public Accountants
Authority or CMA	The Capital Market Authority of the KSA
AXA Group	AXA SA and its direct and indirect consolidated subsidiaries
AXA Gulf	AXA Insurance (Gulf) B.S.C.(c)
AXA Mediterranean	AXA Mediterranean Holding S.A.
AXA SA	AXA Société Anonyme
AXA Saudi	AXA Insurance Saudi Arabia B.S.C.(c)
Bahraini Dinar or BHD	Bahraini dinar, which is the legal currency for the time being of Bahrain
Board or Board of Directors	The board of directors of the Company
By-Laws	The by-laws of the Company, which are summarised in Section 13 ("Summary of Company's By-Laws")
CAGR	Compound annual growth rate
Capital Increase	The increase in the Company's share capital from SAR 200,000,000 to SAR 450,000,000
Capital Market Law	The Capital Market Law issued under Royal Decree No. M/30 dated 2/6/1424H (corresponding to 31/07/2003G), and its amendments
CCHI	Council of Cooperative Health Insurance
CEO	The Chief Executive Officer of the Company
CFO	The Chief Financial Officer of the Company
Chairman	The Chairman of the Board
CMA or Authority	Capital Market Authority of Saudi Arabia
Companies Regulations	The Companies Regulations issued under Royal Decree No. M/6 dated 22/03/1385H (corresponding to 21/07/1965G), as amended
Company	AXA Cooperative Insurance Company, a Saudi joint stock company established in accordance with Royal Decree No. M/36 dated 27/6/1429H (corresponding to 01/7/2008G) (date of inception). The Company was incorporated pursuant to ministerial order number Q/92, dated 10/6/1430H (corresponding to 3/6/2009G) with commercial registration number 1010271203 issued on 20/7/1430H (corresponding to 13/7/2009G)
Compensation	The net proceeds resulting from the sale of the Rump Shares and Fractional Shares in excess of the Offer Price (if any), which are to be paid out as cash compensation amounts to Eligible Persons who did not exercise their Rights in full and subscribe for the New Shares, and to the holders of Fractional Shares respectively

Defined Term or Abbreviation	Definition
Control	The ability to affect a party's decisions and actions either directly or indirectly through: <ul style="list-style-type: none"> <li>control of at least 30% of the voting rights in the company; or</li> <li>the right to appoint 30% of the members of the board</li> </ul>
counterparty	A counterparty to an agreement or a transaction
Corporate Governance Regulations	The Corporate Governance Regulations of the KSA, issued by the CMA's board pursuant to its Resolution No. 1/212/2006 dated 21/10/1427H (corresponding to 12/11/2006G)
Current Shareholders	AXA Gulf, AXA Mediterranean and other individual investors
Directors or members of the Board	The members of the board of directors of the Company
Eligible Person(s)	All holders of Rights, whether they are Registered Shareholders or Qualifying Investors
Eligibility Date	Close of trading on the day of the Offering EGM, being Tuesday 21/04/1436H (corresponding to 10/02/2015G)
Euro or €	Euros, which is the legal currency for the time being of the Eurozone (which at the date of this Prospectus consists of 19 of the 28 members states of the European Union)
Exchange or Tadawul	The Saudi Arabian Stock Exchange
Extraordinary General Assembly or EGM	An extraordinary general assembly of the Shareholders convened in accordance with the By-Laws
Final Allocation Notification	The final notice for the number of Shares allocated to each Eligible Person without any charges or withholdings, which shall be made no later than Wednesday 20/05/1436H (corresponding to 11/03/2015G)
Financial Advisor	Saudi Fransi Capital
First Offering Period	The period from 11:00 am on Tuesday 28/04/1436H (corresponding to 17/02/2015G) to 3:30 pm on Thursday 07/05/1436H (corresponding to 26/02/2015G), during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the Offering EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The first Offering period coincides with the Trading Period during which Registered Shareholders and Qualifying Investors may trade in the Rights.
Founding Shareholders	AXA Gulf, AXA Mediterranean, Abdullah Ibrahim Al Khorayef Sons Company, Al Mojel Trading & Contracting Company, Al Jeraisy Group and Mr. Abdulaziz Mohammed Al Mashal
Fractional Shares	The fractional Shares to be consolidated and offered with the Rump Shares during the Rump Offering Period
GACA	General Authority of Civil Aviation
GCC	Gulf Cooperation Council
GDP	Gross domestic product
General Assemblies	As the context requires, an Extraordinary General Assembly and/or an Ordinary General Assembly, and "General Assembly" shall mean any general assembly of the Company
Government	Government of the KSA
GWP	Gross written premium of insurance policies within certain timeframe without deducting assigned premiums
Head Office	The Company's head office located at Al Malz District, 2nd Floor Kanoo Building, King Abdul Aziz Road, P.O. Box No. 753, Riyadh 11421, Saudi Arabia
IBNR	Incurred but not reported
IFRS	International Financial Reporting Standards
Implementing Regulations or SAMA Implementing Regulations	The Implementing Regulations for the Law on Supervision of Cooperative Insurance Companies promulgated by Ministerial Order No. 1/561 dated 1/3/1425H (corresponding to 20/4/2004G)
Indicative Value of the Right	The difference between the trading price of the Shares during the Trading Period and the Offer Price

Defined Term or Abbreviation	Definition
Institutional Investors	<p>The Institutional Investors include the following institutions:</p> <ol style="list-style-type: none"> <li>1. persons authorised by the CMA to deal in securities as principal provided that the financial adequacy requirements are observed;</li> <li>2. publicly listed companies (through their portfolios which are managed by authorised persons), banking companies and publicly listed insurance companies, in compliance with the regulations, and provided that their subscription shall not involve any conflict of interest;</li> <li>3. publicly offered investment funds established in Saudi Arabia and investing in securities listed on the Exchange provided that the funds' terms permit such investment, and provided that the terms and conditions of the Investment Funds Regulations are observed;</li> <li>4. investment companies as defined in the Glossary of Defined Terms used in the rules and regulations of the CMA, provided that the investment does not lead to a conflict of interest; and</li> <li>5. Governmental bodies and public institutions in the Kingdom</li> </ol>
Insurance Law	The Law on Supervision of the Cooperative Insurance Companies promulgated by Royal Decree No. M/32 dated 2/6/1424H (corresponding to 31/7/2003G)
insurance policy	A contract issued to the insured by the Company setting out the terms of the contract to indemnify the insured for loss and damages against a premium paid by the insured
insured	A natural person or legal entity, which has taken an insurance policy
insurer	An insurance company that writes insurance contracts to accept and assume the risk of the insured suffering a loss and to compensate for that loss directly to the insured(s)
IPO	Initial public offer
Kingdom or KSA or Saudi Arabia	The Kingdom of Saudi Arabia
Labour Law	Labour Law promulgated by royal decree no. M/51 dated 23/08/1426H (corresponding to (26/09/2005G)
Lead Manager	Saudi Fransi Capital
Legal Advisors	Clifford Chance
Listing	<p>Tadawul has in place mechanisms that enable the trading of Rights.</p> <p>A separate symbol will be given to AXA's Rights Issue (separate from AXA's trading symbol for the existing Shares on the Tadawul screen). Registered Shareholders shall have the following options during the First Offering Period (which coincides with the Trading Period) in relation to the trading of the Rights:</p> <ol style="list-style-type: none"> <li>1. keeping the Rights they have as at the Eligibility Date and exercising their Rights to subscribe for the New Shares;</li> <li>2. selling some or all of their Rights through the Exchange;</li> <li>3. purchasing additional Rights on the Exchange; and</li> <li>4. refraining from taking any action relating to the Rights, whether selling their Rights or exercising the right to purchase additional Rights. The Rump Shares resulting from not exercising, or selling, their Rights will be offered in the Rump Offering.</li> </ol> <p>Qualifying Investors may, during the Trading Period, purchase and sell Rights through the Exchange and (provided the Rights are held until the end of the First Offering Period) may exercise such Rights to subscribe for New Shares during the Second Offering Period. The Tadawul system will cancel AXA's Rights Issue symbol on the Tadawul screen after the end of the Trading Period. As such, the Rights trading will end at the end of the Trading Period</p>
Listing Rules	The Listing Rules issued by the board of the CMA pursuant to its resolution number 3-11-2004 dated 20/8/1425H (corresponding to 4/10/2004G), as amended pursuant to the resolution of the board of the CMA number 1-4-2012 dated 28/2/1433H (corresponding to 22/1/2012G) and further amended by resolution number 1-36-2012 dated 11/1/1434H (corresponding to 25/11/2012G)
Market Consultant	Business Monitor International
MOCI	The Ministry of Commerce and Industry in Saudi Arabia
Net Proceeds	The proceeds of the Offering, after deducting all related expenses
New Shares	25,000,000 Shares, representing 125% of the issued share capital of the Company
Offer Price	SAR 10 per New Share
Offering	The offering of the New Shares by way of a rights issue at an Offer Price of SAR 10 per Share

Defined Term or Abbreviation	Definition
Offering EGM	The EGM approving the Offering
Offering Period	The First Offering Period and the Second Offering Period, taken together
Offering Period End Date	Tuesday 12/05/1436H (corresponding to 03/03/2015G)
Official Gazette	The official gazette of Saudi Arabia
Ordinary General Assembly or OGM	An ordinary general assembly of the Shareholders convened in accordance with the By-Laws
Payment of Compensation Amounts (if any)	Cash compensation amounts will be paid to Eligible Persons who did not subscribe wholly or partially for New Shares, as well as to the holders of Fractional Shares, on Thursday 28/05/1436H (corresponding to 19/03/2015G) at the latest (please see Section 17 ("Subscription Terms and Conditions")). Compensation amounts represent remaining sale proceeds resulting from the Rump Shares and Fractional Shares (in excess of the Offer Price)
Percentage increase in share capital	125%
policyholders	The persons who, according to the Company's records, are at any given time the holders of insurance policies issued or acquired by the Company
Portfolio Transfer	The acquisition of the insurance portfolio of AXA Saudi and the related assets and liabilities by the Company, which was executed on 6/2/1434H (corresponding to 19/12/2012G)
Premium Solvency Margin	The solvency margin is calculated by multiplying the specified coefficient for the specific insurance line (according to SAMA guidelines) by the adjusted written premium for each line of insurance and aggregating the results
Prospectus	This prospectus
Public	Any person other than the following: 1. Affiliates of the Company; 2. Substantial Shareholders of the Company; 3. directors and senior executives of the Company; 4. directors and senior executives of Affiliates of the Company; 5. directors and senior executives of the Substantial Shareholders of the Company; 6. any relative of the persons described at (1), (2), (3), (4) and (5) above; 7. any company controlled by any person described at (1), (2), (3), (4), (5) and (6) above; or 8. persons acting in concert, with a collective shareholding of (5%) or more of the class of shares to be listed
Qualifying Investors	Purchasers of Rights during the Trading Period.
Qualifying Shareholders or Registered Shareholders	Those persons registered as being Shareholders as at the close of trading on the date of the Offering EGM
Receiving Agents	Arab National Bank, Banque Saudi Fransi, The National Commercial Bank, Riyadh Bank, Samba Financial Group
Registered Shareholders or Qualifying Shareholders	Shareholders registered in the Company's register as at the close of trading on the day of the Offering EGM
reinsurance	The process by which an insurer or reinsurer insures or reinsures another insurer or reinsurer (the ceding company) against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies
reinsurer	A reinsurance company that accepts insurance contracts from another insurer for some or all the risks it has assumed
Related Parties and Related Party to be construed accordingly	Refers to each of the following: 1. Affiliates of the Company; 2. Substantial Shareholders in the Company; 3. Board members and senior executives in the Company, Affiliates of the Company or substantial shareholders in the Company; 4. legal and financial advisors of the Company; 5. any relatives of persons included in points 1-4 above; and 6. any company under the Control of a person included in points 1-5 above
Rights	Tradeable securities issued pursuant to the Offering

Defined Term or Abbreviation	Definition
Rights Issue	Rights are issued as tradable securities giving their holders the priority to subscribe for the New Shares, upon approval of the Capital Increase. All Shareholders registered in the Company's register at the close of trading on the day of the Offering EGM will be entitled to receive Rights. Each Right grants its holder the right to subscribe to one (1) New Share at the Offer Price. Rights will be deposited within two (2) days after the date of the Offering EGM. The Rights will appear in the accounts of the Registered Shareholders under a new symbol specifying the Rights Issue. Registered Shareholders will be informed of the deposit of the Rights in their accounts
Rights Issue Ratio	One and a quarter (1.25) Rights for every one (1) existing Share owned by a Registered Shareholder. This ratio is the result of dividing the number of New Shares by the number of the Company's existing shares
Rights Issue Shares	25,000,000 Shares, representing approximately 55 per cent. (55%) of the issued share capital of the Company following completion of the Offering
Riyal or SAR	Refers to the Saudi Arabian riyal, which is the legal currency for the time being of Saudi Arabia
Rump Offering	The Rump Shares will be offered to a number of Institutional Investors, provided that such Institutional Investors submit offers to purchase the Rump Shares from 10:00 am on Sunday 17/05/1436H (corresponding to 08/03/2015G) until 10:00 am on 18/05/1436H (corresponding to 09/03/2015G). The Rump Shares will be allocated to the Institutional Investors in order of priority based on the price per Share offered by the relevant Institutional Investor until all of the Rump Shares have been allocated, with any remaining Rump Shares being allocated on a proportional basis among those Institutional Investors that tendered at the same price. Fractional Shares will be added to and, for allocation purposes, will form part of and be treated the same as the Rump Shares
Rump Offering Period	From 10:00 am on Sunday 17/05/1436H (corresponding to 08/03/2015G) to 10:00 am on 18/05/1436H (corresponding to 09/03/2015G)
Rump Shares	Shares that remain unsubscribed for after the Second Offering Period
S&P	Standard and Poor's
SAGIA	Saudi Arabian General Investment Authority
SAMA	The Saudi Arabian Monetary Agency
Second Offering Period	From 11:00 am on Sunday 10/05/1436H (corresponding to 01/03/2015G) to 3:30 pm on Tuesday 12/05/1436H (corresponding to 03/03/2015G), during which all Eligible Persons, whether the Registered Shareholders or purchasers of Rights during the Trading Period, may exercise their Rights to subscribe for Rights Issue Shares. No Trading of Rights will be permitted during this period.
Secretary	The secretary of the Board
Senior Officers	Those officers of the Company identified at Section 5.3 ("Senior Management")
Shareholders	Registered holders of Shares
Shares	Ordinary shares with a nominal value of SAR 10 each in the capital of the Company
SOCPA	Saudi Organization for Certified Public Accountants
Subscribers	Any person who subscribes for Rights Issue Shares
Subscription Application Form	The application form(s) submitted by the Subscriber(s) to purchase the Rights Issue Shares
Subscription Terms and Conditions	The subscription terms and conditions set out in Section 17 ("Subscription Terms and Conditions")
Subsidiary or subsidiaries	A company is a subsidiary of another company if: <ul style="list-style-type: none"> <li>that other company Controls, directly or indirectly, the company; or</li> <li>holds, directly or indirectly, more than 50% of the issued share capital or voting rights in the company; or</li> <li>it is a subsidiary of another subsidiary of that other company</li> </ul>
Substantial Shareholders	AXA Gulf and AXA Mediterranean, who have an ownership percentage of 32% and 18% respectively of the Company's share capital prior to the Offering
Strategic Shareholders	AXA Gulf and AXA Mediterranean
Tadawul	The automated system for trading shares on the Exchange

Defined Term or Abbreviation	Definition
Technical Provisions	The value set aside to cover expected losses arising on a book of insurance policies and its financial obligations
Trading of Rights	The purchase and sale of the Rights through Tadawul in accordance with the Subscription Terms and Conditions
Trading Period	The trading period will coincide with the start of the First Offering Period and will commence on Tuesday 28/04/1436H (corresponding to 17/02/2015G) and will last for 8 working days up to and including the last day of the First Offering Period, being on Thursday 07/05/1436H (corresponding to 26/02/2015G)
UAE	United Arab Emirates
Underwriter	Saudi Fransi Capital
Underwriting Agreement	The underwriting agreement entered into between the Company and the Underwriter.
US\$ or U.S. dollars or \$	Refers to United States dollars, which is the legal currency for the time being of the United States of America

## 2. RISK FACTORS

Prospective investors should carefully consider all the information contained in this Prospectus, including the risks described below, prior to deciding to purchase the New Shares. However, the risks outlined below may not include all the risks which the Company may face. The Company may face further risks which are currently unknown to the Company and which may affect its operations. However, the Board is currently unaware of any other material risks which may adversely affect the Company's activity and financial performance, except for the risks outlined below as of the date of this Prospectus. When evaluating the risks described below, a prospective investor should also consider, amongst other information set out in this Prospectus, the information on the Company, and the relevant agreements in Section 12 ("Legal Information").

The Company could suffer a material adverse effect on its business prospects, financial position and results of operations if any of the following risks, which the Board currently consider to be material, occur or if any other material risks occurred which the Board did not specify below.

An investment in the New Shares is only appropriate for those investors who are able to evaluate the risks and the benefits of the investment and those who have sufficient resources to sustain any loss resulting from such investment. Any prospective investor who is doubtful about any aspect of investing in the New Shares must seek advice from a financial advisor licensed by the CMA in relation to such investment.

The occurrence of any of the risk factors specified below or the occurrence of any other risks which the Board has not identified or those which it does not consider to be material as at the date of this Prospectus, may result in the reduction of the price of the Shares in the market and an investor could lose all or some of his total investment in the New Shares.

### 2.1 RISKS RELATING TO THE COMPANY'S OPERATIONS

#### 2.1.1 Difficulty in Securing Additional Funds

In the future, the Company may have to secure and invest additional capital to expand its operations, add new lines of business, and continue to meet regulatory capital adequacy requirements. However, there could be circumstances where the additional capital necessary to meet such requirements is either unavailable, or not available in a timely manner, or only available on unfavourable terms. The Company's need for additional capital in the future will be dependent on a variety of factors, including the Company's ability to obtain necessary regulatory approvals and its operating results and cash flows. Securing additional funds may include an issue of further shares which may dilute existing shareholdings. Inability to raise additional funds may have an adverse impact on the business plan and operations of the Company.

#### 2.1.2 Inherent Uncertainty in the Insurance Industry

The insurance industry is characterised by uncertainty that may have a volatile influence on the Company's profitability. The insurance industry covers risks while collecting premiums in exchange. Typical risks that are covered by insurance include damage by fire, water or storms, car accidents and theft. These risks are random in nature and both the date of their occurrence and the amount of damage they generate are difficult to predict. The Company uses its experience on similar risk patterns to define the premiums necessary to cover each risk. In addition, the Company tries to mix risks of a different nature in order to mitigate the overall volatility. However, deviations in the actual occurrence of risk do occur and a high level of occurrences may have a negative impact on the Company's profitability.

#### 2.1.3 Adequacy of Reserves

As per the Insurance Law and the Implementing Regulations, the Company must maintain adequate reserves to meet and cover its financial obligations and maintain certain reserves.

The process of estimating the liabilities reserve is a difficult and complex exercise and involves many variables and assumptions. Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid insurance policy claims, the Company cannot determine precisely the amount which would ultimately be paid to settle these liabilities. The assumptions upon which reserve calculations are based may also be revised as additional experience or data becomes available, as new or improved methodologies are developed, as loss trends and inflation claims impact future payments, or as current laws or interpretations thereof change. In addition, the relatively short history and the limited amount of data on the Saudi insurance industry in terms of claims experience may affect the Company's ability to establish actuarial assumptions for certain products, such as health care insurance products.

As a result, the reserves established for future insurance policy claims may prove to be insufficient and the Company may need to increase such reserves. An increase in loss reserves will reduce the Company's net income and, if large enough, may have a material adverse effect on its business, financial condition and results of operations.



#### 2.1.4 Inability to Secure Satisfactory Investment Returns

The operating results of the Company will depend in part on the performance of its invested assets, which will be funded through policyholders' funds and Shareholders' funds. The investment results are subject to a variety of investment risks, including risks relating to general economic conditions, market volatility, fluctuations in market rates of return, liquidity risk, currency, credit and default risk, as well as political conditions.

To the extent that the Company is unsuccessful in correlating its investment portfolio with its liabilities, it may be forced to liquidate its investments both at times and at prices that are not optimal, which could have a material adverse effect on the financial condition and/or operating results of the Company.

#### 2.1.5 Related Parties

The Company is engaged in a variety of transactions with related parties, including its Founding Shareholders and other members of the AXA Group. The majority of the reinsurance arrangements entered into by the Company are entered into with other members of the AXA Group as counterparties. In addition, the Company has issued various insurance policies in favour of YBA Kanoo. During 2013G, the Company had issued 1,205 insurance policies and endorsements with a total gross written premium of SAR 23,322,703 in favor of YBA Kanoo. During the period ended 30 June 2014G, the Company had issued a total of 579 insurance policies and endorsements with a combined value of SAR 12,783,167 in favor of YBA Kanoo. As a member of the Company's Board and the board of YBA Kanoo, Ali Abdullah Kanoo has an interest in the insurance policies issued in favour of YBA Kanoo (see Section 12.1.2 ("Related Party Transactions") for further details on the related party transactions).

The Company avails of the wider AXA Group for the provision of certain services, including, but not limited to, the use of the "AXA" trademark and logo under a trademark licensing agreement. The Company also intends to enter into a technical support services agreement with AXA Gulf. Events outside of the control of the Company affecting the AXA Group or other AXA entities globally that have a negative impact on the AXA brand name or reputation could, through association, have a negative impact on the Company and/or the perception of the Company in the Saudi Arabian market.

While the Company has entered into such Related Party transactions on an arm's-length basis, there is no guarantee that the Company will be able to find better terms, conditions or prices if such agreements are entered into with independent third parties. Furthermore, there is no guarantee that Related Party contracts will be renewed upon expiration, as the Company's Board or General Assembly may not approve the renewal of such contracts. Also, the parties to such contracts may not agree to a renewal based on the Company's required terms. The termination of such Related Party contracts may materially impact the Company's profitability and therefore its business, prospects, financial position and results of operations.

#### 2.1.6 Risks Related to Reinsurance

The Company hedges its exposure to certain risks to third parties through reinsurance arrangements. Under such arrangements, other insurers assume a portion of the losses and expenses associated with reported and unreported losses in exchange for a portion of policy premiums. The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly. Any decrease in the amount of the Company's reinsurance will increase its risk of loss. When the Company obtains reinsurance, it remains liable for those transferred risks if the reinsurer does not meet its obligations. Therefore, the inability or failure of the reinsurers to meet their financial obligations could materially affect the Company's operations.

In order to comply with the Implementing Regulations, the Company may be required to retain 30% of its premiums and place 30% of its reinsurance premiums with reinsurers based in the Kingdom, which may be difficult to achieve and/or not economical. The loss of any reinsurance recoverable from these reinsurers (local or international) due to insolvency or other concerns could have a material adverse effect on the business, financial condition and operating results of the Company.

Additionally, the Implementing Regulations require the Company, when undertaking reinsurance activities, to select a reinsurer with a minimum Standard and Poor rating of BBB or an equivalent rating from an internationally recognised credit rating organisation. If the rating of a selected reinsurer drops below BBB (or its equivalent), the Company will have to cease its reinsurance arrangements with that reinsurer unless SAMA consents to their retention, which may materially increase the Company's costs and exposure.

#### 2.1.7 Reinsurance Concentration Counterparty Risk

The Company's insurance portfolio is reinsured by few reinsurers and it has high counterparty risk exposure to members of the AXA Group. The terms of the reinsurance contracts between the Company and the reinsurers may not be met because of bankruptcy, insolvency or other financial impairment of the reinsurer, which will, depending on the size of the counterparty exposure, impact the financial and operational performance of the Company negatively.

## 2.1.8 Litigation, Claims and Regulatory Action

In the ordinary course of its business, the Company may pursue litigation claims against third parties and may also have litigation claims filed against it (see Section 12.5 (“Disputes and Litigation”) for further details on the existing litigation). Some claims filed against the Company, whether ordinary course or otherwise, could result in it having to pay substantial compensation which, in the event the Company has not made sufficient provision for the payment of the compensation, will adversely affect the Company’s financial position or results of operations.

It is also possible that the Company may be subject to future reviews or inspections at any time by SAMA or another regulatory body or authority. The Company cannot predict the scope or outcome of any such review, investigation or proceeding (if it were to occur) and cannot assure that such review, investigation or proceeding would not result in any change which would have an adverse impact on the Company’s results or financial condition.

## 2.1.9 Risk Management Policies

The operations of the Company are subject to the regulatory and risk management requirements of the KSA. The Company has established a set of policies, procedures and controls to manage risk. Non-implementation and non-updating of these policies, procedures and controls and non-availability of adequate information to respond in a timely manner may expose the Company to a variety of risks, including, for example, non-compliance with regulations of the Insurance Law and the Implementing Regulations which could result in SAMA withdrawing the Company’s insurance licence (see Section 2.2.2 (“Withdrawal of Insurance Licence”).

### 2.1.10 Unpredictable Catastrophic Events

As a property and casualty insurer, the Company is vulnerable to losses from catastrophes. Catastrophes can be caused by various natural and unnatural events, the incidence and severity of which are inherently unpredictable. The Company’s property and casualty insurance operations expose it to claims arising out of, among other events, hailstorms, floods, wind, fires, explosions and industrial accidents.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Catastrophes can cause losses in a variety of property and casualty lines. Claims related to catastrophes could cause substantial volatility in the financial results of the Company, and therefore such severe catastrophic events will have a material adverse effect on the Company’s financial condition and results of operations.

### 2.1.11 Renewals of Existing Policies

The Company’s insurance policies are generally short-term in nature. The Company cannot guarantee that policyholders will renew their policies. If actual renewals of the Company’s existing contracts with policyholders do not meet expectations, the amount of the Company’s premiums written in future years and its future results of operations could be materially adversely affected.

### 2.1.12 Intellectual Property Risk

The Company has entered into a trademark licensing agreement with AXA SA (the “Agreement”) pursuant to which the Company will be granted a license to use (only in KSA) among others the trademark “AXA” and the “AXA” logo, a registered trademark owned by AXA, as part of its corporate name and trade name. The Agreement’s term is indefinite but the Agreement may be terminated by either party if there is an incurable or persisting breach of one or more obligations set out in the Agreement. In addition, AXA SA has the right to terminate the Agreement by serving 30 days’ prior written notice if either (i) a third party other than AXA SA or one of its affiliates acquires all or substantially all of the assets and/or business of the Company by merger or acquisition or any other operation, or (ii) a change of control in the Company occurs, within the meaning of Article L.233-3 of the French Commercial Code, other than as a result of an intra-group transfer. A change of control within the meaning of Article L.233-3 of the Code De Commerce would occur in the event the Strategic Shareholders decrease their shareholding in the Company to a level where one or both of them no longer hold the majority of the shares in the Company, thereby triggering AXA SA’s right to terminate the Agreement.

There is a risk that if the Company is no longer entitled to use the AXA brand in accordance with the trademark licensing agreement, this may have an impact on the trading reputation and position of the Company.

### 2.1.13 Information Technology, Operational Systems and Infrastructure

The business and future prospects of the Company are highly dependent on the ability of the Company's information technology systems to process, store and transmit a large number of transactions in a timely and uninterrupted manner, especially at a time when transaction processing has become increasingly complex with the volume of such transactions growing at a considerable rate. The proper functioning of the Company's systems and control procedures related thereto are critical to its operations and the ability to compete successfully.

The inability of the Company's information systems to issue periodic financial reports to senior members of management or to SAMA could expose the Company to the risk of a lack of response in the form required for insurance business variables as well as non-compliance with regulations and rules.

There can be no assurance that the Company's business activities would not be interrupted or materially impacted in the event of a partial or complete breakdown of any of the main information technology or communications systems. In addition, any unauthorised access, computer viruses or other events with security consequences could affect the business of the Company and could lead to reputational damage.

The Company may also be affected if a client, counterparty or third party with whom it does business suffers a serious breakdown or security breach in its information or communication systems. Equally, clients, counterparties and third parties may suffer damage if the Company's information or communication systems break down or are breached.

### 2.1.14 Employee Misconduct or Error

The Company cannot guarantee that it can always deter or prevent employee misconduct, such as fraud, intentional error, and failure to document transactions properly and to obtain proper internal authorisation, and to fully train employees to prevent unintentional errors. As a result, employee misconduct or error could result in a violation of applicable law by the Company, regulatory sanctions, financial liability and/or serious damage of reputation to the Company. The Company cannot guarantee that employee misconduct or error will not materially and adversely affect its financial condition and results of operations.

### 2.1.15 Dependence on Key Personnel and Shortage of Qualified Personnel

The Company is dependent on the abilities and experience of its senior officers and key personnel, in both administrative and operational areas. The Company cannot guarantee that any initiatives it undertakes to retain and attract employees will succeed in retaining existing employees or attracting new employees of the same calibre. If the Company fails to retain its Senior Officers and/or key personnel or if it fails to attract and retain employees of the same calibre, this could have a material adverse effect on the Company's business prospects, financial condition and results of operations. Moreover, any amendments to the Labour Law or the regulations issued by the Ministry of Labour affecting the entry of expatriates into Saudi Arabia may limit the Company's ability to bring in expatriate employees. The Company's expatriate workforce is considered important to the Company and its business, given that such expatriate workforce contributes to a high level of experience and quality in the Company. Any limitation on the Company's ability to bring in expatriate employees may have a negative impact on the Company's operations and its profitability.

Furthermore, competition for personnel with relevant expertise is intense in the market due to the scarcity of qualified individuals. In order to retain skilled and qualified individuals, the Company may need to offer higher compensation and other benefits. The Company is not insured against the detrimental effects to its business resulting from the loss or dismissal of key personnel and it can provide no assurance that it will be able to attract and retain key personnel that will help to achieve its business objectives. The business of the Company may be adversely affected by the loss of services of one or more members of key personnel in the short to medium term, which could lead to a disruption of the Company's operations and adversely impact the Company's business prospects, financial condition or results of operations.

### 2.1.16 Saudization

The obligation to commit to certain levels of Saudization is an initiative by the Government which requires that companies operating in the Kingdom of Saudi Arabia hire a certain proportion of Saudi nationals amongst its employees. Pursuant to the circular issued by the Ministry of Labour dated 1/5/1423H (corresponding to 10/08/2002G) the Company must obtain a Saudization certificate from the Ministry of Labour. The Ministry of Labour may in the future decide to impose stricter Saudization policies.

The Company's ability to meet its obligations in addition to meeting its projected financial performance and ability to recruit the required numbers of foreign employees may be adversely affected in the event the Company fails to comply with the Saudization policies and ratios in the future as issued and applied by the Ministry of Labour. In addition, the Company's failure to comply with the Saudization policies and ratios will lead to its inability to recruit sufficient non-Saudi workers, which, in turn, will negatively affect the Company's ability to operate and could have a material adverse effect on the Company's business prospects, financial position and results of operations.

### 2.1.17 Arrangements with Other Parties

The Company, in the ordinary course of business, has entered into agreements with third parties. These agreements with third parties are entered into in the normal course of business and would include third party agreements with healthcare providers for medical insurance and vehicle repair workshops in relation to car insurance. In such agreements, the Company depends on a party's ability to meet its contractual obligations. No assurance can be given as to the extent that third parties will meet their obligations, in whole or in part, which may, in turn, adversely affect the Company's financial condition, prospects, cash flow and results of operations.

### 2.1.18 Insurance Business Risk

Insurance business involves important assumptions about matters that are inherently unpredictable and beyond the Company's control, and for which historical experience and actuarial analysis may not provide sufficient guidance.

Miscalculation of net exposures could have a material adverse effect on the financial condition and results of operations of the Company.

### 2.1.19 Zakat and Income Tax

The Company has received a provisional Zakat and Income Tax certificate for 2013G which is valid until April 2015G. The Department of Zakat and Income Tax have raised an assessment of Saudi Riyals 11.6 million for the years 2009G to 2011G and the Company has filed an appeal against the assessment in an amount of Saudi Riyals 10.4 million and accepted the assessment of Saudi Riyals 1.2 million. The Company has responded and will continue to respond, to all requests from the Department of Zakat and Income Tax. The final certificates for the years 2009G to 2012G have not been issued yet. There is a risk that the Department of Zakat and Income Tax might impose further Zakat and Income Tax payments on the Company for previous years, which would have a negative impact on the Company and its financial condition.

### 2.1.20 Dependency on a Small Number of Insurance Policies

The motor portfolio of the Company includes two large motor fleets, which are part of the same group. The loss of these two accounts will impact the financial results of the company. The total revenue generated from the Company's two large accounts constituted 32% of the overall premium generated by the Company in 2013G.

### 2.1.21 Liquidity Risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with insurance contracts. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise.

## 2.2 RISKS RELATING TO THE MARKET AND REGULATORY ENVIRONMENT

### 2.2.1 Insurance Law and Implementing Regulations

Insurance businesses in Saudi Arabia are subject to the Insurance Law and Implementing Regulations issued by SAMA, which is the main Government body responsible for regulating the insurance sector and is responsible for policies and regulations, licensing, competition, investment allocation, service standards, technical standards and settlement arrangements.

The Company's operations must adhere to the provisions of the Insurance Law, the Implementing Regulations and such other regulations as SAMA may promulgate. These laws, rules and regulations may change from time to time. This evolving regulatory framework may limit the Company's ability to implement its business objectives/plans and respond to market conditions. There can be no assurance that applicable laws or the regulatory framework will not change further or be interpreted in a manner that could materially or adversely affect the Company's operations.

Under the Insurance Law and the Implementing Regulations, SAMA has broad powers that include amending, suspending, revoking or not renewing the insurance licence or imposing penalties against the Company, if the Company has failed to comply with the Insurance Law. Any such action against the Company or affecting the Company or the imposition of penalties could materially and adversely affect the Company's business and financial conditions, prospects or results of operations.

## 2.2.2 Withdrawal of Insurance Licence

The Company has obtained a licence from SAMA to practise insurance activities on 11/02/1431H (corresponding to 26/01/2010G) and has renewed this licence for a three-year period that expires on 10/02/1437H (corresponding to 22/11/2015G).

Article 76 of the Implementing Regulations states that SAMA has the right to withdraw the licence of the Company if any of the following circumstances apply:

- the Company does not practise its licensed activities for a period of six (6) months from the issuance date of the licence;
- the Company does not fulfil its requirements under the Insurance Law;
- it is established that the Company has deliberately provided SAMA with false information in its licensing application;
- the Company carries out the licensed activities in a manner that exposes the rights of the insured, the beneficiary or the Shareholders;
- the Company becomes bankrupt;
- the Company deliberately conducts business in a fraudulent manner;
- the paid-up capital of the Company falls below the prescribed minimum limit or the Company does not fulfil the solvency requirements under Article 68 of the Implementing Regulations;
- the business or volume of the Company's activities in various classes of insurance falls to a limit that SAMA deems unviable for the Company to operate under;
- the Company refuses or delays payments due to beneficiaries, without just cause;
- the Company refuses to be examined or to produce its accounts, records or files for examination by the inspection team appointed by SAMA; and
- the Company fails to pay a final judgment against it in connection with any insurance dispute.

Should the licence be withdrawn, the Company will not be able to continue to conduct its business legally in Saudi Arabia.

## 2.2.3 Reporting Requirements

The Insurance Law and Implementing Regulations require the Company to periodically file financial statements and annual reports, prepared on a statutory accounting basis, and other information with SAMA, including information concerning the Company's general business operations, capital structure, ownership and financial condition, including, on an annual basis, the aggregate amount of contingent commissions paid. The Company could be subject to regulatory actions, sanctions and fines if SAMA believes that the Company has failed to comply with any applicable law or regulation.

Any such failure to comply with applicable law could result in the imposition of significant restrictions on the Company's ability to do business or significant penalties, which could adversely affect the Company's results of operations and financial condition.

## 2.2.4 Solvency Requirements

According to Articles 66, 67 and 68 of the Implementing Regulations, the Company has to maintain certain solvency levels for different classes of business. The Company's solvency level is affected primarily by the technical reserve that it is required to maintain, which, in turn, is affected by the volume of insurance policies sold and claims incurred. The Company's ability to effectively manage its risks and suitably price its products to maintain the solvency requirements is a significant challenge.

SAMA imposes various remedial actions for companies that fail to comply with the solvency requirement levels, including the following:

1. increasing the company's share capital;
2. amending product prices;
3. decreasing costs;
4. stopping underwriting new policies;
5. liquidating certain assets; and
6. any other action deemed appropriate to the Company and approved by SAMA.

In the event the Company fails to satisfy the solvency requirements within the timeframe set by SAMA and after taking the aforementioned actions, SAMA may solicit the appointment of a financial advisor to restructure the Company or otherwise withdraw its licence.

### 2.2.5 Restriction on Ownership of Insurance Companies

The Insurance Law places certain restrictions on owning shares in insurance companies in Saudi Arabia. According to Article 9 of the Insurance Law and Articles 38 and 39 of the Implementing Regulations, insurance or reinsurance companies may not merge with, own, control or purchase shares in other insurance or reinsurance companies without written approval from SAMA. The Company shall notify SAMA of the percentage ownership of any person who owns 5% or more of the Company through a quarterly report, and the person himself shall notify SAMA in writing of his percentage ownership and any changes thereof within five (5) working days of the date of occurrence of such an event.

These restrictions may, in some cases, impede the Company's ability to attract financial and strategic investors if SAMA denies or delays timely approval, or places conditions that cannot be implemented, which will in turn adversely affect the Company's operations.

### 2.2.6 Compliance with Council of Cooperative Health Insurance Regulations

After being approved by SAMA, medical insurance products offered by the Company are subject to control by the CCHI. The CCHI regulations require the Company to comply with the regulations for offering medical products, including provision of specialised medical staff to process the approvals within a time limit not exceeding sixty (60) minutes. These regulations also direct the insurance companies to pay the medical service providers such as hospitals and clinics within a timeframe not exceeding thirty (30) days. The Company's non-compliance with the CCHI regulations may entail penalties, including withdrawal of its licence to provide medical services products, which may adversely affect the Company's operations.

### 2.2.7 Obtaining Approvals for Launching New Products

The Company complies with the Insurance Law and its Implementation Regulations with respect to the launch of new products, which requires the prior approval of SAMA. The Company has an initial approval for twenty eight (28) products on file and such approvals usually remain valid for twelve (12) months from the date of issue (please see Table 4-9 ("Company Product Type") in Section 4.7 ("Overview of Products and Services") for more details on the Company's product approvals). Therefore, any delay in obtaining the final approval on any of the new products may adversely affect the Company's operations and consequently its profitability.

A number of the approvals obtained by the Company are temporary. The Company may face difficulty in renewing or in obtaining the final approvals, which may adversely affect the Company's financial results and operations.

### 2.2.8 Competition

The Company is likely to find itself operating in an increasingly competitive environment, which could adversely impact its operating margins. In accordance with the latest information from SAMA, the number of licensed insurance companies has reached 35 and they are in severe competition to increase their market share.

Competition in the insurance industry is based on many factors, including premiums charged, terms and conditions of coverage, services provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the insurance company. The CCHI has initiated an integrated regulation for medical insurance which all operating insurance companies are required to comply with.

There can be no assurance that the Company will be able to achieve or maintain any particular level of premiums in this competitive environment. The increased competitive pressures may materially and adversely affect the business of the Company, its prospects and financial condition by:

- reducing market share;
- reducing margins and spreads;
- hindering the growth of the Company's customer base;
- increasing turnover of management and sales personnel;
- elevating operating expenses, such as sales and marketing expenses; and
- increasing policy acquisition costs.

### 2.2.9 Economic and Industry Conditions

The financial performance of insurance companies depends significantly on economic conditions in Saudi Arabia and on global economic conditions that affect the economy of Saudi Arabia. Changes in the economic conditions can affect the financial results of the Company through their effect on market conditions and investment income and through changes in consumer demand for insurance products and services. In addition, premium and claim trends in insurance and reinsurance markets are cyclical in nature and unpredictable events such as the occurrence of natural disasters, inflationary pressures, competition and judicial decisions may affect the size of future claims and adversely impact the industry's profitability.



The Company cannot predict the impact that future economic and industry conditions will have on its business. Future economic and industry conditions may be unfavourable, and as a result future conditions may materially adversely affect the Company's profitability.

#### 2.2.10 Market Growth

The growth rate of the Saudi Arabian insurance market may not be as high and as sustainable as currently anticipated by the Company. This may be the case even though the Company expects the insurance market in Saudi Arabia to expand and the penetration rate to rise with the growth of the Saudi Arabian economy and population, continued social welfare reforms, demographic changes and the opening of the Saudi Arabian insurance market to foreign participants.

The impact on the Saudi Arabian insurance industry of certain trends and events, such as the pace of economic growth in Saudi Arabia, and on-going reform of the social welfare system, is generally prospective and is currently not clear. Consequently, the growth and development of the Saudi Arabian insurance market is subject to a number of uncertainties that are beyond the control of the Company.

#### 2.2.11 Drop in Consumer Confidence

Any decrease in consumer confidence in the insurance industry as a whole or any decrease in consumers' confidence in the Company or the AXA Group or the AXA brand could result in an increase in the number of policy cancellations and refunds and could negatively impact new sales of products which may adversely affect the results of the Company's operations and profitability.

#### 2.2.12 Lack of Historical Data

The relatively short history and the limited amount of data on the Saudi Arabian insurance industry may affect the Company's ability to establish actuarial assumptions for certain products, such as health care insurance products.

As a result, the reserves established for future insurance policy claims may prove to be insufficient and the Company may need to increase such reserves. An increase in loss reserves may reduce the Company's net income and, if large enough, may have a material adverse effect on its business, financial condition and results of operations.

### 2.3 RISKS RELATING TO THE SHARES

#### 2.3.1 Potential Fluctuations in the Share Price

The market price of the Company's Rights during the Trading Period may not be indicative of the market price of the Company's Shares after the Offering. In addition, the Company's share price may not be stable and could be significantly affected by fluctuations resulting from a change of market trends in connection with the Rights or the Company's existing Shares. These fluctuations may also result from several factors including, without limitation, market conditions for equity, any regulatory changes in the insurance sector or conditions and trends of the insurance sector, deterioration in the Company's performance, inability to implement future plans, entry of new competitors, announcements by the Company or its competitors concerning mergers, acquisitions, strategic alliances, joint ventures and sale of shares in the subsidiaries, and changes made by experts and securities analysts concerning financial performance estimates.

The selling of substantial quantities of Shares by the Shareholders, or the perception that such sale may take place, may adversely affect the Share price in the market. In addition, the investors may be unable to sell their Shares in the secondary market without adversely affecting the price.

There is no guarantee that the market price of the Company's Shares will not be lower than the Offer Price. If this happens once the investors have subscribed for the New Shares, such subscription may not be cancelled or amended; therefore, the investors may immediately suffer from unrealised losses. Moreover, there is no guarantee that a Shareholder will be able to sell his Shares at a price equal to or higher than the Offer Price after subscribing for them.

#### 2.3.2 Potential Fluctuations in the Price of the Rights

The Rights' market price may be subject to significant fluctuations due to the change of market trends with regard to the Company's Shares. These fluctuations may be significant due to the difference between the authorised limits of price change for trading in the Rights, as compared with the authorised limits of price change for trading in the Shares. In addition, the trading price of the Rights depends on the trading price of the Company's Shares and the market perception of the potential price of the Rights. These factors and the factors mentioned under the "Potential Fluctuations in the Share Price" above may also affect the trading price of the Rights.

### 2.3.3 Lack of Demand for the Company's Shares and Rights

There is no guarantee that there will be sufficient demand for the Company's Rights during the Trading Period, in order to enable the holder of such Rights (whether a Registered Shareholder or a new investor) to sell the Rights and realise a profit, or enable him to sell these Rights at all. There is also no guarantee that there will be sufficient demand for the Rump Shares by the Institutional Investors during the Rump Offering Period. In case the Institutional Investors do not subscribe for the Rump Shares at a high price, the compensation amount may not be sufficient for it to be distributed to the holders of unexercised Rights.

Moreover, there can be no assurance that there will be sufficient market demand for the New Shares obtained by an applicant (a) through subscription to the Rights, (b) during the Rump Offering or (c) in the open market.

### 2.3.4 Speculation Relating to the Rights

Speculation relating to the Rights Issue may cause material losses. The limits of price change allowed for the trading of the Rights exceeds the percentage of the Share prices (by 10% upward or downward). There is also a direct correlation between the Company's share price and the Indicative Value of the Right. Accordingly, the daily price limits for the trading of a Right will be affected by the daily price limits for share trading. In case a speculator fails to sell the Rights before the end of the Trading Period, he will be forced to exercise these Rights to subscribe for New Shares and may incur some losses. Thus, the investors should review the full details of the mechanism of listing and trading of Rights and New Shares and the functioning method thereof and should be aware of all the factors affecting them, to make sure that any investment decision will be based on complete awareness and understanding.

### 2.3.5 Potential Dilution of Ownership

If the holders of the Rights do not fully exercise their Rights with respect to the acquisition of New Shares in the Offering, their shareholding percentage and voting rights will be reduced. In case the registered holder of the Rights wishes to sell his Rights during the Trading Period, there can be no assurance that its returns will be sufficient to fully compensate the drop of its shareholding percentage in the Company's capital resulting from the Company's Capital Increase.

### 2.3.6 Failure to Exercise the Rights in a Timely Manner

The subscription period will start on Tuesday 28/04/1436H (corresponding to 17/02/2015G) and end on Tuesday 12/05/1436H (corresponding to 03/03/2015G). The Eligible Persons and financial intermediaries representing them should take the appropriate measures to comply with all required instructions and receive their certificates prior to the expiry of the subscription period. If the holders of the Rights and the financial intermediaries are not able to properly follow the procedures for the trading of the Rights, the Subscription Application Form may be rejected (see Section 17 ("Subscription Terms and Conditions")). If the Eligible Persons are not able to exercise their subscription rights properly by the end of the Second Offering Period, according to the Rights held by them, there can be no assurance that a compensation amount will be distributed to the Eligible Persons who did not participate or did not properly subscribe for the New Shares.

### 2.3.7 Effective Control by the Founding Shareholders

Although the three (3) year lock-up period has elapsed, two (2) Founding Shareholders, AXA Gulf and AXA Mediterranean, which hold 32% and 18%, respectively, of the Company's issued Shares are substantial Shareholders of the Company. Collusion of AXA Gulf and AXA Mediterranean with any other Shareholders may influence all matters requiring Shareholder approval, including significant corporate expenditures and the appointment of directors (except as prescribed by Articles 69 and 70 of the Companies Regulations and Article 18 of the Corporate Governance Regulations (the "Corporate Governance Regulations") of the CMA). As a result, the Founding Shareholders may exercise their powers in a manner that could have a significant effect on the Company's business, financial condition and results of operations.

### 2.3.8 Dividends

Future dividends will depend on, amongst other things, the future profit, financial position, capital requirements, distributable reserves and available credit of the Company, general economic conditions, and other factors that the Directors deem significant from time to time. Increase in capital may lead to dilution in the value of existing Shares which may affect the Company's Share market price.

The Company does not make any assurance that any dividends will actually be paid nor any assurance as to the amount, which will be paid in any given year. The distribution of dividends is subject to certain limitations contained in the By-Laws and subject to SAMA's approval (see Section 13 ("Summary of the Company's By-Laws")).

The Company has not paid any dividends to its Shareholders due to an accumulated deficit.



### 2.3.9 Failure of AXA Gulf and AXA Mediterranean to Exercise their Rights

AXA Gulf and AXA Mediterranean have confirmed their intention to exercise their full rights in subscribing for the New Shares. If AXA Gulf and AXA Mediterranean fail to exercise their Rights in full, there is no guarantee that there will be a sufficient market for the Rights or the New Shares. In addition, such failure to exercise their rights may impact the trading price of the Rights or the New Shares and the Company's Share market price.

### 2.3.10 Strategic Shareholders Exiting the Company

The Strategic Shareholders provide the Company with their technical expertise and play an active role in shaping the Company's strategy through their representation on the Board.

Both Strategic Shareholders are not subject to any contractual restrictions that limit their ability to sell all or part of their Shares. That said, the Listing Rules require any person holding more than 10% of the shares issued by a listed company to obtain the CMA's approval before disposing of any of their shares, which requirement will apply to the Strategic Shareholders given that each of them own more than 10% of the Company's Shares.

If the Strategic Shareholders sell all their Shares in the Company, the Company will no longer benefit from their technical expertise which may have an adverse effect on the Company's business, financial condition and results of operations.

## 2.4 POLITICAL AND REGULATORY RISKS

### 2.4.1 Political Risks

Prospective investors should consider the geopolitical risks in the Middle East, which could have an adverse effect on the Kingdom's economy, the Company's customers and/or the Company and its operations. Such risks could adversely impact the value of any investment in the Company.

### 2.4.2 Regulatory Environment

The Company's business is subject to regulations in Saudi Arabia. The regulatory environment in which the Company operates may be subject to change. Regulatory changes caused by political, economic, technical and/or environmental factors could significantly impact the Company's operations by restricting the development of the Company or its customers, restricting the operations and sales of the Company's services or increasing the potential for additional competition. The Company may deem it necessary or advisable to modify its operations in order to operate in compliance with such regulations and in the process may incur additional costs, which may have a materially adverse effect on the Company's business prospects, results of operations or financial condition. In addition, failure to comply with such laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of the Company's operations.

### 3. MARKET AND INDUSTRY OVERVIEW

#### 3.1 INSURANCE MARKET OVERVIEW

In this Prospectus, information on the insurance industry and data regarding economic figures has been obtained from different sources believed to be reliable and the Company has made reasonable enquiries as to the accuracy of the information obtained from these sources. While Saudi Fransi Capital and all other Advisors whose names appear on pages VII and VIII of this Prospectus have no reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

#### 3.2 SOURCE OF INFORMATION

##### (a) Saudi Arabian Monetary Agency

SAMA was established in 1952G. It is responsible for the issuance of the national currency, acts as the bank of the Government, monitors and supervises the commercial banks, manages the Kingdom's reserve of foreign currency, manages the monetary policy to maintain the stability of exchange rates, consolidates the growth of the financial system and assures its safety, and supervises insurance and reinsurance companies and service providers. The information prepared by SAMA, as used in this Prospectus, is publicly available and is accessible via the internet, therefore consent to use this information in this Prospectus has not been sought.

##### (b) Report of Swiss Reinsurance Company ("Swiss Re")

Swiss Re is one of the leading companies in the field of reinsurance. It was established in 1863G in Zurich, Switzerland. Swiss Re has a presence in more than 25 countries and publishes a range of reports on insurance markets worldwide.

The information produced by Swiss Re as used in this Prospectus is publicly available and is accessible via the internet. Therefore, consent to use this information in this Prospectus has not been sought.

##### (c) Business Monitor International

The Market Consultant was founded in 1984 by Richard Londesborough and Jonathan Feroze, the company's joint CEOs, who both continue to play a full role within the company. Business Monitor International is a Fitch Group Company and a leading, independent provider of proprietary data, analysis, strategy, ratings, rankings and forecasts covering 175 countries and 22 industry sectors.

Neither the Market Consultant nor any of its Affiliates, shareholders, directors or their relatives have acquired shares or have any interest in the Company. The information obtained from the Market Consultant is not publicly available and therefore written consent to use this information in this Prospectus has been sought. The Market Consultant has given and not withdrawn its consent to the use of its information and research results related to the market study in this Prospectus as of the date of this Prospectus.

#### 3.3 OVERVIEW OF THE SAUDI ECONOMY

The Saudi economy continued its strong growth in 2013 as a result of significant developments and achievements made during the year. This was mainly ascribed to continuous Government investment expenditure, specifically on infrastructure projects, and continuous high-paced growth due to improving regulations and enhancement of the business environment, which promoted domestic and foreign investments. Structural and regulatory reforms were introduced and aimed at achieving sustainable economic growth through diversifying the economic bases by increasing the contribution of non-oil sectors to GDP (as defined below).

In 2013, GDP (as defined below) registered a record level of \$745 billion, by far the largest GCC and Arab economy, making it the 19th economy in the world in GDP size. To realise these objectives, the Government continued its increased spending on economic and social development projects in all sectors, particularly on education, training, health, social services, municipal services, roads, e-transactions projects, support of scientific research and enhancement of the investment environment. This provided an impetus for accelerating economic growth and creating more job opportunities for citizens. The Government also maintained its support to specialised development funds in order to extend necessary finance to different development sectors to achieve sustainable balanced growth in the various regions of the Kingdom. Several international organisations have highlighted the strength and soundness of the Saudi economy. The International Monetary Fund Report on Article 4 Consultations for 2012G commended the Kingdom's economic policies.

According to the Group of Twenty (G-20)'s Report, the Kingdom ranked first among the Group members with regard to implementation of the G-20's commitments, which included structural reforms, fiscal consolidation, reform of financial institutions, regulation of capital markets, resistance of trade protectionism policy and advancement made in development projects. In its report issued in March 2013G, Fitch Credit Rating Agency promoted its future outlook of the Kingdom's sovereign credit rating from stable to a positive high degree (AA-), assuring the Kingdom's sound economy and its strong financial position.<sup>3</sup>

**Table 3-1: Key Economic Indicators**

	2007G	2008G	2009G	2010G	2011G	2012Gr	2013Gp
Gross Domestic Product-Nominal (SAR billion)	1,558.8	1,949.2	1,609.1	1,975.5	2,510.7	2,752.3	2,794.8
GDP Real (1999 prices - SAR billion)	899.6	975.4	993.3	1,067.1	1,158.5	1,225.9	1,272.4
Non-Oil Private Sector *	541.2	603.1	633.5	696.2	749.7	794.0	836.5
Non-Oil Government Sector *	141.8	145.2	152.5	162.9	175.9	185.3	190.8
Oil Sector *	207.3	216.1	197.1	197.4	221.9	234.9	233.3
GDP/Capita Total Population (SAR Thousand)	62.5	75.6	60.4	71.7	88.5	94.3	93.2
Total Population-mid-year (Million persons)	24.94	25.79	26.66	27.56	28.38	29.20	29.99
Government Budget Balance (SAR billion)	176.6	580.9	(86.6)	87.7	291.1	374.1	180.3
Revenues	642.8	1,101.0	509.8	741.6	1,117.8	1,247.4	1,156.4
Expenditures	466.3	520.1	596.4	653.9	826.7	873.3	976.0
Merchandise Exports (fob - SAR billion)	874.4	1,175.5	721.1	941.8	1,367.6	1,456.5	1,413.8
Oil (Crude & refined products)	768.8	1,048.3	610.9	806.0	1,188.7	1,265.6	1,209.0
Non-oil Exports	105.6	127.1	110.2	135.8	179.0	191.0	204.8
Merchandise Imports (CIF - SAR billion)	338.1	431.8	358.3	400.7	493.4	583.5	614.6
Trade Balance (fob - SAR billion)	564.9	795.1	394.6	576.4	917.9	924.6	802.1
Current Account Balance (SAR billion)	350.0	496.2	78.6	250.3	594.5	617.9	486.8
Crude Oil Production (Million barrels/day)	8.8	9.2	8.2	8.2	9.3	9.8	9.7
Average Price-Arabian Light (US\$/barrel)	84.35	95.00	59.47	78.96	95.18	106.48	102.41
Money Supply M3 Growth (% change)	19.6	17.6	10.7	5.0	13.3	13.9	10.9
Inflation Rate (2007=100) % change	5.0	6.1	4.2	3.8	3.7	2.9	3.5
Saudi Share Price Index (1985=1000)1/	11,038.7	4,803.0	6,121.8	6,620.8	6,417.7	6,801.2	8,535.6

Source: Ministry of Economy and Planning

Notes: r revised, p preliminary; \* based on by kind of economic activity; 1/at year-end

### 3.3.1 Gross Domestic Product ("GDP") by Economic Activity

All GDP components witnessed a positive growth in 2012G where GDP at constant prices (including import duties) grew by 5.1% from SAR 1,158.5 billion in 2011G to SAR 1,217.9 billion in 2012G. The agriculture, forestry and fishing activity grew by 1.3%, the mining and quarrying activity by 5.6% and the manufacturing industries, including oil refining, by 4.8%. The transport, storage and communications activity also grew by 6.4%.

3 Saudi Arabian Monetary Agency (SAMA), Forty Ninth Annual Report: Latest Economic Developments, 2013.

**Table 3-2: Trend of Real GDP by Economic Activity**

(SAR Million)	2008G	2009G	2010G	2011G	2012G
Agriculture, Forestry & Fishing	40,145	40,559	40,158	41,026	41,550
Mining & Quarrying	204,166	203,177	204,166	229,055	241,847
Manufacturing Industries	125,193	128,462	141,478	157,131	164,631
Electricity, Gas & Water	18,353	21,382	26,216	27,583	29,598
Construction	67,430	68,474	75,818	83,300	87,083
Wholesale, Retail, Restaurants & Hotels	112,681	114,347	133,658	143,184	152,307
Transport, Storage & Communication	78,238	87,247	96,460	109,768	116,762
Finance, Insurance, Real Estate & Business Service	139,478	149,597	156,667	159,920	165,383
Community & Social & Personal services	31,720	33,265	35,114	37,019	38,569
less: Imputed Bank Service Charges	(15,529)	(15,869)	(16,104)	(16,311)	(16,624)
Sub-total	819,247	830,641	893,631	971,675	1,021,106
Producers of Gov. Services	145,210	152,510	162,926	175,858	185,079
Import Duties	10,955	10,104	10,539	11,063	11,749
Gross Domestic Product	975,412	993,254	1,067,097	1,158,546	1,217,933

### 3.4 GCC INSURANCE INDUSTRY OVERVIEW

The GCC economy has expanded at a healthy rate over the last decade and made significant progress in a number of sectors such as petrochemicals, real estate, infrastructure, and telecommunications. The insurance industry in the region has also experienced steady growth on the back of this economic development, improved regulatory environment, and increased product awareness. The major force behind the industry's strength in recent years has been the implementation of compulsory health insurance schemes in various jurisdictions or initial demand in anticipation of such schemes. Combined GWP in life and non-life segments in the GCC amounted to SAR 70.5 billion in 2013G, having grown at a CAGR of 12.6% since 2008G. Saudi Arabia and the UAE dominated the regional market, representing nearly 78% of GWP. Despite robust growth, the insurance sector in the Gulf is still underdeveloped and key market indicators trail the world average by a large margin. With a large number of service providers, both private and listed, the insurance sector in the Gulf is fragmented and highly competitive.<sup>4</sup>

**Table 3-3: Size and Composition of the GCC Insurance Industry**

SAR (Bn)	2008G	2009G	2010G	2011G	2012G	2013G <sup>5</sup>
UAE	18.8	20.6	22.5	24.4	27.0	30.1
Saudi Arabia	10.9	14.6	16.5	18.4	20.6	25.2
Kuwait	2.6	2.3	2.6	3.0	3.8	3.9
Qatar	3.0	3.4	3.8	4.5	4.9	5.3
Bahrain	1.9	1.9	2.3	2.3	2.3	2.5
Oman	1.9	2.3	2.6	2.6	3.0	3.5
<b>Total</b>	<b>39.0</b>	<b>45.0</b>	<b>50.3</b>	<b>55.1</b>	<b>61.5</b>	<b>70.5</b>

Source: Swiss Re, Alpen Capital, Company

<sup>4</sup> Alpen Capital: GCC Insurance Sector, 2013G.

<sup>5</sup> 2013G Saudi Arabia Data: The Saudi Arabian Insurance Market Report, 2013G by SAMA, rest of GCC's data is based on the Company's internal data collection.

Insurance penetration was 1.1% in 2012G, close to one-sixth of the global average.

**Table 3-4: Insurance Penetrations in the GCC and other Economies, 2012**

Country	Penetration
UAE	2.0%
Saudi Arabia	0.8%
Kuwait	0.6%
Qatar	0.7%
Bahrain	2.3%
Oman	1.0%
Jordan	2.1%
Lebanon	3.1%
US	8.1%
UK	12.8%
India	3.6%
GCC Average	1.1%
Global Average	6.5%

Source: Swiss Re, International Monetary Fund, Alpen Capital, The Saudi Arabia Monetary Agency Report (2013)

Insurance penetration to GWP for Saudi Arabia in 2013G improved to 0.9%.

## 3.5 SAUDI INSURANCE MARKET

### 3.5.1 Overview

The Saudi Arabian insurance sector is the second largest in the Gulf and has experienced a robust rate of growth over the past few years, primarily attributed to a set of structural reforms implemented by the Government in 2005G. Prior to this period, the insurance industry framework in the Kingdom was highly unregulated. Mandatory health insurance regulations launched by the Government in 2006G and compulsory motor insurance in 2007G helped fuel demand for insurance products in the Kingdom.<sup>6</sup> Subsequently, the industry grew from SAR 14.6 billion in 2009G to SAR 25.2 billion in 2013G, registering a CAGR of 14.6% and outperforming the rest of the GCC.

The overall insurance GWP increased by SAR 4.1 billion to SAR 25.2 billion in 2013G, compared with SAR 21.2 billion in 2012G, representing a growth rate of 19.2%. The increase was mainly due to the growing awareness of the importance of insurance and the favourable economic conditions during the year, as well as the compulsory motor insurance and cooperative health insurance highlighted above.

### 3.5.2 History

The Saudi insurance market is considered relatively new as, previously, it only covered the needs of the export and oil markets in the 1970G. The insurance sector has faced difficulties as a result of the lack of laws and regulations. Accordingly, more than 100 insurance companies were registered off-shore as global insurance brokers or agents to private insurance companies and have been providing their services in the KSA. These companies were often registered in Bahrain due to its geographical proximity to KSA. Due to the absence of a regulatory framework, policyholders lacked recourse to a regulatory authority which would protect them from unscrupulous or fraudulent operators. This situation paved the way for reforms and the restructuring of the insurance sector in the KSA. This led to regulatory reforms and with the passing of Resolution No. 51 dated 04/04/1397H (corresponding to 23/03/1977G), the Supreme Council of the Senior Ulama ruled that cooperative insurance is a form of contract of donation and, therefore, is acceptable under Islamic law.

In 1406H (1986G), the Government founded the first cooperative insurance company, The National Company for Cooperative Insurance (Tawuniya) which was instituted to meet local insurance needs and to fulfill the Government's ambition of having all public sector insurance business conducted within its regulatory control.

SAMA is responsible for organising and supervising the insurance sector and for preparing and establishing criteria to issue licences for insurance companies. The new system requires insurance companies to be registered and authorised in the KSA as public joint stock companies in order to carry on insurance or reinsurance activities. The new laws extend to include not only the insurance companies but also reinsurers, insurance intermediaries and agencies, brokerage and loss adjusters.

<sup>6</sup> Alpen Capital: GCC Insurance Sector, 2013.

### 3.5.3 Saudi Insurance Market Recent Trends

#### 3.5.3.1 Compulsory Health Insurance

Pursuant to the Cooperative Health Insurance Law issued by Royal Decree No. (M/10) dated 1/5/1420H (corresponding to 13/8/1999G), health insurance was made mandatory in the KSA for expatriate workers (i.e. non-Saudis). The law was aimed at easing the financial burden on the Government, which offers free medical services to over 22 million people. The new cooperative health insurance programme, which was implemented in three phases, covers about 6 to 7 million expatriates. The first phase, implemented in January 2006G, required companies with more than 500 expatriate workers to provide medical insurance cover for their employees, covering 450 companies employing over 500,000 expatriates in aggregate. The second phase, implemented in March 2007G, covered companies with 100 to 500 expatriate workers, and companies with an expatriate work force of less than 100 were covered in a third and final phase. The application of the programme to all Saudis working in the corporations and establishments in the private sector and their families commenced in December 2011G and it is expected that medical insurance will eventually be made compulsory for all Saudi nationals.

#### 3.5.3.2 Compulsory Motor Insurance

In 2002G, owing to the high rate of car accidents in Saudi Arabia, third-party liability motor vehicle insurance and vehicle insurance (Markaba) for vehicles transiting in the KSA became compulsory for Saudi nationals and expatriates within the country according to Ministerial Resolution No. 271 dated 25/12/1427H (corresponding to 15/01/2007G). This compulsory insurance initiative, coupled with a growth in the number of cars registered in the Kingdom, has resulted in a significant business opportunity for insurers. At the beginning of 2007, third-party liability motor vehicle insurance was made compulsory for all registered vehicles within the Kingdom, a development that has helped, and is expected to continue to help, the motor insurance market in the KSA grow during the next few years.

#### 3.5.3.3 Insurance Law and the Implementing Regulations

The Insurance Law and the Implementing Regulations permit incorporation of local insurance companies to conduct insurance business in the KSA. SAMA is responsible for organising and supervising the insurance sector and for preparing and establishing criteria to issue licences for insurance companies. Following this, a number of Royal Decrees have been issued since 16/9/1427H, (corresponding to 9/10/2006G) approving the establishment of a number of insurance companies, most of them owned partially by global and regional insurance companies. More companies are anticipated to be licensed in the future. As at the date of this Prospectus, 32 insurance companies have been listed on the Exchange and three have been licensed. For further details please see below at Section 3.4.4, "Competition".

#### 3.5.3.4 Recent Development

In March 2010G SAMA reconfirmed that the only insurance and reinsurance companies now operating in the country are those duly licensed under the Cooperative Insurance Companies Control Law promulgated by Royal Decree No. M/32 dated 02/06/1424H (corresponding to 31/07/2003G) (Cooperative Insurance Companies Control Law). All other companies have now left the market.

The following new regulations were issued by SAMA since 2010:

- (a) The Regulation of Reinsurance Activities
- (b) Insurance Intermediaries Regulation
- (c) Online Insurance Activities Regulation
- (d) Investment Regulations
- (e) Anti-money Laundering & Combating Terrorism Financing Rules
- (f) The Unified Compulsory Motor Insurance Policy
- (g) Outsourcing regulations

New regulations regarding outsourcing, actuarial works and audit committee regulation are issued in the public domain for consultation and are anticipated to be implemented in the near future.

### 3.5.4 Gross Written Premiums

As described above, the Saudi insurance sector is dominated by medical and motor insurance which represents 76.3% of the total GWP in 2013G compared with 75% in 2012G.

Health insurance, which includes both compulsory and non-compulsory lines of business, remained the largest line of business in 2013G, accounting for 51.1% of total GWP. Motor compulsory and non-compulsory lines of business stood in second place with a 25.2% share of total GWP. The insurance industry has witnessed growth in lines with the exception of marine and protection lines. Motor and property lines witnessed significant growth of 35.5% and 23.4% respectively in 2013G compared with 2012G. Overall insurance premiums have grown from 14.6 billion in 2009G to 25.2 billion in 2013G with CAGR of 15%.

Segmental analysis of the past five years for the Kingdom is as follows<sup>7</sup>:

**Table 3-5: Segmental Analysis of the Past Five Years for the Kingdom**

	2009G		2010G		2011G		2012G		2013G		Growth
	SAR m	%	SAR m	%	SAR m	%	SAR m	%	SAR m	%	2012 v 2013%
Aviation	174	1%	305	1%	272	1%	67	0.3%	144	0.6%	114.7%
Energy	302	2%	329	2%	361	2%	385	2%	456	1.8%	18.5%
Marine	525	4%	518	3%	634	3%	743	4%	740	2.9%	(0.4%)
P&S	1,003	7%	972	6%	905	5%	889	4%	845	3.3%	(5.0%)
A&L, others	544	4%	507	3%	632	3%	691	3%	941	3.7%	36.2%
Engineering	810	6%	869	5%	913	5%	1,077	5%	1,200	4.8%	11.4%
Property / Fire	905	6%	959	6%	1,157	6%	1,348	6%	1,665	6.6%	23.4%
Motor	3,055	21%	3,239	20%	3,922	21%	4,689	22%	6,355	25.2%	35.5%
Health	7,292	50%	8,690	53%	9,708	52%	11,285	53%	12,895	51.1%	14.3%
<b>Total</b>	<b>14,610</b>	<b>100%</b>	<b>16,387</b>	<b>100%</b>	<b>18,504</b>	<b>100%</b>	<b>21,174</b>	<b>100%</b>	<b>25,239</b>	<b>100%</b>	<b>19.2%</b>

Source: The Saudi Insurance Market Report (2009 - 2013)

Despite significant growth in insurance premiums, insurance industry in the Kingdom struggled to make profitability. Underwriting results have reduced from 1.1 billion in 2009G to 972 million in 2013G and net results significantly deteriorated from 1.05 billion in 2009G to 1.4 billion in 2013G. There has been a significant decline in underwriting results and net results in 2013G compared with 2012G, which is mainly attributable to strengthening of technical reserves by insurance companies.

**Table 3-6: Underwriting Results for 2009-2013**

	2009G		2010G		2011G		2012G		2013G		Growth
	U/W results	Net results	U/W results	Net results	U/W results	Net results	U/W results	Net results	U/W results	Net results	2012 v 2013 %
U/W results / Net results	1,117	1,059	1,234	1,138	927	890	1,130	(1,725)	972	(1,428)	(253%) and (247%)

Source: The Saudi Insurance Market Report (2009G - 2013G)

<sup>7</sup> SAMA, The Saudi Insurance Market Report, 2013G.

### 3.5.5 Insurance Penetration and Density

Insurance penetration is defined as GWP as a % of GDP. In 2013G, insurance penetration increased from 0.78% in 2012G to 0.9% in 2013G. This is mainly due to the modest growth in GDP. The non-oil sector also witnessed growth while the oil sector declined.

Insurance density is defined as GWP per capita. Insurance density increased from SAR 725 per capita in 2012G to SAR 864 per capita in 2013G, representing a 19.2% increase.

Expenditures per capita on insurance products have also increased by an average annual rate of 11% between 2009G and 2013. The density of protection and savings insurance remained low in absolute terms, and relative to general and health insurance, at SAR 29 per capita in 2013G.

**Table 3-7: Insurance Penetration and Density by Line of Business (2009G – 2013G)**

Line of Business	Penetration						Density					
	2009G	2010G	2011G	2012G	2013G	Change	2009G	2010G	2011G	2012G	2013G	Change
	%	%	%	%	%	%	SAR	SAR	SAR	SAR	SAR	%
Total General Insurance	0.45%	0.40%	0.36%	0.33%	0.41%	24.7%	248.9	247.8	290.8	308.3	393.9	27.8%
Total Health Insurance	0.52%	0.51%	0.45%	0.41%	0.46%	11.5%	287.4	320.2	357.8	386.5	441.7	14.3%
Total P&S Insurance	0.07%	0.06%	0.04%	0.03%	0.03%	(7.2%)	39.5	35.8	33.4	30.4	28.9	(5.0%)
<b>Total</b>	<b>1.03%</b>	<b>0.97%</b>	<b>0.86%</b>	<b>0.78%</b>	<b>0.90%</b>	<b>16.3%</b>	<b>292.9</b>	<b>603.9</b>	<b>682</b>	<b>725.2</b>	<b>864.5</b>	<b>19.2%</b>

Source: SAMA, The Saudi Insurance Market Report (2009G - 2013G)

### 3.5.6 Retention Ratio

The retention ratio measures the written premiums retained by the insurance company. It is calculated by expressing net written premiums as a percentage of GWPs. The overall retention ratio of insurance companies in the Saudi market slightly increased from 75.8% in 2012G to 76% in 2013G. In 2013G, the retention ratios for motor and health insurance were 94% and 89%, respectively.

**Table 3-8: Retention Ratio by Line of Business**

Line of business	2009G	2010G	2011G	2012G	2013G	% Change
	%	%	%	%	%	
A&L and Other	44.9%	54.4%	44.3%	47.6%	41.6%	(12.7%)
Motor	96.4%	95.7%	94.6%	94.0%	93.9%	(1.0%)
Property/Fire	11.6%	13.2%	11.7%	15.1 %	16.9%	12.3%
Marine	34.9%	33.8%	32.3%	30.9%	32.6%	5.6%
Aviation	0.6%	1.6%	0.5%	3.6%	2.5%	(29.4%)
Energy	1.7%	2.3%	2.1%	1.9%	1.7%	(13.0%)
Engineering	15.5%	13.1%	14.4%	15.4%	15.0%	(2.5%)
Total General Insurance	57.1%	56.5%	56.7%	59.4%	61.5%	3.5%
Total Health Insurance	76.2%	81.9%	84.7%	88.2%	88.8%	0.8%
<b>Total</b>	<b>62.4%</b>	<b>72.0%</b>	<b>73.2%</b>	<b>75.9%</b>	<b>76.2%</b>	<b>0.5%</b>

Source: SAMA, The Saudi Insurance Market Report (2009G - 2013G)

As of early 2014G, the latest results from listed insurance companies in Saudi Arabia highlighted the continued challenges faced by the sector. Companies have had to deal with surging claims costs, which in some cases have been exacerbated by a deliberate policy of increasing the retention ratio. Generally, though, retention ratios remain low. Investment earnings have been mixed. Prices and margins have also been compressed by strong competition. Recent entrants to the market have also boosted market shares regardless of profitability.<sup>8</sup> Over the past five years, the main catalyst for the development

<sup>8</sup> BMI Saudi Arabia Insurance Report Q2 2014G



of the sector has been the rise in compulsory health and motor insurance premiums, which have had a positive impact on both segments. However profitability for these leading segments remains a key challenge.

### 3.5.7 Competition

The insurance sector in the Kingdom is characterised by tough competition. Thirty-five (35) insurance companies as stated hereunder are currently licensed and listed on the Saudi Stock Exchange, as of the date of this Prospectus. The competition is expected to intensify between the companies seeking to maintain and increase their market share and that have recently entered the market seeking to obtain and increase their market share by offering competitive prices and innovative insurance products.

The following table shows the listed insurance companies in Tadawul and their respective paid-up capital (as at 23/10/2014G):

**Table 3-9: Insurance Companies Listed on Tadawul**

	Company	Paid-up Capital (SAR)
1	The Company for Cooperative Insurance ("Tawuniya")	1,000,000,000
2	Mediterranean & Gulf Cooperative Insurance & Reinsurance	1,000,000,000
3	Saudi Re for Cooperative Reinsurance Company	1,000,000,000
4	Solidarity Saudi Takaful Company	555,000,000
5	BUPA Arabia for Cooperative Insurance	400,000,000
6	Saudi Enaya Insurance Co.	400,000,000
7	Jazira Takaful Cooperation Co.	350,000,000
8	SABB Takaful Company	340,000,000
9	Al-Ahlia Cooperative Insurance Company	320,000,000
10	Amana Cooperative Insurance Co.	320,000,000
11	Malath Cooperative Insurance & Reinsurance Company	300,000,000
12	United Cooperative Assurance	280,000,000
13	Trade Union Cooperative Insurance Company	275,000,000
14	Al Sagr Company for Cooperative Insurance	250,000,000
15	Gulf Union Cooperative Insurance Company	220,000,000
16	Arabian Shield Cooperative Insurance Company	200,000,000
17	Saudi Fransi Cooperative Insurance Company	200,000,000
18	Sanad Insurance & Reinsurance Cooperative Company	200,000,000
19	Saudi United Cooperative Insurance	200,000,000
20	Arabia Insurance Cooperative Company	200,000,000
21	Allied Cooperative Insurance Group	200,000,000
22	Weqaya Takaful Insurance & Reinsurance Company	200,000,000
23	Al Rajhi Company for Cooperative Insurance	200,000,000
24	AXA Cooperative Insurance Company	200,000,000
25	Al Alamiya for Cooperative Insurance	200,000,000
26	Gulf General Insurance Company	200,000,000
27	Alinma Tokio Marine Company	200,000,000
28	Metlife AIG-ANB Cooperative Insurance Company	175,000,000
29	Al-Ahli Takaful Company	166,666,670

	Company	Paid-up Capital (SAR)
30	Buruj Cooperative Insurance Company	130,000,000
31	Saudi Arabian Cooperative Insurance Company	100,000,000
32	Salama Cooperative Insurance Company	100,000,000
33	Saudi Indian Company for Cooperative Insurance	100,000,000
34	Ace Arabia Cooperative Insurance Company	100,000,000
35	Wataniya Insurance Company	100,000,000

Source: Tadawul

### 3.5.8 Key Demand Drivers

The major force behind the industry's strength in recent years has been the implementation of compulsory health and motor insurance schemes in its jurisdiction. Saudi Arabia is expected to see a higher demand on insurance products due to various factors, including those set out below:

- Demographic factors such as an expanding population base, large representation of foreigners, and increasing life expectancy.
- Government investments in various sectors for promoting economic diversification are likely to provide new underwriting opportunities. Further, expansion of income levels and the low median age of residents suggest a strong propensity for acquiring personal assets.
- The implementation of compulsory health insurance programmes is likely to create strong growth avenues for insurers. The impact of new vehicle sales growth is also expected to cascade on the insurance industry.
- Increased awareness about the benefits of insurance allow for enterprises to become more proactive in insuring their properties and personnel.
- Regulatory framework and operational parameters of the Takaful market are expected to undergo positive changes as the practice evolves further.

## 3.6 FUTURE OUTLOOK

The insurance industry in Saudi Arabia is expected to undergo significant development as a result of not only the new insurance regulations, but also of changes in the macroeconomics as well as Government policies.

The Government has opened several sectors of the economy to private investors both domestic and foreign. New laws and regulations such as the Capital Market Law, the Insurance Law, the Implementing Regulations and a new income tax law are some examples of this liberalisation programme.

In 2011G the Government announced an SAR 1.5 trillion (\$400 billion) plan over five years aimed at upgrading energy projects, and the social and physical infrastructure in such areas as power, water, transportation, education and housing<sup>9</sup>. A significant growth opportunity for insurers is expected given the scale of these investments, which will require large insurance policies to be issued against the construction and project risks.

In addition, as more insurers enter the market, the products on offer are expected to become more sophisticated and tailored to more diverse and specific consumer needs. The level and sophistication of distribution channels are also expected to increase. Some Saudi banks have entered into joint venture agreements with local or international insurance companies, and could create a new customer base in the industry.

The growth effect of personal loans is expected to increase demand for insurance products; i.e. loans to cover house or motor vehicle insurance (arising from motor vehicle loans), protection and savings insurance (arising from life cover), and personal possessions and household insurance (arising from mortgage products).

The entry of international players in the market is expected to continue to bring expertise and modern techniques to improve the product offering and the level of insurance services provided in the Kingdom.

Competition has increased and is expected to continue, with the increase in the number of licensed insurance companies in the Kingdom. Strong competition may continue to cause a reduction in premium rates.

<sup>9</sup> Source: "Investment opportunities abound in the Kingdom, Arab News, 25 Jan 2011G.

## 4. THE COMPANY

### 4.1 HISTORICAL BACKGROUND

The Company was incorporated in 2008G as a Saudi joint stock company in accordance with (i) Royal Decree number M/36 dated 27/06/1429H (corresponding to 01/07/2008G) and (ii) ministerial order number Q/192 dated 10/6/1430H (corresponding to 03/06/2009G).

The Company's registered address is located at King Abdulaziz Road, Malaz Distribution, P.O. Box 753, Riyadh 11421. The Company's principal place of business is located in the 2nd floor of Kanoo Building, King Abdulaziz Road, Malaz District, Riyadh, Saudi Arabia.

The Company operates a cooperative insurance business in Saudi Arabia which initially utilised the insurance portfolio acquired from AXA Saudi pursuant to the Portfolio Transfer. AXA Saudi is a shareholding company incorporated in Bahrain, which had carried out insurance activities in Saudi Arabia since 1985G.

The principal activities of the Company include cooperative insurance operations and related activities, including reinsurance. The Company carries out these activities under the Insurance Law and its Implementing Regulations, its By-Laws and other relevant regulations in Saudi Arabia. On 11/02/1431H (corresponding to 26/1/2010G), the Company obtained licence number TMN/25/20101 from SAMA to practise general insurance, medical insurance and reinsurance business in Saudi Arabia. On 04/3/1431H (corresponding to 18/2/2010G), the Company commenced insurance operations upon full product approval for certain products and temporary approval for the remaining products. Full approval applications for all product lines are under review by SAMA.

**Table 4-1: History**

Year	Milestone
2008G	Established as a joint stock company
2009G	Undertook a successful IPO of 8,000,000 shares and listed on the Tadawul
2010G	Obtained a licence from SAMA to undertake general and medical insurance and reinsurance activities in Saudi Arabia
2011G	Invested significantly in the training and development of its employees by launching the Learning Management System and Employee Well-being programmes.
2012G	Opened sales outlets in Red Sea Mall and Auto Mall in Jeddah and Mall of Dhahran in Dhahran The election of the Board of Directors was held at an Extraordinary General Assembly on 12 June 2012G Obtained approval for the Portfolio Transfer from (i) SAMA and (ii) the Shareholders in a General Meeting
2013G	Opened sales outlets in Shate'a Mall in Dammam, Azizia Panda hypermarkets and Tahlya Street in Riyadh
2014G	Opened a new sales outlet in Granada Mall in Riyadh

Source: Company

### 4.2 CORPORATE HISTORY

The Company was incorporated as a joint stock company in Saudi Arabia with commercial registration number 1010271203 on 20/7/1430H (corresponding to 13/7/2009G) with a share capital of SAR 200,000,000, divided into 20,000,000 Shares with a nominal value of 10 SAR per Share. The Founding Shareholders subscribed for 12,000,000 Shares with a fully paid-up value of SAR 120,000,000 representing sixty per cent. (60%) of the share capital. The remaining 8,000,000 shares with a value of SAR 80,000,000 were offered for public subscription through an IPO.

The Company obtained approval from SAMA on 23/6/1435H (corresponding to 24/4/2014G) and from the Extraordinary General Meeting on Tuesday 21/04/1436H (corresponding to 10/02/2015G) to increase its share capital from SAR 200,000,000 to SAR 450,000,000 by the creation of 25,000,000 New Shares.

### 4.3 SHAREHOLDING STRUCTURE OF THE COMPANY

The following table summarises the shareholding of the Company as at the date of this Prospectus:

**Table 4-2: Shareholding Structure of the Company**

Shareholder	Shares	Capital (SAR)	%
Public	10,000,000	100,000,000	50
AXA Insurance (Gulf) B.S.C.(c)	6,400,000	64,000,000	32
AXA Mediterranean Holding S.A.	3,600,000	36,000,000	18
<b>Total</b>	<b>20,000,000</b>	<b>200,000,000</b>	<b>100</b>

Source: Company

The ownership structure of each of AXA Gulf and AXA Mediterranean is set out in Section 4.4 below ("Overview of AXA Gulf and AXA Mediterranean").

### 4.4 OVERVIEW OF AXA GULF AND AXA MEDITERRANEAN

#### 4.4.1 AXA Insurance (Gulf) B.S.C.(c)

AXA Gulf is a closed joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under commercial registration number 22373 with an issued share capital of BHD 15,000,000 (SAR 149,135,000). The registered office of AXA Gulf is at 2nd Floor, Building No. 46, Abu Obeidah Avenue, P.O. Box 45, Manama, the Kingdom of Bahrain.

AXA Gulf, one of the largest insurers in the GCC, is a joint venture between AXA Gulf Holding W.L.L. and Yusuf Bin Ahmed Kanoo W.L.L. ("YBA Kanoo"). AXA Gulf has 10 branches across Bahrain, Qatar, Oman and the UAE, employing a workforce of more than 600 people.

With a GWP of over US\$565,000,000 (SAR 2,118,750,000) as at 31 December 2013G, AXA Gulf offers a wide range of insurance products and services for both corporate and individual clients.

AXA Gulf is part of the AXA Group which is a worldwide leader in financial protection.

The following table shows the ownership structure of AXA Gulf as at the date of this Prospectus:

**Table 4-3: Ownership of AXA Gulf**

Shareholder	Shareholding percentage
AXA Gulf Holding W.L.L.	50.00
Yusuf Bin Ahmed Kanoo W.L.L.	49.25
Others	0.75
<b>Total</b>	<b>100.00</b>

Source: Company

## AXA Gulf Holding W.L.L.

The largest shareholder in AXA Gulf is AXA Gulf Holding W.L.L., a limited liability company incorporated in Bahrain and registered with the Ministry of Industry and Commerce in Bahrain under commercial registration number 25703 with an issued share capital of BHD 5,200,000 (SAR 51,700,000).

The following table shows the ownership structure of AXA Gulf Holding W.L.L. as at the date of this Prospectus:

**Table 4-4: Ownership of AXA Gulf Holding W.L.L.**

Shareholders (indirect owners of the Company)	Shareholding percentage
AXA S.A.	95.00
Société Beaujon	5.00
<b>Total</b>	<b>100.00</b>

Source: Company

AXA SA is the holding company for the AXA Group, a worldwide leader in financial protection. Based on available information at 31 December 2013G, the AXA Group was one of the world's largest insurance groups, with consolidated gross revenues of €91 billion (SAR 433.7 billion) for the year ended 31 December 2013G. The AXA Group was also one of the world's largest asset managers, with total assets under management as at 31 December 2013G of €1,113 billion (SAR 5,305 billion). Based on available information at 31 December 2013G, AXA was the world's 9th largest asset manager.<sup>10</sup>

AXA operates primarily in Europe, North America, the Asia-Pacific Region and, to a lesser extent, in other regions including the Middle East, Africa, and Latin America.

AXA has five operating business segments: Life & Savings, Property & Casualty, International Insurance, Asset Management and Banking. In addition, various holding companies within the AXA Group conduct certain non-operating activities.

The AXA SA ordinary shares are listed on Compartment A of NYSE Euronext Paris under ticker symbol CS FR0000120628, Bloomberg: CS FP and Reuters: AXAF.PA.

The issued and paid-up capital of AXA SA was €5,545,739,734.32 (SAR 28,317,988,975.70) and its major shareholders (those who own 5% or more) as at 31 July 2014G included Mutuelles AXA holding approximately 14% and AXA SA employees holding approximately 7%. The remaining 79% (approximately) is mainly owned by individuals and corporates.

Société Beaujon is a simplified joint stock company incorporated in France and registered under number 632 050 316 RCS Paris and with a share capital of €37,107,184.50 (SAR 189,478,932). Its head office is in Paris. Société Beaujon is a subsidiary of AXA SA, which owns 99.99% of its share capital. The remaining share capital is owned by the following shareholders: AXA France IARD; VAMOPAR; Lionel Latty; and Lompus (i.e. fractional shares).

## Yusuf Bin Ahmed Kanoo W.L.L.

The following table shows the ownership structure of YBA Kanoo which is registered in Bahrain under commercial registration number 226 with an issued share capital of BHD 1,050,000 (SAR 10,439,423):

**Table 4-5: Ownership of YBA Kanoo**

Shareholders (indirect owners of the Company)	Shareholding percentage
Abdulrehman Jassim Kanoo Company Limited W.L.L.	25.0
Khalid Mohamed Jassim Kanoo	16.66
Muna Mubarak Jassim Kanoo	12.5
Deena Properties and Trading W.L.L.	12.49
Fawzi Ahmed Ali Kanoo	9.80
Yusuf Ahmed Ali Kanoo	9.79
Shaikha Sameer Abdulla Khalfan	2.78
Noof Sameer Abdulla Khalfan	2.78
Sharifa Sameer Abdulla Khalfan	2.78
Rashaa Salahuddin Abdulrahman Khunji	1.35
Alyaa Salahuddin A Rahman Khunji	1.36
Haifa Salahaldin Abdulrahman Khunji	1.36
Maysa Salahaldin Abdulrahman Khunji	1.35
<b>Total</b>	<b>100.00</b>

Source: Company

<sup>10</sup> Ranking established by AXA based on the information available as of 30 September 2013G.

The following table shows the ownership structure of Abdulrehman Jassim Kanoo Company Limited W.L.L.:

**Table 4-6: Ownership Of Abdulrehman Jassim Kanoo Company Limited W.L.L.**

Shareholders (indirect owners of the Company)	Shareholding percentage
Mohamed Abdullatif Jassim Kanoo	30.0
Tariq Abdullatif Jassim Kanoo	30.0
Fawzi Ahmed Ali Kanoo	10.0
Saud Abdulaziz Jassim Kanoo	11.5
Lulwa Jassim Kanoo	8.5
Ali Abdulaziz Jassim Kanoo	2.5
Badar Abdulaziz Jassim Kanoo	2.5
Nawaf Abdulaziz Jassim Kanoo	2.5
Ali Abdulla Mohammad Kanoo	2.5
<b>Total</b>	<b>100.00</b>

Source: Company

The following table shows the ownership structure of Deena Properties and Trading W.L.L.:

**Table 4-7: Ownership Of Deena Properties And Trading W.L.L.**

Shareholders (indirect owners of the Company)	Shareholding percentage
Moayyed Mohamed Ebrahim	31.66
Qais Mohamed Ebrahim Almoayyed	31.66
Kanoo Mohamed Ebrahim Almoayyed	31.66
Mohamed Ebrahim Mohamed Almoayyed	5.02
<b>Total</b>	<b>100.00</b>

Source: Company

#### 4.4.2 AXA Mediterranean

AXA Mediterranean, a company incorporated in Spain, is the second largest shareholder in the Company and is a 100% subsidiary of AXA SA. AXA Mediterranean is the investment arm of the AXA Group in the Mediterranean region. As at 2013G, AXA Mediterranean had a share capital of €146,996,606.70 (SAR 749,738,000), and the table below shows the ownership structure of AXA Mediterranean:

**Table 4-8: Ownership of AXA Mediterranean**

Shareholders (indirect owners of the Company)	Shareholding percentage
AXA S.A.	100.00
<b>Total</b>	<b>100.00</b>

Source: Company

## 4.5 VISION, OBJECTIVE, MISSION AND STRATEGY

### 4.5.1 Vision

The Company's vision is to become the preferred insurance company in Saudi Arabia for its clients, stakeholders and employees.

### 4.5.2 Objective

The Company's objective is to become the first choice insurance company to its clients. The Company aims to provide its clients with the highest standard of insurance and reinsurance services. Furthermore, the Company aims to focus on its growth and the promotion of its reputation and the consolidation of its strong position as a provider of insurance and reinsurance services.

### 4.5.3 Mission

The Company aims to be the trusted market leader in Saudi Arabia, employing the best people to provide confidence, outstanding value and superior service to its clients.

### 4.5.4 Strategy

The Company's core strategy is based on following pillars:

#### Acceleration

- Expansion and enhancement of distribution networks focused on growth of retail and SME segments
- Differentiated commercial health proposition to drive future growth supported by specialised and dedicated employee benefits (EB) teams
- Cross-selling of group life protection with health insurance
- Improved price competitiveness through strengthened procurement, network management and claims management to reduce claims costs

#### Selectivity

- Maximise the profitability of new and renewed business in key lines through regular rate reviews, portfolio reduction and enhanced underwriting management
- Develop and increase profitable retail and SME portfolio
- Improve profitability on Property and Casualty (P&C) commercial lines with more cross-selling of profitable lines

#### Efficiency

- Continue industrialisation of the Company via its efficiency programme
- Improve health care procurement and anti-fraud expertise
- Sales efficiency to continue to be enhanced through better sales activity management and staff training

#### Customer Centricity

- Maintain high level of quality of service as a differentiator
- Continue to build "multi-access" competitive advantage by making it easier for the customer to do business with the Company
- Continue to build an adapted and differentiated value proposition for the SME and retail segments supported by optimised distribution and marketing

#### Trust and Achievement

- Investment in the recruitment, development and retention of Saudi nationals

## 4.6 COMPETITIVE ADVANTAGES

There are a number of factors that give the Company an advantage over its competitors and provide a platform for sustainable and profitable growth. The key advantages are outlined below:

### 4.6.1 Global and Regional Presence

The Company is part of AXA Group which operates primarily in Europe, North America and the Asia-Pacific Region. In the MENA region, AXA has operations in Bahrain, United Arab Emirates, Qatar, Oman, Saudi Arabia (through the Company), Lebanon, Jordan (through partnerships and joint ventures), Turkey, Morocco and Algeria. This regional cover enables the Company to leverage off the AXA Group's size and experience to differentiate their products and services to meet the needs of individual and corporate clients in Saudi Arabia. By sharing best practices and building on the strength of a globally recognized brand, the Company intends to continue to fully leverage its international reach to develop a clear competitive edge in the Saudi market.

AXA Group is a worldwide leader in financial protection. Based on available information at 31 December 2013G, the AXA Group was one of the world's largest insurance groups, with consolidated gross revenues of €91 billion (SAR 433.7 billion) for the year ended 31 December 2013G. The AXA Group was also one of the world's largest asset managers, with total assets under management as at December 31, 2013G of €1,113 billion (SAR 5,305 billion). Based on available information at 31 December 2013G, AXA was the world's 9th largest manager.<sup>11</sup>

AXA has five operating business segments: Life & Savings, Property & Casualty, International Insurance, Asset Management and Banking. In addition, various holding companies within the AXA Group conduct certain non-operating activities.

### 4.6.2 Established Business

AXA Group has an established insurance operation in the region with a total of 13 offices across Saudi Arabia, Bahrain, Qatar, UAE and Oman supported by over 800 staff. AXA Group's operations in Saudi Arabia originated in 1985G, with offices now located in each of the three key economic regions of the Kingdom: Jeddah, Riyadh and Al-Khobar. The Company has a well-established customer base and distribution network that has been developed over 25 years which was acquired from AXA Saudi, pursuant to the Portfolio Transfer.

### 4.6.3 Diverse Insurance Services

The Company offers a diverse range of insurance and reinsurance services. The Company offers a wide range of commercial insurance products which include property, casualty, marine, engineering and health care. The Company's ability to offer a diverse product range to each client enables it to develop a distinct competence with corporate clients who prefer one insurance carrier to satisfy their insurance needs. AXA Group entities are known locally and internationally for innovating and developing market-leading personal line products.

### 4.6.4 Qualified and Experienced Team of Staff

The Company has a competent, qualified and professional management team to run it and to lead it to achieve its objectives efficiently. The Company will continue to invest in the recruitment, training, development and retention of local staff throughout the organisation to deliver a superior quality of service to clients. AXA Group is committed to developing the skills of its insurance employees through adopting a policy that is based on employing and training local employees and improving their professional skills. Training local employees and improving their professional skills is important for boosting the Company's ambition for growth and development and will allow the Company to proceed with developing high-quality products and services in the long run.

### 4.6.5 Reinsurance Programme

The main objective of the Company is to retain risk locally to maximise potential returns for Shareholders. This is achieved through prudent reinsurance arrangements, providing high-quality security at a competitive price. The reinsurance programme used by the Company aims to ensure that the Company is able to achieve stable and continuing growth consistent with its strategic objectives. AXA Global P&C (formerly AXA Cessions) facilitates all reinsurance treaties for the Company. AXA Global Life is an intra-Group reinsurance company in charge of analysis, structuring and placement of reinsurance treaties on behalf of AXA Group companies after a selection of third party reinsurers. By 'pooling' risks throughout the AXA Group, the Company can obtain competitive prices for the required capacity with leading reinsurers with an acceptable security rating. With additional support from AXA Corporate Solutions Assurance which is the AXA Group subsidiary dedicated to large corporations in terms of property and casualty loss prevention, risk management,

<sup>11</sup> Ranking established by AXA based on the information available as at 30 September 2013.



underwriting and claims handling and to specialty markets (marine, aviation, space) worldwide, the Company also has the capacity to target large insurance projects in Saudi Arabia.

#### 4.6.6 Centralised Client Service

The Company's strategy is to centralise high volume and high frequency processes, which currently include medical and motor insurance. The objective is to achieve greater efficiency and at the same time deliver a superior quality of service to clients.

#### 4.6.7 Information Technology

The Company has core insurance software in place in order to facilitate the operational, financial, statutory and management information requirements. Management information systems help with planning, monitoring and evaluating the operations and performance of individual units. With this core insurance software and management information system, the Company has an orderly and disciplined methodology to provide for the accurate recording of data and the timely extrapolation and transmission of management information used in the decision making process. This helps in the making of strategic, tactical and operational decisions at all levels of its organisation. Inter-branch connectivity contributes to providing effective business management, disaster recovery support and authority controls. The integrated systems facilitate centralised processing, improved utilisation of expertise and lower processing costs.

### 4.7 OVERVIEW OF PRODUCTS AND SERVICES

The Company provides a wide range of general insurance products and solutions for personal and commercial clients. The Company follows the regulatory processes established by SAMA for product approval. As at the date of this Prospectus, the Company has received final approval for several products. The table below sets out a list of all products offered by the Company, in addition to approvals granted by SAMA (both temporary and full) in respect of each product.

**Table 4-9: Company Product Type**

Fully Approved Products			
Product	Approval Date	SAMA Letter Number	
Motor Comprehensive – Private	31/03/2013G	341000062927	
Motor Comprehensive – Commercial	31/03/2013G	341000062927	
Third Party Liability	31/03/2013G	341000062927	
Group Credit Life	30/04/2010G	-	
Healthcare	26/01/2010G	220/IS/7721	
Group Term Life (EB)	16/09/2010G	1764/IS/48202	

Temporary Approval			
Product	Initial Approval	Extension	Valid Until
Business All Risks	16/02/2010G	22/06/2014G	22/12/2014G
Business Secure	16/02/2010G	22/06/2014G	22/12/2014G
Office Secure	16/02/2010G	22/06/2014G	22/12/2014G
Personal Accident-Individual	16/02/2010G	22/06/2014G	22/12/2014G
Professional Indemnity	16/02/2010G	22/06/2014G	22/12/2014G
Employer's Liability	31/01/2010G	22/06/2014G	22/12/2014G
Workmen's Compensation	31/01/2010G	22/06/2014G	22/12/2014G
Product Liability	31/01/2010G	22/06/2014G	22/12/2014G
Public Liability	31/01/2010G	22/06/2014G	22/12/2014G
Money Insurance	28/09/2009G	22/06/2014G	22/12/2014G
Personal Accident - Group	28/09/2009G	22/06/2014G	22/12/2014G
Contractors All Risks	31/01/2010G	22/06/2014G	22/12/2014G
Machinery Insurance	16/02/2010G	22/06/2014G	22/12/2014G
Erection All Risks	31/01/2010G	22/06/2014G	22/12/2014G
Machinery Loss of Profits Insurance	31/01/2010G	22/06/2014G	22/12/2014G

Temporary Approval			
Product	Initial Approval	Extension	Valid Until
Electronic Equipment	31/01/2010G	22/06/2014G	22/12/2014G
Industrial All Risks	16/02/2010G	22/06/2014G	22/12/2014G
Plant All Risks	31/01/2010G	22/06/2014G	22/12/2014G
Deterioration of Stock	31/01/2010G	22/06/2014G	22/12/2014G
Cargo Plus Insurance	16/02/2010G	22/06/2014G	22/12/2014G
Goods In Transit	16/02/2010G	22/06/2014G	22/12/2014G
Home Comfort	31/01/2010G	22/06/2014G	22/12/2014G
Property All Risks	16/02/2010G	22/06/2014G	22/12/2014G
Property All Risks (Loss of Profits Insurance)	11/01/2010G	22/06/2014G	22/12/2014G
Business Travel	11/01/2010G	22/06/2014G	22/12/2014G
Travel Insurance (Travel Smart)	11/01/2010G	22/06/2014G	22/12/2014G
Fire and Special Perils Insurance	31/01/2010G	22/06/2014G	22/12/2014G
Fire and Special Perils (Loss of Profits)	31/01/2010G	22/06/2014G	22/12/2014G

Not Approved to Date*			
Product	Submission Date	First Resubmission Date	Date of Last Submission
Relocation Plus	02/10/2010G	02/09/2013G	10/07/2014G
Commercial Hull	02/10/2010G	02/09/2013G	10/07/2014G
Fidelity Guarantee	26/10/2010G	02/09/2013G	10/07/2014G
Theft (Business Premises)	02/10/2010G	02/09/2013G	10/07/2014G
Sail Master	02/10/2010G	02/09/2013G	10/07/2014G
Travel In Bound	02/10/2010G	–	10/07/2014G
Individual Life**	07/01/2009G	28/11/2013G	–
Industrial All Risk (LOP)	02/10/2010G	02/09/2013G	10/07/2014G
Travel Signature	03/07/2013G	–	10/07/2014G
Travel Infinite***	03/07/2013G	–	–

\* On 29 April 2012G, SAMA requested that the Company resubmit all previous documents for new insurance products including the policies, terms and conditions and pricing terms. On 27 August 2014G, SAMA requested the provision of additional documentation in relation to certain new products.

\*\* SAMA has sent letter to the Company with respect to Individual Life insurance product on 25 March 2014G requesting a resubmission with a comprehensive set of submission documents. The Company has not resubmitted the documents to date.

\*\*\* SAMA has not responded to the Company's submission in respect of the Travel Infinite product.

A small number of products are under review with "File in Use" approval and the Company has been asked to resubmit eight (8) products for approval. The complete range of products offered by the Company includes:

#### 4.7.1 Personal Lines

The main types of insurance policy offered by the Company or that the Company intends to offer to individual clients include:

##### 4.7.1.1 Accident Insurance

The Company's Accident insurance policy covers the following:

Travel Insurance – covers the cost of medical emergencies, loss of baggage, cancellation fees and other associated risks.

Individual Accident – covers accidental death, permanent total disability, permanent partial disability, accident medical reimbursement and repatriation of the insured in the case of death (including remains). The cover provided under this policy is transcontinental and covers the insured person 24/7.

#### 4.7.1.2 Motor Insurance

The Company offers the following private motor insurance policies:

Comprehensive Motor Insurance through Motor Perfect – covers loss/damage to the vehicle due to any man-made or natural calamity in addition to any third-party liability arising out of the use of the vehicle within Saudi Arabia.

Unified Third Party Insurance – covers legal liability to third parties for death, bodily injuries or damage to property arising out of the use of the insured vehicle within Saudi Arabia.

Third Party Fire & Theft Insurance – covers third-party liability insurance and any loss/damage to the insured vehicle caused by fire or theft.

#### 4.7.1.3 Property Insurance

Property insurance is designed to provide cover for loss or damage caused by external means to buildings, household contents and personal belongings in the home. The Company, through this insurance, offers cover for content, personal belongings like clothes, building, domestic helpers and tenants and occupiers' liability.

#### 4.7.1.4 Health and Protection Insurance

The Company's insurance plan offers strict terms as issued by the CCHI and gives access to a specific network of providers, being the "Restricted Network" giving access to medical service providers within Saudi Arabia.

Additionally, the Company intends to offer individual life insurance policies, which provide different levels of financial protection to the insured depending on the benefits chosen by the policy owner. The benefits include:

- financial protection of the designated beneficiary in case of death of the insured; and
- financial protection of the insured himself in case of temporary or permanent disability.

#### 4.7.1.5 Marine Insurance

The Company intends to offer marine insurance policies that provide insurance protection for accidental loss or damage to personal boats/pleasure crafts, onboard possessions and liabilities to third parties.

#### 4.7.1.6 Relocation Insurance

The Company also intends to offer relocation insurance providing protection for policyholders against loss, theft or damage to professionally packed items whilst relocating, including during the period of incidental storage, right up to the delivery to the final domicile.

### 4.7.2 Commercial Lines

The main types of insurance policy offered by the Company or that the Company intends to offer to commercial clients include:

#### 4.7.2.1 Accident Insurance

This insurance covers more general risks associated with accidents. Insurance policies offered by the Company under this category include:

- money insurance to cover the loss of money belonging to the insured resulting from theft, robbery, fire or other accidents;
- business "All Risk" insurance to protect against the accidental loss or damage to a business' equipment being transported or used anywhere in the world;
- business travel insurance to provide insurance for the losses incurred by senior executives during business travel, including loss of baggage and medical expenses incurred abroad;
- group personal accident insurance to cover accidental bodily injury, death or disablement of insured employees of companies. The cover can be arranged in three different formats:
  - (i) work-related cover only, where employees are only covered at work or for work-related travel and activities;
  - (ii) 24/7 worldwide cover or KSA-based cover only for employees; and
  - (iii) 24/7 worldwide cover for employees and their immediate family (spouse and children only);

- plant all risk insurance to cover the insured against unforeseen and sudden physical loss of or damage to any plant or equipment, such as mobile cranes, tower cranes, bulldozers, dumpers, excavators, shovels, loaders, compressors, pumps and crushers;
- machinery insurance to cover the policyholder against unforeseen and sudden physical loss of or damage to any machine, such as transformers, switchgears, circuit breakers, motors and turbines. This insurance can be subscribed with a loss of profit. In this case, the policy is intended to meet the financial consequences of a business interruption caused by machinery breakdown or derangement as covered under the machinery insurance policy;
- deterioration of stocks insurance to cover pre-specified goods against loss or damage caused by deterioration due to any unforeseen circumstances and sudden physical loss or damage to pre-specified machinery that is entitled to compensation under the machinery insurance policy that is in force with the Company;
- electronic equipment insurance to cover accidental loss or damage to electronic equipment such as electronic data processing machines, telecommunication equipment and transmitting and receiving installations; and
- office secure and business secure insurance to protect businesses financially in the event of an office disaster by compensating the business for the cost of lost or damaged office equipment, lost income due to interruption of business, or cost of settlement of a third-party legal action against the business stemming from the operation of the business.

Additionally, the Company intends to offer fidelity guarantee insurance to protect the insured against financial losses caused by the fraud or dishonesty of its employees.

#### 4.7.2.2 Liability Insurance

Liability insurance policies indemnify the policyholder from legal liabilities arising out of acts of negligence during its business operations. The company also offers public liability, product liability, workmen's compensation, employer's liability and professional indemnity insurance.

#### 4.7.2.3 Motor Insurance

Motor insurance offers a comprehensive insurance that is available as fleet cover, with one policy for all vehicles owned by the company, or corporate cover with different policies at uniform terms and conditions.

#### 4.7.2.4 Property Insurance

Property insurance protects the owners of a property against accidental loss or damage to their property and the consequential loss of any income derived from that property, such as damage caused to a rental property by tenants or a failure by tenants to pay due rents. The Company offers different levels of property cover:

- against fire and special perils (with or without loss of profit);
- against all industrial risks; and
- against all-risk, which is a full, comprehensive cover that suits buildings and civil constructions (with or without loss of profit).

The Company intends to offer an industrial all risk insurance policy with a loss of profit option. Further, the Company also intends to offer a theft insurance policy that will cover the loss of or damage to property insured, contained and/or held in trust, in the business premises for which the insured is responsible, arising out of theft or any attempted theft, involving entry or exit by forcible and violent means.

#### 4.7.2.5 Marine Insurance

Marine insurance provides cover for goods transited by sea, air, road, rail, courier service and/or post to or from all parts of the world.

Additionally, the Company intends to offer marine hull insurance policies to cover the risks associated with operating craft and/or yachts, including third-party liability cover for death, bodily injury, and/or property damage.

#### 4.7.2.6 Engineering Insurance

The following types of engineering insurance are offered by the Company:

- contractors all risk insurance (the "CAR Policy"), offering cover during the erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, buildings, roads, bridges, sewage works and reservoirs; and
- erection all risk insurance (the "EAR Policy"), offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery.

Both policies are similar to each other but the CAR Policy is issued for predominantly civil construction projects and the EAR Policy for industrial machinery and plant installations.

#### 4.7.2.7 Health and Protection Insurance

Health and Protection insurance provides, in line with all the regulations of Saudi Arabia, medical insurance cover for all employees, and their dependents, of corporate businesses operating in Saudi Arabia and duly registered by the Saudi Arabian authorities. AXA health insurance is available to all businesses regardless of their size in terms of number of employees. The health insurance plans aim to cover, in line with the regulations of the CCHI and subject to employees' dependents' personal circumstances, all covered members under the policyholder's insurance policy for expenses resulting from covered sicknesses/illnesses or covered accidents. The health insurance plans aim to provide all insured members with access to a highly rated network of hospital service providers, latest medical treatments and technologies, as well as world-class doctors and medical practitioners.

For small and medium-sized enterprises comprising up to 49 employees, the health insurance programme offers the following health insurance plans:

- two plans offering strict terms as issued by the CCHI and with extended cover for emergency treatments in selected countries outside Saudi Arabia. Each product gives access to a specific network of providers, either AXA Star or Diamond network within Saudi Arabia; and
- two plans offering strict terms as issued by the CCHI and giving access to a specific network of providers, either AXA Crystal network or selected network within Saudi Arabia.

The group term life insurance policy provides different levels of financial protection to the insured employee depending on the benefits chosen by the employer policy owner. These are:

- financial protection (multiple of salary or fixed sum) to the designated beneficiary in case of death (due to natural causes or accident) of the insured;
- financial protection (multiple of salary or fixed sum) to the insured himself in case of temporary, permanent or partial disablement;
- reimbursement of medical expenses incurred due to an accident; and
- reimbursement of repatriation expenses (in case of death).

The group credit life products are customised to suit the requirements of policyholders and can cover the following:

- death due to any cause;
- permanent total disability due to accident or sickness; and
- temporary total disability due to accident or sickness.

## 5. MANAGEMENT OF THE COMPANY AND CORPORATE GOVERNANCE

### 5.1 BOARD MEMBERS

The Company has an experienced Board of Directors, composed of highly qualified and respected individuals in the business community:

**Table 5-1: Board of Directors**

Name	Nationality	Age	Position	Date of appointment to the Board	Representing	Status	Independence	Number of Shares*
Jerome Droesch	French	46	Chairman	13/04/2011G	AXA Mediterranean	Non-executive Director	Non-independent	1,000 Shares
Ali Abdulla Ali Kanoo	Saudi	45	Director	27/03/2013G	AXA Gulf	Non-executive Director	Non-independent	1,000 Shares
Yousef Bin Saleh Bin Mansoor Abalkhail	Saudi	54	Director & Chairman of Nomination & Remuneration Committee	05/04/2010G	-	Non-executive Director	Independent	1,000 Shares
Paul Adamson	British	47	Managing Director & Chairman of Executive Committee	13/04/2010G	AXA Gulf	Executive Director	Non-independent	1,000 Shares
Kamel Salahuddin Abdallah Al Munajjed	Saudi	54	Director & Chairman of Audit Committee	13/07/2009G	-	Non-executive Director	Independent	1,000 Shares
Iain Logan Reid	British	62	Director	24/07/2010G	AXA Gulf	Non-executive Director	Non-independent	1,000 Shares
François-Aissa Touazi	French	47	Director	13/04/2010G	AXA Mediterranean	Non-executive Director	Non-independent	1,000 Shares
Mazen Ibrahim Shihata Hassounah	Saudi	53	Director & Chairman of Finance Committee	13/07/2009G	-	Non-executive Director	Independent	1,000 Shares

Source: Company

\* Ownership of Shares does not signify membership of the Board. Pursuant to the Companies Regulations, each Board member must hold Shares to the value of SAR 10,000 (as guarantee shares). These Shares (8,000 Shares) are pledged by AXA Gulf in favour of each Director. Upon resignation, retirement or termination of any of the above Directors, the Shares held by the relevant Director will be transferred to the new Director taking his place on the Board.

Khalid Al-Shuwaier is the secretary of the Board and does not hold any Shares in the Company.

## 5.1.1 Resumes of Directors

### Jerome Droesch

Age: 46

Nationality: French

Position: Chairman

Education: Bachelor in Engineering from Ecole Centrale de Lyon (1991G). Diploma in Financial Asset Management and Engineering from Nice Management College (1997G).

Current Positions:

- Chairman of the Board of Directors of the Company (13/04/2011G to present)
- Chief Executive Officer of AXA Gulf and Middle East (2011G to present)

Previous Experience:

- Mr. Droesch started working with AXA in 1991G and has held a variety of positions over the past 20 years in AXA France
- Regional chief executive officer of AXA France's South-West region (2008G to 2010G)
- Sales and distribution manager of AXA France (2005G to 2008G)
- Insurance manager of AXA France (2000G to 2005G)

Membership of Other Boards Of Directors:

Current:

- Chairman of the board of directors of ASC FZ LLC (unlisted closed joint stock company - services sector), United Arab Emirates (07/02/2011G to present).
- Chairman of the board of directors of AXA Gulf Holding (Bahrain) WLL (unlisted closed joint stock company - insurance sector) (07/02/2011G to present)
- Member of the board of directors of AXA Insurance (Gulf) BSC(c), Bahrain (unlisted closed joint stock company - insurance sector) (07/02/2011G to present)
- Member of the board of directors of AXA Middle East SAL, Lebanon (unlisted closed joint stock company - insurance sector) (07/02/2011G to present)
- Member of the board of directors of AXA Services S.A.E. (limited liability company - insurance sector), Egypt (19/07/2011 to present)

Previous: none

### Ali Abdulla Ali Kanoo

Age: 45

Nationality: Saudi

Position: Director

Education: Bachelor's degree in Finance from the American University in Washington (1990-1994G)

Current Positions:

- Member of the Board of Directors of the Company (27/03/2013G to present)
- Regional Director of Yusuf Bin Ahmed Kanoo Holding (general trading and construction sector) (from 2012G to present)

Previous Experience:

- Manager at Kanoo Shipping Company (general trading and construction sector) (1994G)
- Head of Treasury Department of Samba Financial Group (banking sector) (from 1995G to 1997G)
- Manager at Kanoo Partnership Projects Company (general trading and construction sector) (1997G)
- Head of Fiance Department of Kanoo Company general trading and construction sector) (2000G)
- Manager of Kanoo Commercial Group (general trading and construction sector) (2002G)
- Manager at Yusuf Bin Ahmed Kanoo (general trading and construction sector) (2003G – 2012G)

#### Membership of Other Boards Of Directors:

##### Current:

- Member of the board of directors of Arab Paper Manufacturing Co. (limited liability company - paper manufacturing sector) (06/04/2012G to present)
- Member of the board of directors of Alujain Corporation (listed joint stock company - general trading and construction sector) (25/01/2011G to present)
- Member of the board of directors of Yusuf Bin Ahmed Kanoo (Holdings) W.L.L. (limited liability company - general trading and construction sector) (17/10/2010G to present)
- Member of the board of directors of Baroid SA Ltd. Co. (limited liability company - chemical products sector) (23/11/2010G to present)
- Member of the board of directors of Inspectorate International (limited liability company - examination and inspection services sector) (23/11/2010G to present)
- Member of the board of directors of United Arab Shipping Agencies (limited liability company - navigation services sector) (23/11/2010G to present)
- Member of the board of directors of Yusuf Bin Ahmed Kanoo Company Ltd. (limited liability company - general trading and construction sector) (Saudi Arabia) (20/04/2009G to present)
- Member of the board of directors of Arabian Sulfonates Co. (limited liability company - chemical products sector) (10/04/2005G to present)

Previous: none

#### **Yousef Bin Saleh Bin Mansoor Abalkhail**

Age: 54

Nationality: Saudi

Position: Director

Education: M.Sc. in Information Technology from University of South California, USA (1987G). Bachelor in Computer Systems from Point Lama University, USA (1985G)

##### Current Positions:

- Member of the Board of Directors of the Company (05/04/2010G to present)

##### Previous Experience:

- Mr. Abalkhail has more than 25 years of experience in entrepreneurship and leadership with various entities in Saudi Arabia.

#### Membership of Other Boards Of Directors:

##### Current:

- Member of the board of directors of Arabian Pipes Company (listed joint stock company – pipe manufacturing sector) (11/06/2012G to present)
- Member of the board of directors of Shuaa Capital Saudi Arabia (limited liability company – investment and brokerage sector) (01/10/2011G to present)
- Member of the board of directors of The Qassim Cement Co (listed joint stock company – cement manufacturing sector) (01/01/2013G to present)

##### Previous:

- Chairman of the board of directors of The National Co. for Glass Industries (Zoujaj) (listed joint stock - industrial investment sector) (2005G to 2014G)
- Board member of SANLEC (limited liability – industrial sector) (2006G – 2011G).



## **Paul Adamson**

Age: 47

Nationality: British

Position: Managing Director

Education: Associate Member of the Chartered Insurance Institute, London, United Kingdom (1990G)

Current Positions:

- Managing Director of the Board of Directors of the Company (insurance sector) (13/04/2010G to present)

Previous Experience:

- Mr. Adamson is the Managing Director of the Company since 2010G with over 20 years of experience in the financial industry. He joined the Company in 2000G and has since held senior positions including the CEO from 2008G to 2010G
- Country Manager at Norwich Union Saudi Arabia (from 2000G to 2006G)
- Country Manager at AXA Insurance Saudi Arabia (from 2006G to 2008G)

Membership of Other Boards Of Directors:

Current: none

Previous: none

## **Kamel Salahuddin Abdallah Al Munajjed**

Age: 54

Nationality: Saudi

Position: Director

Education: Electrical Engineering Degree from American University in Beirut, Lebanon (1983G) and MBA from Fontainebleau INSEAD University, France (1983G)

Current Positions:

- Member of the Board of Directors of the Company (since incorporation to present)
- Executive partner of Urjuan Real Estate Development Company (limited liability company – real estate development sector) (2005G to present)

Previous Experience:

- Mr. Al Munajjed is currently the executive partner of Urjuan Real Estate Development Company. He has over 25 years of experience in entrepreneurship and the development of international and regional investment portfolios in banking, logistics, industrial catering, food distribution, tourism and information technology.

Membership of Other Boards Of Directors:

Current:

- Member of the board of directors of Shuaa Capital (limited liability company – investment and brokerage sector) (01/10/2011G to present)
- Member of the board of Urjuan Real Estate Development Company (limited liability company – real estate development sector) (2005G to present)

Previous: none

## **Iain Logan Reid**

Age: 62

Nationality: British

Position: Director

Education: Associate member of the Chartered Insurance Institute from London, United Kingdom (1976G)

Current Positions:

- Member of the Board of Directors of the Company (24/07/2010G to present)
- Group insurance manager of Yusuf Bin Ahmed Kanoo (construction and commercial agency sector) (from 2006G to present)

Previous Experience:

- Mr. Reid has 38 years of experience in the insurance industry and has spent 35 years working overseas in senior management positions.
- Chief Operating Officer of AXA Gulf (from 2005G to 2006G)
- Regional Director at Norwich Union Middle East (from 2000G to 2005G)

Membership of Other Boards Of Directors:

Current:

- Member of the board of directors of ASC FZ LLC, UAE (unlisted closed joint stock company – services sector) (01/04/2006G to present)

Previous: none

## **Francois-Aissa Touazi**

Age: 47

Nationality: French

Position: Director

Education: Ph.D and Advanced degree in Analysis of the Arab World from the Paris Institute of Political Science, France (1993G)

Current Positions:

- Member of the Board of Directors of the Company (13/04/2010G to present)
- Senior advisor for the Middle East and North Africa region for the AXA Group (from 2008G to present)

Previous Experience:

- He joined AXA in 2008G after serving 14 years in different ministerial and government positions.
- Advisor to the French Minister of Foreign Affairs (from 2005G to 2008G)
- Advisor to the French Minister of Foreign Affairs for North Africa and the Middle East (from 2001G to 2005G)
- Head of International Cooperation French Minister of Foreign Affairs (from 1997G to 2001G)
- Founder of CAPMENA, in Euro-Arab think tank
- Board member of Euro-Med Foundation of management

Membership of Other Boards Of Directors:

Current:

- Member of the board of directors of AXA Insurance (Gulf) BSC(c), Bahrain (unlisted closed joint stock company – insurance sector) (30/03/2010G to present)

Previous: none

## **Dr. Mazen Ibrahim Shihata Hassounah**

Age: 53

Nationality: Saudi

Position: Director

Education: PhD in Planning from the University of Toronto, Canada (1992G), MSc in Planning from the University of Toronto, Canada (1988G), BSc in civil engineering from the King Fahd University of Petroleum and Minerals (1982G)

Current Positions:

- Member of the Board of Directors of the Company (since incorporation to present)
- Managing partner of Mawakher Development Company (limited liability company – general trade and construction sector) (2007G to present)

Previous Experience:

- Dr. Hassounah has over 25 years of experience in engineering, planning, corporate advisory services, investment banking and asset management services.
- A member of the Chamber of Commerce Industrial Committee in Riyadh (2004G to 2009G)
- Executive and managing director of Rana investment company (2000G to 2008G)

Membership of Other Boards Of Directors:

Current:

- Member of the board of directors of Shuaa Capital (limited liability company – investment and brokerage sector) (27/10/2013G to present)
- Member of the board of directors of Mawakher Development Company (limited liability company – general trade and construction sector) (2007G to present)
- Member of the board of directors of Advanced Food Company (limited liability company – restaurant sector) (2012G to present)

Previous:

- Member of the board of directors of Etihad Etisalat Mobily (listed company- Telecommunications Sector) (2004G to 2009G)

## **5.2 SECRETARY OF THE BOARD**

### **Khalid Abdulaziz Al-Shwaier**

Age: 37

Nationality: Saudi

Position: Company Secretary

Education: Advance Insurance & Management Certificates from Bahrain Institute of Banking and Finance (2007G and 2009G), passed the Insurance Foundation Certificate Examination (IFCE)

Current Positions: Company Secretary

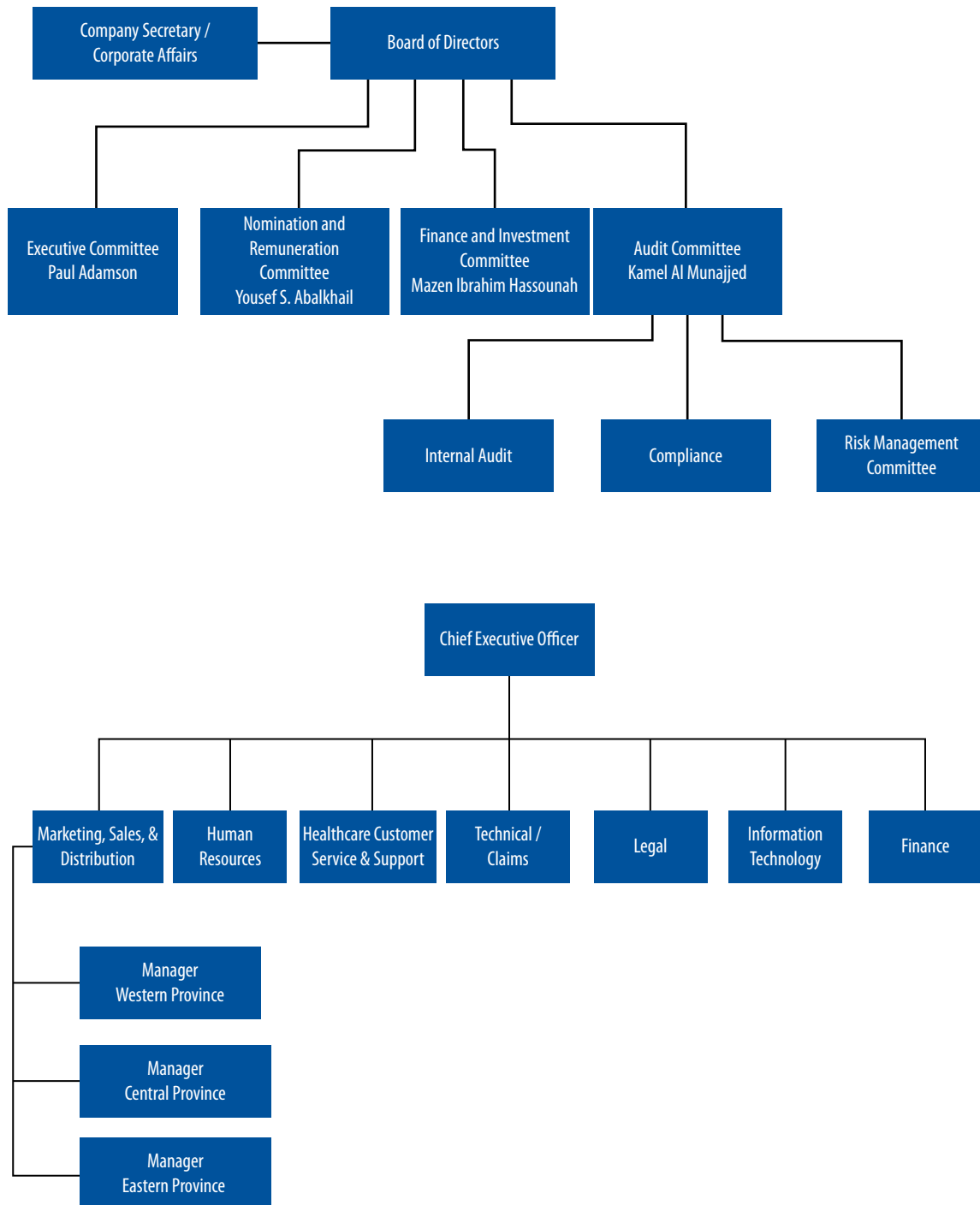
Previous Positions:

- Customer Services Officer (2005G to 2007G)
- Assistant Underwriter of the Company (2007G to 2009G)
- Regulatory Office of the Company (2009G to 2011G)

### 5.3 SENIOR MANAGEMENT

The Company is managed by a highly experienced team with the necessary knowledge and skills to manage the Company's operations. The summary of the composition of the senior management is as follows:

**Figure 5-1: Organisation Structure Chart**



**Table 5-2: Company's Senior Management**

Name	Age	Position	Nationality	Date joined Company
Paul Adamson	47	Managing Director	British	29/03/2000G
Gary Michel Lewin	59	Chief Executive Officer	British	01/05/2008G
George Kurien	53	Chief Financial Officer	Indian	01/09/2010G
Khalid Abdulazi Al-Shuwaier	36	Company Secretary and Corporate Affairs Manager	Saudi	05/07/2005G
Jassim Ali Hassan Al Khalifah	36	Retail Sales Manager	Saudi	01/01/2012G
Akram Idrees Tairi	36	Head of Healthcare Operations	Saudi	15/01/2013G
Riad Hasan Bakri	34	IT Manager	Saudi	02/02/2013G
Shaik Alaudeen Abdulhameed	40	Head of Technical	Indian	11/03/1997G
Sadiq Ali Al Ali	31	AML & Compliance Manager	Saudi	18/09/2010G
Mazen Abdullah Ahmed Al Khallaf	42	Regional Marine Underwriter	Saudi	10/05/2010G
Syed Abbas Hassan Guilani	42	Chief Investment Officer	Pakistani	08/07/2002G
Owain Raw Rees	53	Branch Manager – Central Province	British	20/08/1994G
Ali Hakan Atmaca	49	Branch Manager – Eastern Province	Turkish	01/04/2007G
Khalid Hussain Al Humaidi	37	Branch Manager – Western Province	Saudi	01/07/2014G
Babar Ali Khan	30	Senior Risk Manager	Pakistani	30/10/2010G
Ali Khamis Shawish	36	Senior Internal Audit Manager	Jordanian	25/07/2010G
Yahya Salman Al-Khater	32	IT Application Analyst	Saudi	19/02/2011G

Source: Company

The senior management of the Company do not, as of the date of this Prospectus, own any Shares and will not own any Shares following the Rights Issue.

### 5.3.1 Resumes of Senior Management

As at the date of this Prospectus, the senior management of the Company do not hold any directorship positions with other companies.

#### Paul Adamson

Age: 47

Nationality: British

Position: Managing Director

Education: Associate Member of the Chartered Insurance Institute, London, United Kingdom (1990G)

Current Positions:

- Managing Director of the Board of Directors of the Company (insurance sector) (13/04/2010G to present)

Previous Experience:

- Mr. Adamson is the Managing Director of the Company since 2010G with over 20 years of experience in the financial industry. He joined the AXA Saudi in 2000G and has since held senior positions including the CEO from 2008G to 2010G.
- Country Manager at Norwich Union Saudi Arabia (from 2000G to 2006G)
- Country Manager at AXA Insurance Saudi Arabia (from 2006G to 2008G)

## **Gary Michael Lewin**

Age: 59

Nationality: British

Position: Chief Executive Officer

Education: Associate Member of the Chartered Insurance Institute, London, United Kingdom (1990G)

Experience:

- Mr. Lewin is the Chief Executive Officer of the Company and has over 25 years of experience in the insurance industry. He joined the AXA Saudi in May 2008G having had nine years' experience working in the Saudi insurance market with Tawunia.
- Mr. Lewin was a member of the board of directors of Najm for Insurance Services from 30/06/2011G to 30/06/2013G.
- Assistant Regional Manager of Royal & Sun Insurance Company (Oman) (2004G to 2008G)
- Assistant General Manager of Tawunia Insurance Company (1996G to 2004G)
- Corporate Underwriter of Eagle Star Insurance Company United Kingdom (1990G to 1996G)

## **George Kurien**

Age: 53

Nationality: Indian

Position: Chief Financial Officer

Education:

- Associate Member of the Chartered Insurance Institute, London, United Kingdom (1997G) and Associate Member of the Institute of Chartered Accountant, India (1985G)

Experience:

- Mr. Kurien has over 30 years of experience in insurance and finance and has held various positions within the AXA Group and other insurance companies.
- CFO for Bharti AXA General Insurance (2008G to 2010G)
- CFO of AXA Gulf from (2005G to 2007G)
- Regional Financial Controller of Norwich Union in the Gulf (2000G to 2005G)

## **Khalid Abdulaziz Al-Shuwaier**

Age: 36

Nationality: Saudi

Position: Company Secretary and Corporate Affairs Manager

Education:

- Advance Insurance & Management Certificates from Bahrain Institute of Banking and Finance (2007G and 2009G), passed the Insurance Foundation Certificate Examination (IFCE)

Experience:

- Mr. Al-Shuwaier is the Company Secretary. He has over nine years of experience in various fields including administration, underwriting and regulatory.
- Customer Services Officer (2005G to 2007G)
- Assistant Underwriter of the Company (2007G to 2009G)
- Regulatory Office of the Company (2009G to 2011G)

### **Jassim Ali Hassan Al Khalifah**

Age: 36

Nationality: Saudi

Position: Retail Sales Manager

Education: Associate Diploma in Business Jubail Industrial College, Jubail, Saudi Arabia (2000G)

Experience:

- Mr. Al Khalifa joined the Company in 2012G.
- Sales and Marketing Manager in Buruj (2011G to 2012G)
- Head of Commercial and Personal Lines in Saudi United Cooperative Insurance Company (2010G to 2011G)

### **Akram Idrees Tairi**

Age: 36

Nationality: Saudi

Position: Head of Healthcare Operations

Education: Bachelor's degree in Accounting from the King Saud University Riyadh, Saudi Arabia (1994G)

Experience:

- Mr. Tairi joined the Company in 2013G as Head of Healthcare Operations. Prior to joining the Company, he worked at the Company for Cooperative Insurance (Tawuniya) from 1994G to 2007G, Najm for Insurance Services from 2007G to 2009G and Malath Insurance Company from 2009G to 2013G. He has extensive experience in reinsurance, project management, medical insurance, human resource and administration.
- Insurance Manager of Malath Insurance Company (2009G to 2013G)
- Board Secretary and Deputy of Finance of Najm for insurance services (2007G to 2009G)
- Medical Service Manager of the Company for Cooperative Insurance (Tawuniya) (1994G to 2007G)

### **Riad Hasan Bakri**

Age: 34

Nationality: Saudi

Position: IT Manager

Education: Associate Degree in CIS from Kaplan University, United States of America (2009G)

Experience:

- Mr. Bakri joined the Company in 2013G.
- Infrastructure IT Manager of Alrajhi Takaful (2011G to 2013G)

### **Shaik Alaudeen Abdulhameed**

Age: 40

Nationality: Indian

Position: Head of Technical

Education: Associate Member of the Chartered Insurance Institute from the Chartered Insurance Institute (1999G)

Experience:

- Mr. Alaudeen has been working with the AXA Group for the past 17 years having joined the AXA Group in 1997G.
- Insurance Specialist of United India Insurance in India (1990G to 1997G)
- Deputy Director of the Central Region of AXA group (2004G to 2011G)
- Deputy of commercial products section in AXA (Western Region) (2000G to 2003G)
- Accountant in AXA Group (1997G to 1999G)

### **Sadiq Ali Al-Ali**

Age: 32

Nationality: Saudi

Position: AML and Compliance Manager

Education: Bachelor's Degree in Administration-Accounting from Al-Imam Muhammad ibn Saud Islamic University (2006G)

Experience:

- Mr. Al-Ali joined AXA in 2007G as Accounts Assistant.
- Sales Assistant (2010G to 2012G)
- Assistant Auditor of the Company (2007G to 2010G)

### **Mazen Abdullah Ahmed Al Khallaf**

Age: 42

Nationality: Saudi

Position: Regional Marine Underwriter

Education:

- Bachelor's Degree in Social Work from Salem State College, United States of America (1996G), Certificate of Insurance from the Chartered Insurance Institute (2001G).

Experience:

- Mr. Khallaf joined the Company in 2010G as a Marine Underwriter until 2013G.
- Deputy Marine Manager of Royal Sun Alliance (currently Al Alamiya Cooperative Insurance Company) (2008G to 2009G)
- Assistant Underwriter of Al Tawuniya Insurance Company (1997G to 2008G)

### **Syed Abbas Hassan Gilani**

Age: 42

Nationality: Pakistani

Position: Chief Investment Officer

Education: MBA from Maastricht School of Management (1995G), Master's Degree in Commerce from Punjab University (1996G)

Experience:

- Mr. Hassan has worked in various positions in the finance department over the past 15 years and has been with the AXA Group since 2002G.
- Manager financial reporting and planning (2006G to 2010G)
- Planning and Budgeting Controller (2002G to 2006G)

### **Owain Raw Rees**

Age: 54

Nationality: British

Position: Branch Manager, Central Province

Education: Master of Arts from Oxford University (1982G)

Experience:

- Mr. Raw-Rees joined the AXA Group in 1995G as a Central Province Branch Manager.
- Manager for Rezayat Insurance Consultants (Harris & Dixon) in KSA (1989G to 1995G)



### **Ali Hakan Atmaca**

Age: 51

Nationality: Turkish

Position: Branch Manager, Eastern Province

Education: MBA in Finance and Insurance from the College of Insurance of New York (1991G)

Experience:

- Mr. Atmaca has been a Branch Manager of the Eastern Province since April 2007G. He has 23 years of experience in the insurance industry as underwriter.
- Regional Manager of Tawuniya (2003G to 2007G)
- Head of Technical Underwriting of Bati Insurance in Turkey (2000G to 2003G)
- Profit Center Manager Property Casualty and Engineering of AIG (1997G to 2000G)
- Liability and Engineering Insurance Department Manager of AGF (1995G to 1996G)

### **Khalid Hussain Al-Humaidi**

Age: 43

Nationality: Saudi

Position: Branch Manager, Western Province

Education: B.S in Marketing from KFUPM, Dhahran in Saudi Arabia (1998G)

Experience:

- Mr. Al-Humaidi joined the Company in July 2014G as Branch Manager of the Western Province. Mr. Khalid has more than 15 years' experience in the Saudi insurance market.
- Western Region Director for Al Alamiya for Cooperative Insurance (May 2012G to April 2014G)
- Insurance Managers for Al Rajhi Constructions L.L.C. (July 2011G to May 2012G)
- Accounts Manager of Al Rajhi Takaful (May 2010 to July 2011G)
- Customer Relation Executive – Key Accounts of Tawuniya (October 2001G to April 2010G)
- Customer Service Executive – Commercial Accounts of Tawuniya (October 1999G to October 2001G)
- Prior to joining the Company, Mr. Khalid Al-Humaidi was working as regional manager at Al Alamiya for Cooperative Insurance - part of the RSA Group from (2012G to 2014G), and worked with the Company for Cooperative Insurance (Tawuniya).

### **Babar Ali Khan**

Age: 30

Nationality: Pakistani

Position: Senior Risk Manager

Education:

- Bachelor's Degree in Commerce from University of Karachi, Pakistan (2004G), Associate Chartered Management Accountant (ACMA) from the Chartered Institute of Management Accounts ("CIMA"), United Kingdom (2013G), Chartered Global Management Accountant (CGMA) jointly awarded by the American Institute of Certified Public Accountants (AICPA) USA and CIMA UK (2013G), Associate Chartered Accountant (ACA) from the Institute of Chartered Accountants of Pakistan (ICAP) (2010G).

Experience:

- Mr. Khan is Senior Risk Manager at the Company having joined the Company in 2010G.
- Assistant Manager of PwC Saudi Arabia (2009G to 2010G)
- Audit Executive of PwC Pakistan (2005G to 2008G)

## Ali Khamis Shawish

Age: 36

Nationality: Jordanian

Position: Senior Internal Audit Manager

Education:

- Bachelor's Degree in Accounting from Al Isra'a University in Jordan (1999G), Certified Internal Auditor (CIA), Canadian School of Finance and Management, Canada 2006G, Certified Professional Accountant (ACPA) Jordan, November 2004G, Certificate Financial Consultant (CFC), New York, United States, June 2005G, Chartered Business Administrator (CBA) Canada, 2004G, passed the Insurance Foundation Certificate Examination (IFCE).

Experience:

- Mr. Shawish is Senior Internal Audit Manager at the Company. He joined the Company in 2010G, and has more than 13 years of extensive, diversified experience in internal audit, external audit and process improvement.
- Manager in GRC/ Internal Audit division of PricewaterhouseCoopers in Riyadh (2007G to 2010G)
- Deputy CFO at Emar Al-Byader Dev. & Trading Group (2004G to 2007G)
- Audit Manager at Talal Abu Ghazaleh and Co. (1999G to 2004G)

## Yahya Salman Al-Khater

Age: 32

Nationality: Saudi

Position: IT Application Analyst

Education: Master's Degree in Management Information System from Curtin University, Australia (2010G)

Experience:

- Mr. Al-Khater joined the Company in February 2011G.
- Financial Risk Analyst at Saudi Holandi Bank (2006G to 2008G)
- Financial Risk Analyst at National Commercial Bank (2008G to 2009G)

## 5.4 CORPORATE GOVERNANCE

The Company's policy is to adopt high standards of corporate governance. The Company undertakes to comply with the Corporate Governance Regulations issued by the CMA and international best practice, which it considers an important factor to its success. This policy, which entails the implementation of a corporate governance manual providing a clear and transparent disclosure process, helps to ensure that the Board acts in the best interests of the Shareholders and presents a transparent view of the financial condition of the Company and the results of its operations.

The Company has implemented all the provisions of the Corporate Governance Regulations with the exception of Articles 3 and 4(a) of the Corporate Governance Regulations in relation to the general rights of the Shareholders and Article 6(c) of the Corporate Governance Regulations in relation to the voting rights of the Shareholders.

Please see "Audit and Compliance Committee" for more information about such internal regulations and policies.

The Company and its Board members further declare their compliance with Articles (69) and (70) of the Companies Regulations and Article (18) of the Corporate Governance Regulations, which states that "A Board member shall not, without a prior authorisation from the General Assembly, with such authorisation to be renewed each year, have any interest (whether directly or indirectly) in the company's business and contracts. The activities to be performed through general bidding shall constitute an exception where a Board member is the best bidder. A Board member shall notify the Board of Directors of any personal interest he/she may have in the business and contracts that are completed for the company's account. Such notification shall be entered in the minutes of the meeting. A Board member who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard neither in the General Assembly nor in the Board of Directors. The Chairman of the Board of Directors shall notify the General Assembly, when convened, of the activities and contracts in respect of which a Board member may have a personal interest and shall attach to such notification a special report prepared by the company's auditor". Clause (c) of the same Article states that the company shall not grant a cash loan to any of its Board members or provide a guarantee in respect of any loan entered into by a Board member with third parties.

The Company's internal control systems have been adopted in all its departments. Currently, the Company has four corporate governance committees, being the Finance and Investment Committee, the Audit and Compliance Committee, the Nomination and Remuneration Committee and the Executive Committee, which are responsible for reviewing the Company's operations within their particular areas of expertise and presenting their findings and suggestions to the Board and/or Shareholders. The Company undertakes to comply with all the directives and decisions issued by the CMA, including any future articles that may be added to the Corporate Governance Regulations that may be obligatory to listed companies.

The Board of Directors includes eight members appointed by the OGM for a period not exceeding three years. The Board has formed the above-mentioned committees and will strive to ensure that:

- all committees have clear terms of reference that outline the roles and responsibilities of each committee; and
- minutes of all meetings are prepared, reviewed and approved by the Board of Directors.

The Company has also established a corporate governance and ethics guide that sets out the Company's values, ethics and business principles, and serves as guidance for the Company, its Directors and employees. The code includes the Company's compliance and risk management policy and provides for reporting non-adherence to the code.

#### 5.4.1 Board of Directors

The Board is comprised of eight (8) Directors. The role of the Board is to determine the Company's strategy and provide vision and entrepreneurial leadership. The Board has a formal schedule of matters reserved to it and meets at least four (4) times per year. It is responsible for approving the main objectives and the strategic plans of the Company and supervising their implementation. The responsibilities of the Board of Directors include:

- (a) preparing a comprehensive strategy for the Company, the main work plans and the policy related to the risk management, reviewing and updating of such strategy;
- (b) determining the most appropriate capital structure of the Company, its strategies and financial objectives and approving its annual budgets;
- (c) supervising the main capital expenses of the Company and the acquisition/disposal of assets;
- (d) deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the Company; and
- (e) reviewing and approving the organisational and functional structures of the Company on a periodical basis.

#### 5.4.2 Board Committees

Currently, the Company has four (4) consultative committees with approved terms of reference and mandates to carry out their assigned responsibilities. These committees are the Finance and Investment Committee, the Audit and Compliance Committee, the Nomination and Remuneration Committee and the Executive Committee, which are responsible for reviewing the Company's operations within their particular areas of expertise and presenting their findings and suggestions to the Board.

##### Finance and Investment Committee

The Finance and Investment Committee is composed of seven (7) members with the committee chairman being an independent director of the Board. The committee is required to meet at least four (4) times per year. The responsibilities of the committee are:

- to oversee the investments of the Company;
- to review the investment policy at least twice a year in the light of new developments in local regulations, changes in the business profile of the Company, its overall risk tolerance and long-term risk/return requirements, the Company's solvency position as well as the evolutions of market conditions and to make recommendations to the Board for any appropriate updates of the investment policy;
- to make decisions on all investments of the Company in line with the investment policy;
- to regularly review the investments and their performance; and
- to ensure that a periodic review of the adequacy of the resources, procedures and systems dedicated by the Company to the management of the investments is carried out by the Company's Senior Officers and to report to the Board on any identified vulnerability or dependency.

The Finance and Investment Committee is comprised of the following members:

**Table 5-3: Finance and Investment Committee Members**

Name	Role
Dr. Mazen Ibrahim Hassounah	Chairman
Francois-Aissa Touazi	Member
Ali Abdulla Kanoo	Member
Patrick Christophe Gerard Chenel	Member
Erick Jean-Charles Decker	Member
Vincent Marc Edmond Pluchet	Member
George Kurien	Member

Source: Company

### **Patrick Christophe Gerard Chenel**

Age: 52

Nationality: French

Position: Member of the Finance and Investment Committee

Education: Ph.D in Economics from Assas (Paris II) University in Paris, France 1987G, Master in Economics from Assas (Paris II) University in Paris, France, 1986G.

Experience:

- Mr. Chenel is currently the chief financial officer with the Yusuf Bin Ahmed Kanoo Group. He has over 25 years of experience in senior finance positions. Prior to his position with Yusuf Bin Ahmed Kanoo, Mr. Chenel was the chief financial officer of Thuraya Telecommunication Company.

### **Erick Jean-Charles Decker**

Age: 50

Nationality: French

Position: Member of the Finance and Investment Committee

Education: Bachelor of Science in Finance from the California State University, USA (1983G), Master of Finance from the Texas Technical University, USA (1985G)

Experience:

- Mr. Decker is currently the chief investment officer for AXA entities in the Mediterranean region including Spain, Greece, Italy, Morocco, Portugal, Turkey, Middle East and Mexico. He joined AXA in 1998G and was the head of the actuarial banque department and the head of strategic asset allocation department at AXA France.

### **Vincent Marc Edmond Pluchet**

Age: 46

Nationality: French

Position: Member of the Finance and Investment Committee

Education: Bachelor of Science in Engineers from Ecole Polytechnique in France (1990G), Master in Statistics from the London School of Economics, United Kingdom (1993G), Diploma in Economics and Statistics from ENSAE, France (1993G)

Experience:

- Mr. Pluchet has held various positions within the AXA Group in France and the Middle East over a period of 15 years. He has a strong background in both insurance and finance. Mr. Pluchet was the chief financial officer of AXA Middle East from 2004G to 2007G and was appointed as chief executive officer of AXA Gulf in 2008G.

## Audit and Compliance Committee

The Audit and Compliance Committee is composed of three (3) members with the committee chairman being an independent director of the Board. All members have adequate knowledge and experience of the accounting standards and commercial laws necessary to perform their responsibilities as members of the committee. The committee is required to meet at least four (4) times per year. The committee is responsible for:

- supervising the Company's internal audit department and ensuring its effectiveness in executing the activities and duties specified by the Board of Directors;
- reviewing the internal audit procedures and preparing a written report on such review in order to make recommendations with respect to the procedures;
- overseeing activities related to risk management;
- reporting on the activities relating to the internal audit and risk management of the Company to the Board of Directors;
- reviewing the internal audit reports and ensuring the timely implementation of any corrective measures in respect of the comments included in them;
- recommending to the Board of Directors the appointment, dismissal and remuneration of external auditors, with due regard for the auditors' independence;
- supervising the activities of the external auditors and approving any activity beyond the scope of the audit work assigned to them during the performance of their duties;
- reviewing, together with the external auditors, the audit plan and making any comments thereon;
- reviewing the external auditors' comments on the financial statements and ensuring any action required by the comments are taken;
- reviewing the interim and annual financial statements prior to presentation to the Board of Directors and giving an opinion and recommendations with respect thereto; and
- reviewing the accounting policies in force and advising the Board of Directors of any recommendation regarding them.

The Audit and Compliance Committee is comprised of the following members:

**Table 5-4: Audit and Compliance Committee Members**

Name	Role
Kamel Salahuddin Al Munajjed	Chairman
John Kelynack Skinner	Member
Jean Sylvain Gazancon	Member

Source: Company

### John Kelynack Skinner

Age: 70

Nationality: British

Position: Member of the Audit and Compliance Committee

Education: Bachelor of Law from the University of London, United Kingdom (1967G)

Experience:

- Mr. Skinner has held several positions as head of legal since 1967G. Mr. Skinner jointed Yusuf Bin Ahmed Kanoo Group in 1975G and holds the position of company secretary, head of legal and head of internal audit departments. He has also been a director on the board of Kanoo Group Ltd since 1980G and on the board of Landway Ltd since 2008G.

## Jean Sylvain Andre Gazancon

Age: 40

Nationality: French

Position: Member of the Audit and Compliance Committee

Education: Master of Economics and Finance from IEP Paris (Science Po), France (1991G), Postgraduate degree in Finance and Accounting from Paris II University, France (1992G)

Experience:

- Mr. Gazancon has been with the AXA Group since 1992G and has been working in the AXA Group's control functions, internal audit, internal control and strategic review. He also held the role as a regional head of sales for AXA Conseil in Paris and head of distribution programs in AXA China (in Hong Kong). Mr. Gazancon was previously the chief operations officers for AXA Rosenberg in Tokyo and of AXA Framlington in London from 2005G to 2009G. He is currently the general secretary for the AXA's Mediterranean and Latin American regions.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of four (4) members with the committee chairman being an independent director of the board. The committee is required to meet at least once a year. The responsibilities of the committee are:

- recommending to the Board of Directors prospective candidates for appointment to membership of the Board in accordance with the approved policies and standards and ensuring that no person who has been previously convicted of any offence with regard to honour or honesty is nominated for such membership;
- undertaking an annual review of the requirements and suitable skills required for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including the time that a Board member should reserve for the activities of the Board;
- reviewing the structure of the Board of Directors and recommending amendments;
- determining the points of strength and weakness in the Board of Directors and recommending remedies that are compatible with the Company's interests;
- ensuring on an annual basis the independence of the independent members and the absence of any conflict of interest of a Board member holding board positions on other companies; and
- preparing clear policies in respect of the indemnity and remuneration of the Board members and senior executives.

The Nomination and Remuneration Committee is comprised of the following members:

**Table 5-5: Nomination and Remuneration Committee Members**

Name	Role
Yousef Abalkhail	Chairman
Kamel Al Munajjed	Member
Iain L. Reid	Member
Jerome Droesch	Member

Source: Company

## Executive Committee

The Executive Committee is composed of five (5) members with the requirement of meeting at least six (6) times per year. The responsibilities of the committee are:

- exercising leadership and general managerial responsibilities over the Company, including decisions relating to the day-to-day management under the authority provided by the Board;
- establishing policies and procedures in relation to all operational matters of the Company and overseeing the implementation of the same;
- reviewing the budgets and plans of the Company and submitting the same for Board approval;
- overseeing all operational matters of the Company, including recruitment of key staff;
- reviewing reports on the operation of the Company and implementing recommendations;
- performing all other duties and assuming all other responsibilities as may be required by law or as directed by the Board; and
- performing such other functions as may be advised by the Board.

The Executive Committee is comprised of the following members:

**Table 5-6: Executive Committee Members**

Name	Role
Paul Adamson	Chairman
Jerome Droesch	Member
Gary Lewin	Member
Francois Aissa Touazi	Member
George Kurien	Member

Source: Company

### 5.4.3 Company's Undertakings following Admission

The Company plans to:

- complete Form 8 and, in the event that the Company does not comply with any of the requirements of the Corporate Governance Regulation, to explain the reasons for such non-compliance;
- continue to submit Related Party transactions and contracts for the General Assembly's approval on an annual basis, provided that any Related Party shall be prohibited from voting on such resolution; and
- disclose on a quarterly basis the development in the use of proceeds.

Similarly, the Board plans to continue to undertake to:

- record all of its resolutions and deliberations in the form of written minutes of the meeting which shall be executed by its members; and
- include brief details of any transactions with Related Parties in the agenda of General Assemblies so that the Shareholders may be given the opportunity to approve such transactions at such meetings in accordance with Articles 69 and 70 of the Companies Regulations and Article 18 of the Corporate Governance Regulations.

### 5.4.4 Administrative Departments

The Company has a number of administrative departments that support its business activities. Set out below is a brief description of the activities of some of the key departments and teams within the Company.

#### 5.4.4.1 Marketing, Sales and Distribution

The sales and distribution team reports to the Chief Executive Officer, who, in turn, reports to the Company's Managing Director. The objective of the Company's sales and distribution strategy is to become the leading insurance company in the Kingdom by offering products with a strong focus on quality and customer service for both the commercial and personal lines market.

The Company operates from three branches in the Kingdom, namely Riyadh, Jeddah and Al Khobar. The Company is also using a number of channels to reach its customers outside of these cities, including approved brokers, agents and has opened points of sales.

The Company has clearly defined sales objectives to help grow the business including the following:

- maintaining the existing customers;
- cross-selling other products to existing policyholders;
- offering unique products;
- increasing public awareness in respect of the Company's existing products and those which will be offered in the future;
- achieving the highest levels of customer satisfaction;
- increasing the Company's share of the insurance market in Saudi Arabia; and
- opening new outlets in the Kingdom.

#### 5.4.4.2 Human Resources

The human resources department influences organizational direction. The development and execution of the human resources department ensures and supports the delivery of robust business objectives. The human resources team draws upon the strength and expertise of not only specialists within the Gulf region, but also the wider AXA Group, whilst being internally equipped to address the needs and challenges of employees in the Kingdom.

The human resources department ensures that the business continues building a working environment in which the Company is able to ensure not only the attraction and retention of key staff, but also the accelerated development at all levels of the organization, which allows the Company to harness the talent and diversity of the many nationalities and ethnic backgrounds represented within its workforce.

The strategy is built on the Company's ability to develop both technical and leadership competence and capability amongst local and repatriated Saudi nationals to promote effective skills transference and reduce, over a period of time, the requirement for expatriated staff. The strategy ensures the effective use of both fixed and variable pay as well as non-financial recognition initiatives to align employee's interests, ability and actions with the pursuit of the business objectives.

#### 5.4.4.3 Claims, Customer Service and Support

The company manages the medical insurance centrally in Riyadh's platform. This platform is divided into five departments:

- A medical board department accessible 24/7 via several channels such as phone, fax and also linked with a majority of our providers through Waseel system. The medical board is responsible for eligibility checking and also for authorizing pre-approvals for any medical treatment.
- A customer service department. This team is our front line towards the Company's customers, handling all types of enquiries, requests and potential complaints and is accessible via phone calls, fax, emails and through the Company's website.
- A claims department: All claims are sent to the platform by courier, then registered and according to the eligibility of the insured, policy terms and conditions of the policy, and applicable rules and regulations are assessed by medically qualified adjudicators.
- A network and procurement department: The team is in charge in first place on signing new partnerships contracts with medical providers such as hospitals, pharmacies and polyclinics, managing the relationships and responsible for controlling the quality of service.
- A policy administration department: The team has several tasks such as: issuance of policies, daily additions, deletions, endorsements, cards printing all in compliance with applicable rules and regulations. All daily additions, deletions and cancellations are uploaded on the national health insurance network.

#### 5.4.4.4 Technical Product Offering and Reinsurance

The Company has a documented underwriting policy for all classes of its business. All inquiries through direct or intermediated sales channels are analysed based on the underwriting information. For corporate business, a survey on the prospective applicant is mandatory so that the Company can obtain a better understanding of the risk exposure, more detailed information and provide risk prevention advice to the client. After carrying out the risk assessment the underwriters will verify the scope of cover within the relevant reinsurance arrangements and were necessary for larger risks ensure that reinsurance support has been obtained before releasing a quotation. Once a quotation is accepted by the customer the level of cover is detailed in writing and the policy issued after binding the cover with reinsurers.

The Company's policies, clauses and proposal forms are standardised to ensure uniformity and compliance with local laws and regulations. For renewals of existing business, renewal notices stating the renewal terms are sent to customers a minimum of one month in advance and, on receipt of confirmation from client, the documentation is completed. Any interim change to policies, including the addition or deletion, increase or decrease in the sum insured, is incorporated by passing an endorsement which is sent to the customers.

#### 5.4.4.5 Regulation and Legal

The Company Secretary and corporate affairs Manager is responsible for advising the Board through the Chairman on all governance matters. All the Directors have access to the advice and services of the Company Secretary. The Company Secretary is also responsible for ensuring good information flow within the Board, its committees and senior management.

#### 5.4.4.6 Information Technology

The Company has deployed market leading information technology systems used by insurance companies. Detailed information is kept allowing availability of global view and detailed analysis of portfolio performance. The system is highly flexible offering creation of new classes of business and packages according to business and market needs.



During 2013G, the Company made a significant investment in a centralized data centre. This has enabled the Company to manage its entire data centrally from one location with state of the art technology. The Company operations are linked together with dedicated leased lines assuring full accessibility, availability and security of the information system.

The Company has released web-based applications, allowing intermediaries to issue policies and monitor their own portfolio. The information technology system the Company uses has the capability to consolidate technical and accounting operations for all classes of business of insurance and re-insurance. A large number of reports and data extraction are available in the system to allow for the creation of key performance indicators, monitoring of the portfolio and the traceability of operations for audit purposes. The Company also employed a system that allows online analysis of portfolio in order to monitor performance and profitability.

The information technology department also follows AXA Group information security standards to remain up to date with international best practices.

#### 5.4.4.7 Finance Department

The finance department has three sub-departments, with the manager of each sub-department reporting to the CFO. The finance department's functions are broken down as follows:

Financial control and accounting: This department is managed by the Senior Financial Controller who is in charge of the finance operations in the Kingdom overall. Its key functions include:

- day-to-day control of entire finance operations;
- accounts closing and preparation of financial statements;
- supervision of branch finance teams;
- receivables management;
- preparation of corporate accounts;
- liaison with external auditors for audits;
- financial analysis; and
- submission of regulatory returns and responding to queries and requirements of the regulators on accounting issues.

Reporting and investment: This department is managed by the reporting and investment manager. Its key functions include:

- management reporting;
- strategic planning;
- preparation of budgets, forecasts and financial plans;
- solvency computation and monitoring;
- evaluation of business cases; and
- investment management.

Cash management and taxation: This department is managed by the senior finance manager. Its key functions include:

- handling payments to suppliers, service providers and reinsurers;
- cash management and banking relationships;
- control over bank reconciliations;
- maintenance of Arabic books of account;
- payroll processing; and
- taxation and Zakat (including withholding tax payments and returns).

## 5.5 SERVICE CONTRACTS

### 5.5.1 Managing Director

Paul Adamson is employed as the Managing Director of the Company and his appointment was ratified by the Board of Directors on 27/06/2012G.

The Managing Director's remuneration consists of a monthly salary, housing and transportation allowances as well as medical, social security and end-of-service benefits. Furthermore, in each of the past three years, the Board has granted the Managing Director an annual bonus equal to 45%, 50% and 64%, respectively, of his annual salary.

## 5.5.2 Remuneration of Directors, Senior Officers and the Secretary

The total remuneration paid to the Directors for the financial years ended 31/12/2011G, 31/12/2012G and 31/12/2013G amounted to SAR 471,000, SAR 1,129,500 and SAR 1,126,500, respectively. There are no contracts entered into between the members of the Board and the Company in relation to their directorship on the Board. The remuneration of each Director comprised an annual fee and a fee for attending each meeting of the Board or any committee meeting as set out in the table below:

**Table 5-7: Remuneration and Sitting Fee of Directors**

Name of Director	Board meeting sitting fee			Board committees sitting fee			Annual fee		
	2011G SAR	2012G SAR	2013G SAR	2011G SAR	2012G SAR	2013G SAR	2011G SAR	2012G SAR	2013G SAR
Mr. Jérôme Drosch	9,000	12,000	12,000	9,000	3,000	1,500	-	180,000	180,000
Mr. Ali Abdulla Kanoo*	-	-	9,000	-	-	-	-	-	120,000
Mr. Saud Abdulaziz Kanoo*	9,000	6,000	-	-	-	-	-	120,000	-
Mr. Kamel Al Munajjed	9,000	12,000	9,000	7,500	7,500	6,000	120,000	120,000	120,000
Dr. Mazen Hassounah	12,000	12,000	2,000	6,000	4,500	6,000	120,000	120,000	120,000
Mr. Yousef Abalkhail	12,000	12,000	12,000	1,500	3,000	1,500	120,000	120,000	120,000
Mr. Iain L. Reid	12,000	12,000 12,000	12,000	4,500	-	1,500	-	120,000	120,000
Mr. François-Aissa Touazi	12,000	12,000	12,000	4,500	1,500	-	-	120,000	120,000
Mr. Paul Adamson	12,000	12,000	12,000	-	-	-	-	120,000	120,000
<b>Total</b>	<b>87,000</b>	<b>87,000</b>	<b>90,000</b>	<b>24,000</b>	<b>22,500</b>	<b>16,500</b>	<b>360,000</b>	<b>1,020,000</b>	<b>1,020,000</b>

Source: Company

\* Mr. Ali Abdulla Kanoo was appointed as a Director on 27 March 2013G in place of Mr. Saud Abdulaziz Kanoo, who resigned on 9 March 2013G.

The CEO and the CFO have entered into service contracts with the Company. Below is a summary of the existing contracts with the CEO and the CFO:

**Table 5-8: Service Contracts**

Name of Senior Executive	Position	Contract Commencement Date	Contract Term
Mr. Gary Lewin	CEO	1 May 2008G	Unlimited Term
Mr. George Kurien	CFO	1 July 2010G	Unlimited Term

Source: Company

The table below sets out the aggregate remuneration and benefits granted to the Company's top five executives in the last three financial years:

**Table 5-9: Top Five Executives' Remuneration and Benefits**

Name	SAR '000		
	2011G	2012G	2013G
Salary & compensation	2,222	2,783	2,951
Allowances	692	882	1,257
Other benefits and incentives	1,250	1,574	1,382
<b>Total</b>	<b>4,164</b>	<b>5,239</b>	<b>5,590</b>
Board fee and sitting fee (for Managing Director only)	12	132	132
<b>Total including Board fee and sitting fee</b>	<b>4,176</b>	<b>5,371</b>	<b>5,722</b>

## 5.6 EMPLOYEES

As at 31 December 2013G, the Company had 202 employees. Approximately 50% of the Company's employees are Saudi nationals. The Company has followed a progressive policy of Saudization in line with the Insurance Law and the Implementing Regulations. Owing to this, the Company was able to achieve 50% Saudization by the end of December 2013G. The following table illustrates the number of employees:

**Table 5-10: Employees of the Company**

Region / Offices	Number of Saudis	Number of Expatriates	Total	Saudization percentage
Western Province Branch	16	14	30	53%
Central Province Branch	44	59	103	43%
Eastern Province Branch	30	12	42	71%
AXA Head Office	18	20	38	47%
<b>TOTAL</b>	<b>108</b>	<b>105</b>	<b>213</b>	<b>51%</b>

Source: Company

**Table 5-11: Total Number of Company Employees**

Category	FY 2011G	FY 2012G	FY 2013G	2nd Quarter 2014G
Saudi Employees	73	81	102	108
Non-Saudi Employees	99	105	100	105
<b>Total</b>	<b>172</b>	<b>186</b>	<b>202</b>	<b>213</b>
SAUDISATION%	42%	44%	51%	51%

Source: Company

The following measures are being taken to meet Saudization targets:

- Developing partnerships with universities to identify potential talent in Saudi Arabia

The HR team works extensively to develop and enhance relationships with key universities to build and encourage a future pipeline of talented and academically skilled Saudi nationals. To achieve this, the Institute of Banking, Al Yamamah and King Abdulaziz Universities closely cooperate with the Company to boost the identification and employment of Saudi national graduates in the insurance sector.

- Initiating supplier relationships with Saudi Arabia-based recruitment providers

The Recruitment team has entered into contracts with two Saudi-based recruitment providers to assist with the attraction, sourcing and placement of talented Saudi nationals, especially in the functions of Sales and Technical Insurance i.e. Underwriting and Claims. This will increase not only the number of Saudi nationals hired in the immediate future but also create a talent pipeline of skilled Saudi future managers from whom the Company can choose.

## 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following management discussion and analysis of the financial condition and results of the operations provides an analytical review of the Company's financial performance and condition during the financial years ended 31 December 2011G, 2012G and 2013G and the six months period ended 30 June 2013G and 2014G. It is based upon, and should be read in conjunction with, the Company's audited financial statements for the financial years ended 31 December 2011G, 2012G and 2013G and the reviewed financial statements for the six months period ended 30 June 2013G and 2014G, and the notes thereto (the "Financial Statements"). PricewaterhouseCoopers and Al-Ghanem audited the Company's financial statements for the financial years ended 31 December 2011G, 2012G and 2013G and reviewed the financial statements for six months period ended 30 June 2014G. These financial statements are included in this Prospectus.

This discussion and analysis may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those indicated in any forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under Section 2, "Risk Factors".

### 6.1 DIRECTORS' DECLARATION FOR FINANCIAL INFORMATION

The Board of Directors declares that:

- To the best of their knowledge and belief, the financial information presented in this section is extracted without material changes from the audited financial statements of the company for the financial years ended December 31, 2011G, 2012G and 2013G, as well as the reviewed financial statements for the six month period ended June 30, 2013G and 2014G.
- There has been no material adverse change in the financial or trading position of the Company for the past three years and 6 months ending 30 June 2014G up to and including the date of this Prospectus.
- The Company will have sufficient funds to meet the working capital requirements for 12 months effective from the date of this Prospectus.
- No shares of the Company are under option as at 30 June 2014G.
- Save as disclosed herein, there are no other mortgages, rights and charges on the Company's properties as of the date of this Prospectus, except as elsewhere in this Prospectus.
- No commissions, discounts, brokerages or other non-cash compensation were granted by the Company to any member of the Board of Directors, senior manager, promoter or expert in connection to the issue or sale of any securities in the three years immediately preceding the date of this Prospectus.
- The company does not own any assets that affect the assessment of the financial position, including securities contractual or other assets that are likely to fluctuates in the value or difficult to be sure of its value at the date of this Prospectus.

### 6.2 MAIN FACTORS AFFECTING THE RESULTS OF OPERATIONS

- Insurance companies in Saudi Arabia are subject to the Insurance Law and its Implementing Regulations issued by SAMA, a government body responsible for the regulating and supervising the insurance sector, and its authorities include, but are not limited to, issuance of licences, the prescription of regulations and rules governing insurance companies, specifying the standards, specifications and other relevant technical standards in relation to insurance services, and the settlement of some insurance disputes.
- The financial performance of insurance companies depends significantly on economic conditions in Saudi Arabia and on global economic conditions that affect the economy of Saudi Arabia. Changes in the economic conditions can affect the financial results of the Company through their effect on market conditions and investment income and through changes in consumer demand for insurance products and services.
- There are many other factors that may, whether directly or indirectly, affect the company's operations, which include, but are not limited to, market competition, market growth and the drop in consumer confidence.
- Please refer to Section 2 ("Risk Factors") of this Prospectus for more details in relation to all risks which the Company may face, based on information provided by the management of the Company.
- A brief discussion of some of the key factors which could affect the financial condition and operating results of the Company is set out below.

### 6.2.1 Reinsurance

Similar to other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into contracts 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 treaty, facultative and excess-of-loss reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company only deals with reinsurers approved by the Board of Directors of the Company.

Furthermore, the financial strengths and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company before placement of reinsurance.

### 6.2.2 Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like political changes, environmental and economical, atmospheric disturbances, natural disasters, concentration of risks, civil riots etc. The Company manages this risk through Reinsurance to limit their exposure to claims arising from these factors. Significant accounting policies.

## 6.3 SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

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

### 6.3.1 Basis of preparation

The Company has prepared the accompanying financial statements under the historical cost convention on the accrual basis of accounting, except for available-for-sale investments, which have been measured at fair value in the statement of financial position of insurance operations and shareholders' comprehensive operations, and in conformity with the International Financial Reporting Standards (IFRS). Accordingly, these financial statements are not intended to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, i.e. in accordance with the standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations and presents the financial statements accordingly. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and board of directors of the Company.

As per the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

Transfer to shareholders' operations	90%
Transfer to insurance operations'	10%
	100%

### 6.3.2 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions 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. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

### 6.3.3 Segment reporting

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 assets do not include cash and cash equivalents, short-term deposits, available-for-sale investments, held-to-maturity investments, receivable from related parties, premiums and insurance balances receivable, other assets, due from shareholders' and furniture, fixtures and equipment; and
- Segment liabilities do not include reinsurers' balances payable, advance premiums, payable to a related party, accrued and other liabilities and employee termination benefits.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Accident and liability;
- Motor;
- Property;
- Marine;
- Engineering;
- Health; and
- Protection

### 6.3.4 Foreign currency translations

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the date of statement of financial position. All differences are taken to the statements of insurance operations or to the statement of shareholders' income. Foreign exchange differences are not significant and have not been disclosed separately.

### 6.3.5 Financial assets

#### 6.3.5.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, available-for-sale and held-to-maturity investments.

##### a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short-term or that it has designated as available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

##### b) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices; these are designated as such at inception.

##### c) Held-to-maturity investments

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 recognized in the statement of shareholders' income when the investment is derecognized or impaired.

### 6.3.5.2 Recognition and measurement

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Loans and receivable are carried at amortized costs using effective interest method. Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive income and financial position for insurance operations.

Financial assets are derecognised when the rights to receive cash flows from the available-for-sale investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statements of the insurance operations or shareholders' comprehensive income as 'gains and losses from available-for-sale investments'. Commission on available-for-sale investments calculated using the effective interest method is recognised in the income statement as part of other income.

### 6.3.5.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established. Both are included in the commission income line.

### 6.3.5.4 Impairment of assets

#### (a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of insurance operations.

#### (b) Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of insurance operations / shareholders' income. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of insurance operations / shareholders' income.

### 6.3.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with less than three months maturity from the date of acquisition.

### 6.3.7 Short-term and long-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of more than three months and less than one year from the date of acquisition. Long term deposits represent time deposits with maturity periods of more than one year.

### 6.3.8 Insurance receivables

Receivable from policy holders are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method (if the insurance receivable is due after one year), less impairment, if any.

### 6.3.9 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.

### 6.3.10 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts is recognized as "Deferred policy acquisition costs". The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts.

### 6.3.11 Claims

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

The Company generally estimates its claims based on previous experience. In addition, a provision based on management's judgement is maintained for the cost of settling claims incurred but not reported at the date of statement of financial position. Any difference between the provisions at the date of statement of financial position and settlements for the following period is included in the statement of insurance operations for that period.

### 6.3.12 Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables, if any, that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

At each reporting date, the Company assesses whether there is any indication that any reinsurance assets may be impaired. Where an indicator of impairment exists, the Company makes an estimate of the recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount.

### 6.3.13 Liability adequacy test

At each date of the statement of financial position 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 is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an additional risk provision is created.



### 6.3.14 Revenue recognition

#### (a) Recognition of premium and commission revenue

Gross premiums and commissions are recognized with the commencement of the insurance risks. The portion of premiums and commission that will be earned in the future is reported as unearned premiums and commissions, respectively, and are deferred on a basis consistent with the term of the related policy coverage.

Premiums earned on reinsurance assumed, if any, are recognised as revenue in the same manner as if the reinsurance premiums were considered to be gross premiums.

#### (b) Commission income

Commission income from short-term deposits is recognized on a time proportion basis using the effective commission rate method.

#### (c) Dividend income

Dividend income is recognized when the right to receive a dividend is established.

### 6.3.15 Furniture, fixtures and equipment

Furniture, fixtures and equipment are carried at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the income statement, using the straight-line method, to allocate costs of the related assets to their residual values over the estimated useful lives as follows:

	Number of years
Furniture and fixtures	5
Equipment	3 – 4

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

The carrying values of furniture, fixtures 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, being the higher of their fair values less costs to sell and their value in use.

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

The company has applied depreciation policy that was explained above during the fiscal years ended December 31, 2011G, 2012G, and 2013G, and the six month period ended June 30, 2013G and 2014G, and they intend to apply it in 2014G, In addition the company has no intention to change their depreciation policy in the coming years.

### 6.3.16 Accrued and other liabilities

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

### 6.3.17 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method. Liabilities are recognized for amounts to be paid and services rendered, whether or not billed to the Company.

### 6.3.18 Employee termination benefits

Employee termination benefits required by Saudi Labour and Workman Law are accrued by the Company and charged to the income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the financial position date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labour law of Saudi Arabia.

### 6.3.19 De-recognition of financial instruments

The de-recognition 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.

### 6.3.20 Off-setting

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

### 6.3.21 Zakat and income taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of shareholders' comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

### 6.3.22 Surplus from insurance operations

In accordance with the requirements of the Implementing Regulations for Co-operative Insurance (the Regulations) issued by SAMA, 90% of the net surplus from insurance operations is transferred to the statement of shareholders' income, while 10% of the net surplus is distributable to policyholders. Such surplus distributable to policyholders is disclosed under "Insurance operations' accumulated surplus".

### 6.3.23 Seasonality of operations

There are no seasonal changes that affect insurance operations.

### 6.3.24 Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### **The ultimate liability arise from claims under insurance contracts**

Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under insurance policies. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported "IBNR" at the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions, if any, 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 monthly basis.

#### **Impairment of premiums and insurance balances receivable**

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this

estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's past experience.

### Impairment of available-for-sale investments

The Company treats available-for-sale 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 investments and the future cash flows and the discount factors for unquoted investments.

## 6.4 RESULTS OF OPERATIONS

### 6.4.1 Statement of insurance operations and accumulated surplus

The following table presents the Company's statement of insurance operations and accumulated surplus for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-1: Statement of Insurance Operations and Accumulated Surplus**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
<b>Revenues</b>								
Gross premiums written	427,790	460,486	775,596	385,990	497,826	7.6%	68.4%	29.0%
Less: Reinsurance premiums ceded	(73,862)	(96,367)	(104,451)	(42,943)	(55,714)	30.5%	8.4%	29.7%
Net premiums written	353,928	364,119	671,145	343,047	442,112	2.9%	84.3%	28.9%
Changes in unearned premiums	8,146	(5,313)	(27,093)	(32,580)	(73,363)	nm	409.9%	125.2%
Net premiums earned	362,074	358,806	644,052	310,467	368,749	(0.9%)	79.5%	18.8%
Reinsurance commissions	9,951	12,880	13,873	7,234	9,493	29.4%	7.7%	31.2%
Commission income	1,055	1,620	4,805	2,183	3,518	53.6%	196.6%	61.2%
<b>Total Revenues</b>	<b>373,080</b>	<b>373,306</b>	<b>662,730</b>	<b>319,884</b>	<b>381,760</b>	<b>0.1%</b>	<b>77.5%</b>	<b>19.3%</b>
<b>Cost and expenses</b>								
Gross claims paid	298,432	347,363	509,346	251,719	314,703	16.4%	46.6%	25.0%
Less: Reinsurers' share	(20,305)	(72,974)	(97,775)	(60,115)	(38,034)	259.4%	34.0%	(36.7%)
Net claims paid	278,127	274,389	411,571	191,604	276,669	(1.3%)	50.0%	44.4%
Changes in outstanding claims	(4,444)	(6,710)	126,854	66,352	33,143	51.0%	nm	(50.0%)
Net claims incurred	273,683	267,679	538,425	257,956	309,812	(2.2%)	101.1%	20.1%
Policy acquisition costs	40,779	33,195	34,729	17,186	21,683	(18.6%)	4.6%	26.2%
General and administrative expenses	72,859	66,860	78,565	34,285	41,659	(8.2%)	17.5%	21.5%
<b>Total costs and expenses</b>	<b>387,321</b>	<b>367,734</b>	<b>651,719</b>	<b>309,427</b>	<b>373,154</b>	<b>(5.1%)</b>	<b>77.2%</b>	<b>20.6%</b>
Net surplus from insurance operations	(14,241)	5,572	11,011	10,457	8,606	(139.1%)	97.6%	(17.7%)

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Shareholders' appropriation of surplus	14,241	(5,015)	(9,910)	(9,411)	(7,745)	(135.2%)	97.6%	(17.7%)
Net results from insurance operations after appropriation of surplus	-	557	1,101	1,046	861	nm	97.7%	(17.7%)
Accumulated surplus, beginning of the year	-	-	557	557	1,658	nm	nm	197.7%
<b>Accumulated surplus, end of the year</b>	<b>-</b>	<b>557</b>	<b>1,658</b>	<b>1,603</b>	<b>2,519</b>	<b>nm</b>	<b>197.7%</b>	<b>57.1%</b>
<b>Key performance indicators</b>								
Claim ratio	75.6%	74.6%	83.6%	83.1%	84.0%			
Enlarged Expense ratio (net)	28.6%	24.3%	15.4%	14.2%	14.6%			
Combined ratio	104.2%	98.9%	99.0%	97.3%	98.6%			
Reinsurance (ced) %	17.3%	20.9%	13.5%	11.1%	11.2%			

Source: Financial statements

### 6.4.1.1 Revenue

Between 2011G and 2013G, the Company's total revenue increased at a compound annual growth rate (CAGR) of 33.3%, from SAR 373.1 million in 2011G to SAR 662.7 million in 2013G. In 2012G, the Company's total revenue was largely in line with the 2011G results, increasing by 0.1%, from SAR 373.1 million in 2011G to SAR 373.3 million in 2012G. However, in 2013G, the notable improvement was reported in the Company's total revenue, which increased by 77.5%, from SAR 373.3 million in 2012G to SAR 662.7 million. The growth in revenue was mainly driven by the higher gross premiums written, particularly in the motor line of business.

Increase in the gross written premiums was also the driver for the 19.3% increase in total revenue in the first six months of 2014G reached SAR 381.7 million, as compared to the corresponding period in 2013G which was SAR 319.8 million.

### Gross written premiums

The following table presents the gross premiums written for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-2: Gross Premiums Written**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec2012G	Dec2013G	Jun2014G
Motor	48,340	57,131	317,588	166,556	205,456	18.2%	455.9%	23.4%
Health	230,182	239,490	282,629	131,106	179,926	4.0%	18.0%	37.2%
Property	52,529	56,776	66,222	26,991	27,866	8.1%	16.6%	3.2%
Marine	35,940	37,386	40,914	20,799	26,237	4.0%	9.4%	26.1%
Engineering	23,105	27,458	25,879	14,704	21,440	18.8%	(5.8%)	45.8%
Accident and liability	19,650	23,452	22,350	11,714	17,081	19.3%	(4.7%)	45.8%
Protection	14,773	15,124	17,736	12,486	17,871	2.4%	17.3%	43.1%
Other general insurance	3,271	3,669	2,278	1,634	1,949	12.2%	(37.9%)	19.3%
Total gross premiums written	427,790	460,486	775,596	385,990	497,826	7.6%	68.4%	29.0%
<b>As percentage of total</b>								
Motor	11.3%	12.4%	40.9%	43.2%	41.3%			
Health	53.8%	52.0%	36.4%	34.0%	36.1%			
Property	12.3%	12.3%	8.5%	7.0%	5.6%			
Marine	8.4%	8.1%	5.3%	5.4%	5.3%			
Engineering	5.4%	6.0%	3.3%	3.8%	4.3%			
Accident and liability	4.6%	5.1%	2.9%	3.0%	3.4%			
Protection	3.5%	3.3%	2.3%	3.2%	3.6%			
Other general insurance	0.8%	0.8%	0.3%	0.4%	0.4%			
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>			

Source: Company

The Company has two major lines of business; motor and health. Combined, these accounted for 65.1% of the total gross written premiums in 2011G and 64.4% in 2012G. In 2013G and the first six months of 2014G, the combined proportion of motor and health line of business increased to 77%, as the Company increased its focus on developing its primary business lines. The domestic Saudi insurance market is dominated by the medical and motor lines of business. The combined market share of these two lines of business during 2013G was 76% of total GWP generated in Saudi Arabia<sup>12</sup>.

Between 2011G and 2013G, total gross premiums written increased at a CAGR of 34.6%, from SAR 427.8 million in 2011G to SAR 775.6 million in 2013G. In 2012G, gross premiums written increased by SAR 32.7 million or 7.6%, which was attributable to growth in gross premiums written across all lines of business. In 2013G The growth in gross premiums written was mainly

<sup>12</sup> The Saudi Insurance Market Report 2013

attributable to the 68.4% which was driven mainly by the SAR 260.5 million or 455.9% increase in gross written premiums generated from the motor line of business. Furthermore, in 2013G, gross premiums written for the other major lines of business of the Company, including health, property, marine and protection, increased by 18.0%, 16.6%, 9.4% and 17.3%, respectively

The growth in gross premiums written in 2012G and 2013G resulted from various measures undertaken by the Company. These include but are not limited to:

- Implementation of actuarial pricing for medical and motor insurance;
- Focus on direct and profitable business;
- Improved motor retention by introduction of renewal campaign;
- Launch of new medical products with rate increases;
- Segmented offers for medical products (e.g. blue collar / VIP);
- Multi distribution strategy;
- Advertisement and brand awareness campaign; and
- Establishment of retail outlets (AXA shops) in various high footfall locations in Saudi Arabia.

In 2012G, gross premiums written from the motor segment increased by 18.2% from SAR 48.3 to 57.1 million. In 2013 gross premiums written from the motor segment increased by 455.9% from 57.1 million in 2012 to 317.6 in 2013, the company obtained two new corporate account in 2013, this was the primary driver for the increase, gross premiums written from the motor segment increased by 23.4% from 166.5 million in the first six months of 2013 to 205.4 million in the first six months of 2014.

Gross written premiums from the health segment increased at a CAGR of 10.8% between 2011G and 2013G. In 2012 Gross written premiums from the health segment increased by 4.0% from 230.2 million in 2011 to 239.5 million in 2012. In 2013 Gross written premiums from the health segment increased by 18.0% from 239.5 million in 2012 to 282.6 million, and further by 37.2% in the first six months of 2014G as compared to the corresponding period in 2013G. This growth was mainly attributable to the increase in premium rates and volume (increase in price and number of lives insured) and supported by increase in demand for health insurance in Kingdom of Saudi Arabia.

The growth in gross premiums written in the engineering segment in 2013G was partially offset by a SAR 1.6 million or 5.8% decline in gross premiums written of the engineering segment, SAR 1.4 million or 37.9% decline in the "other general insurance" segment, and SAR 1.1 million or 4.7% decline in the accident & liability line of business. This was attributable primarily to non-renewal of certain corporate clients and prudent risk selection in the engineering, other general insurance and accident & liability segments.

In the first six months of 2014G, gross written premiums increased by 29.0% from 385.9 million in 2013 to 497.8 million the growth was mainly attributable to a continued growth of gross written premiums in all lines of business with the exception of property lines of business.

The following presents geographical analysis of gross premiums written for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-3: Gross Premiums Written by Geography**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Central region	196,166	209,038	368,737	121,707	160,028	6.6%	76.4%	31.5%
Western region	58,562	71,975	282,791	164,566	201,529	22.9%	292.9%	22.5%
Eastern region	173,062	179,473	124,068	99,717	136,269	3.7%	(30.9%)	36.7%
Total gross premiums written	427,790	460,486	775,596	385,990	497,826	7.6%	68.4%	29.0%
As percentage of total								
Central region	45.9%	45.4%	47.5%	31.5%	32.1%			
Western region	13.7%	15.6%	36.5%	42.6%	40.5%			
Eastern region	40.5%	39.0%	16.0%	25.8%	27.4%			
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>			

Source: Company

The total gross premiums written in the period from 2011G and 2013G originated from the central, western and eastern region on average of 41.2%, 21.9% and 31.8% in the total gross written premiums respectively. In the first six months of 2013G and 2014G, gross premiums written primarily originated from the western region, with an average share of 41.5%. Note that the increase in total gross written premiums with in the western region during the year 2013, which amounted to 292.9% have resulted from the acquisition of the company on the two new clients in that region. It is worth mentioning that the possession of these two clients is the main reason for the increase in total gross written premiums.

The Company has one main branch and three retail outlets in the central region and one main branch as well as two retail outlets in the western and eastern regions.

### Reinsurance premiums ceded and net premiums written

The following table presents reinsurance premiums ceded during the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-4: Reinsurance Premiums Ceded**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	1,398	930	747	364	502	(33.5%)	(19.7%)	37.9%
Health	4,179	5,184	3,810	3,645	4,726	24.0%	(26.5%)	29.7%
Property	43,452	46,289	51,662	17,033	19,086	6.5%	11.6%	12.1%
Marine	12,294	16,983	21,554	9,591	13,015	38.1%	26.9%	35.7%
Engineering	8,228	15,673	16,304	7,883	10,108	90.5%	4.0%	28.2%
Accident and liability	2,259	6,702	6,584	2,257	2,718	196.7%	(1.8%)	20.4%
Protection	1,454	3,887	3,558	1,993	5,398	167.3%	(8.5%)	170.8%
Other general insurance	598	719	232	177	161	20.2%	(67.7%)	(9.0%)
<b>Total reinsurance premiums ceded</b>	<b>73,862</b>	<b>96,367</b>	<b>104,451</b>	<b>42,943</b>	<b>55,714</b>	<b>30.5%</b>	<b>8.4%</b>	<b>29.7%</b>
<b>As percentage of gross premium written</b>								
Motor	2.9%	1.6%	0.2%	0.2%	0.2%			
Health	1.8%	2.2%	1.3%	2.8%	2.6%			
Property	82.7%	81.5%	78.0%	63.1%	68.5%			
Marine	34.2%	45.4%	52.7%	46.1%	49.6%			
Engineering	35.6%	57.1%	63.0%	53.6%	47.1%			
Accident and liability	11.5%	28.6%	29.5%	19.3%	15.9%			
Protection	9.8%	25.7%	20.1%	16.0%	30.2%			
Other general insurance	18.3%	19.6%	10.2%	10.8%	8.3%			
<b>Total reinsurance premiums ceded as percentage of gross premiums written</b>	<b>17.3%</b>	<b>20.9%</b>	<b>13.5%</b>	<b>11.1%</b>	<b>11.2%</b>			

Source: Company

Reinsurance premiums ceded represent insurance premiums ceded to the various reinsurers the Company has facultative or treaty arrangements with. The Company predominantly acquires its reinsurance arrangements through AXA Global P&C (previously AXA Cessions) Paris (AXA Group member that acquires treaties from various reinsurers on behalf of Group members).

The Company's reinsurance program is a combination of proportional and non-proportional treaties complemented by facultative protection. In addition to the reinsurance which is optional.

In 2012G, reinsurance premiums ceded increased by 30.5%, from SAR 73.9 million in 2011G to SAR 96.7 million, followed by 8.4% increase, from SAR 96.4 million in 2012G to SAR 104.5 million in 2013G. The increase in reinsurance premiums ceded over 2011G-2013G was driven by the growth in gross premiums written over the reporting period.

In the first six months of 2014G, reinsurance premiums ceded increased to SAR 55.7 million, from SAR 42.9 million over the corresponding period in 2013G; an increase of 29.7%. This was primarily due to increase in gross written premiums.

The cession ratio increased from 17.3% in 2011G to 20.9% in 2012G before declining to 13.5% in 2013G. This variance was attributable to reinstatement premiums ceded as well as facultative reinsurance premiums paid on large losses incurred between 2011 and 2013. In the first six months of 2013G and 2014G, the cession ratio stood almost the same level at 11.1% and 11.2%, respectively

The Company's major lines of business, i.e. motor and health have comparatively lower cession ratios as the Company tends to retain premiums generated in these lines of businesses. In 2013G, cession ratio for the motor line of business decreased to 33.5% in 2012, and 19.7% in 2013, In addition to the decline in the health segment to 26.5% in 2013. Despite the growth in premiums written for these two activities, the nature of reinsurance is related to these two activities which are based on the excess of loss.

The Company's property reinsurance treaty is on excess of loss basis. Cession ratio for each year is a resultant of the composition of the portfolio i.e. type of policies and facultative arrangements. The cession ratio declined steadily, from 82.7% in 2011G to 68.5% in the first six months of 2014G, as the Company became more prudent in risk selection and Increased premium retention.

Cession ratio for the marine line of business increased from 34.2% in 2011G to 52.7% in 2013G. Marine reinsurance treaty is on proportional basis and the increase in cession is driven by the growth in gross written premiums.

Company's engineering reinsurance treaty is on excess of loss basis. Cession ratio for each year is a resultant of the composition of the portfolio i.e. type of policies and facultative arrangements.

Increase in the cession ratio for engineering and accident & liability lines of business between 2011G and 2013G was driven by the growth in the gross written premiums of the respective lines of businesses.

On the other hand, reinsurance premiums relating to the insurance protection activities increased by 167.3% in 2012 from 1.5 million SAR in 2011 to 3.9 million SAR in 2012. Such increase was a result of the company acquiring a higher percentage of the facultative reinsurance contracts. Reinsurance premiums relating to insurance protection decreased by 8.5% in 2013 from 3.9 million SAR in 2012 to 3.6 million SAR in 2013 due to the Company's reservation on some of the policies issued in 2012.

The following table presents the net premiums written for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-5: Net Premiums Written**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	Jun 2014G
Motor	46,942	56,201	316,841	166,192	204,954	19.7%	463.8%	23.3%
Health	226,003	234,306	278,819	127,461	175,200	3.7%	19.0%	37.5%
Property	9,077	10,487	14,560	9,958	8,780	15.5%	38.8%	(11.8%)
Marine	23,646	20,403	19,360	11,208	13,222	(13.7%)	(5.1%)	18.0%
Engineering	14,877	11,785	9,575	6,821	11,332	(20.8%)	(18.8%)	66.1%
Accident and liability	17,391	16,750	15,766	9,457	14,363	(3.7%)	(5.9%)	51.9%
Protection	13,319	11,237	14,178	10,493	12,473	(15.6%)	26.2%	18.9%
Other general insurance	2,673	2,950	2,046	1,457	1,788	10.4%	(30.6%)	22.7%
<b>Total net premiums written</b>	<b>353,928</b>	<b>364,119</b>	<b>671,145</b>	<b>343,047</b>	<b>442,112</b>	<b>2.9%</b>	<b>84.3%</b>	<b>28.9%</b>
<b>As percentage of gross premiums written (retention ratio)</b>								
Motor	97.1%	98.4%	99.8%	99.8%	99.8%			
Health	98.2%	97.8%	98.7%	97.2%	97.4%			
Property	17.3%	18.5%	22.0%	36.9%	31.5%			
Marine	65.8%	54.6%	47.3%	53.9%	50.4%			



SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	Jun 2014G
Engineering	64.4%	42.9%	37.0%	46.4%	52.9%			
Accident and liability	88.5%	71.4%	70.5%	80.7%	84.1%			
Protection	90.2%	74.3%	79.9%	84.0%	69.8%			
Other general insurance	81.7%	80.4%	89.8%	89.2%	91.7%			
<b>Total</b>	<b>82.7%</b>	<b>79.1%</b>	<b>86.5%</b>	<b>88.9%</b>	<b>88.8%</b>			

Source: Company

As a result of the movement in premiums ceded, the retention ratio declined from 82.7% in 2011G to 79.1% to 2012G, followed by an increase to 86.5% in 2013G and 88.8% in the first six months of 2014G.

### Changes in unearned premium

Changes in unearned premiums represent the difference in premiums written (recorded) and premiums earned during the year.

The decline in gross premiums during 2011G was due to the decision of the Company not to renew a large loss making corporate account which amount for SAR 50 million and thereby the Company exhibited a lower balance of unearned premiums at the end of 2011G. This resulted in positive changes with respect to unearned premiums.

Subsequently in 2012G and 2013G, as a result of growth in business in all activities of the company, in 2012G unearned premiums increase to 5.3 million or 165.2%, and in 2013G unearned premium increased to 27.1 million or 409.9%, resulting in negative changes in unearned premium.

### Net premiums earned

The following table presents net premiums earned during the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-6: Net Premiums Earned**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	47,281	52,309	309,322	148,323	178,757	10.6%	491.3%	20.5%
Health	238,819	232,695	256,658	121,809	150,593	(2.6%)	10.3%	23.6%
Property	8,912	10,816	13,406	6,413	4,390	21.4%	23.9%	(31.5%)
Marine	22,682	20,430	19,614	11,743	13,055	(9.9%)	(4.0%)	11.2%
Engineering	11,894	11,775	11,542	5,406	4,967	(1.0%)	(2.0%)	(8.1%)
Accident and liability	16,359	15,996	17,475	8,564	9,217	(2.2%)	9.2%	7.6%
Protection	10,423	11,180	13,898	7,164	6,661	7.3%	24.3%	(7.0%)
Other general insurance	5,704	3,605	2,137	1,045	1,109	(36.8%)	(40.7%)	6.1%
<b>Total net premiums earned</b>	<b>362,074</b>	<b>358,806</b>	<b>644,052</b>	<b>310,467</b>	<b>368,749</b>	<b>(0.9%)</b>	<b>79.5%</b>	<b>18.8%</b>
<b>As percentage of total</b>								
Motor	13.1%	14.6%	48.0%	47.8%	48.5%			
Health	66.0%	64.9%	39.9%	39.2%	40.8%			
Property	2.5%	3.0%	2.1%	2.1%	1.2%			
Marine	6.3%	5.7%	3.0%	3.8%	3.5%			

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Engineering	3.3%	3.3%	1.8%	1.7%	1.3%			
Accident and liability	4.5%	4.5%	2.7%	2.8%	2.5%			
Protection	2.9%	3.1%	2.2%	2.3%	1.8%			
Other general insurance	1.6%	1.0%	0.3%	0.3%	0.3%			
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>			

Source: Company

In 2012G net premium earned decreased by 0.9% from 362.1 million in 2011G to 358.8 million in 2012G. In 2013G net premium earned increased by 79.5% from 358.8 million in 2012G to 644.1 million in 2013 this growth was mainly in line with the growth in gross premiums written.

In the first six months of 2014G, net premiums earned increased by 18.8% from 310.4 million in the first six months in 2013G to SAR 368.7 million. This growth was driven mainly by the increase in gross written premiums over the same period.

### Reinsurance commissions

Reinsurance commissions represent commissions received from reinsurers, in accordance with the rates agreed at the time of the placement of the treaties.

Between 2011G and 2013G, reinsurance commissions received increased at a CAGR of 18.1%, from SAR 10.0 million, in 2011G to SAR 13.9 million in 2013G. In 2012G, reinsurance commissions increased by SAR 2.9 million, or 29.4%, from SAR 10.0 million in 2011G to SAR 12.9 million in 2012G, mainly due to an increase in insurance premiums ceded by the Company. In 2013G, reinsurance commission increased by SAR 1.0 million, or 7.7%, from SAR 12.9 million to SAR 13.9 million in 2013G due to the same reason.

In the first six months of 2014G, reinsurance commissions increased to SAR 9.4 million from SAR 7.2 million in the first six months of 2013G, representing a marginal growth of SAR 2.2 million or 31.2%.

### Commission income

Commission income represents income earned from bonds, time deposits, short-term deposits and long-term deposits and realised gain on investments.

In 2012G commission income was in line with 2011 results, recording an increase of 0.6 million, in 2013 commission income increased by 3.2 million or 196.6% from 1.6 million in 2012 to 4.8 million in 2013 as a results of an increase in the quantum of assets of insurance operations and optimum allocation of invested assets.

In the first six months of 2014G, commission income was SAR 3.5 million, an increase of SAR 1.3 million or 61.2% as compared to the first six months of 2013G. This increase was due to realisation of higher returns on investments related to insurance operations.

#### 6.4.1.2 Costs and expenses

Costs and expenses comprise claims incurred, policy acquisition costs as well as general and administrative expenses.

In 2012G costs and expenses declined by 5.1% in 2012G from SAR 387.3 million in 2011G to SAR 367.7 million, , mainly due to an increase in the recovery of paid claims from reinsurers resulting in a lower balance of net incurred claims. In addition, the decline in policy acquisition costs and general and administration expenses further contributed 18.6% and 8.2% in 2011G and 2012G, respectively, to the decline in costs and expenses.

In 2013G, costs and expenses increased by 77.2% from SAR 367.7 million in 2012G to SAR 651.7 million in 2013G, and in the first six months of 2014G an increase by 20.6% from SAR 309.4 million in the first six months 2013G to SAR 373.1 million in the first six months 2014G, largely due higher claims incurred which was in line with the increase in business volume.

## Gross claims paid

The following table presents gross claims paid for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-7: Gross Claims Paid**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	58,186	41,184	189,298	57,488	151,247	(29.2%)	359.6%	163.1%
Health	207,269	212,186	194,679	104,961	109,276	2.4%	(8.3%)	4.1%
Property	15,683	65,304	82,851	75,143	38,978	316.4%	26.9%	(48.1%)
Marine	5,655	8,602	21,922	3,779	3,973	52.1%	154.8%	5.1%
Engineering	1,947	10,589	4,281	3,450	4,648	443.9%	(59.6%)	34.7%
Accident and liability	1,406	1,125	2,953	1,161	1,911	(20.0%)	162.5%	64.6%
Protection	5,070	7,184	13,243	5,684	4,112	41.7%	84.3%	(27.7%)
Other general insurance	3,216	1,189	119	53	558	(63.0%)	(90.0%)	952.8%
Claims paid	298,432	347,363	509,346	251,719	314,703	16.4%	46.6%	25.0%
<b>As percentage of gross premiums written</b>								
Motor	120.4%	72.1%	59.6%	34.5%	73.6%			
Health	90.0%	88.6%	68.9%	80.1%	60.7%			
Property	29.9%	115.0%	125.1%	278.4%	139.9%			
Marine	15.7%	23.0%	53.6%	18.2%	15.1%			
Engineering	8.4%	38.6%	16.5%	23.5%	21.7%			
Accident and liability	7.2%	4.8%	13.2%	9.9%	11.2%			
Protection	34.3%	47.5%	74.7%	45.5%	23.0%			
Other general insurance	98.3%	32.4%	5.2%	3.2%	28.6%			
<b>Total</b>	<b>69.8%</b>	<b>75.4%</b>	<b>65.7%</b>	<b>65.2%</b>	<b>63.2%</b>			

Source: Company

Between 2011G and 2013G gross claims paid increased at a CAGR of 30.6%, from SAR 298.4 million in 2011G to SAR 509.3 million in 2013G. In 2012G, gross claims paid increased by 16.4%, from SAR 298.4 million in 2011G to SAR 347.4 million in 2012G, largely in line with the growth in gross premiums written. In 2013G, the 46.6% increase in gross claims paid, from SAR 347.4 million in 2012G to SAR 509.3 million in 2013G, due to the same reason that drove the increase in gross claims paid between 2011G and 2012G.

Gross claims paid increased by 25.0% from SAR 251.7 million in the first six months of 2013G to SAR 314.7 million in the first six months of 2014G, growth in the gross claims paid as compared to the corresponding period in 2013G was mainly attributable to the increase in gross written premiums over the same period.

## Reinsurers' share

The following table presents reinsurers' share of gross claims paid for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-8: Reinsurers' Share of Gross Claims Paid**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	5	4,801	16	-	-	95920.0%	(99.7%)	nm
Health	5,950	5,133	3,870	2,300	2,104	(13.7%)	(24.6%)	(8.5%)
Property	10,019	56,207	73,664	52,688	33,921	461.0%	31.1%	(35.6%)
Marine	2,239	4,502	13,389	1,104	1,111	101.1%	197.4%	0.6%
Engineering	733	1,315	1,618	1,617	795	79.4%	23.0%	(50.8%)
Accident and liability	-	115	104	2	3	nm	(9.6%)	nm
Protection	733	805	5,114	2,404	100	9.8%	535.3%	(95.8%)
Other general insurance	626	96	-	-	-	(84.7%)	(100.0%)	nm
Reinsurers' share of claims	20,305	72,974	97,775	60,115	38,034	259.4%	34.0%	(36.7%)
<b>As percentage of gross claims paid</b>								
Motor	0.0%	11.7%	0.0%	-	-			
Health	2.9%	2.4%	2.0%	2.2%	1.9%			
Property	63.9%	86.1%	88.9%	70.1%	87.0%			
Marine	39.6%	52.3%	61.1%	29.2%	28.0%			
Engineering	37.6%	12.4%	37.8%	46.9%	17.1%			
Accident and liability	-	10.2%	3.5%	0.2%	0.2%			
Protection	14.5%	11.2%	38.6%	42.3%	2.4%			
Other general insurance	19.5%	8.1%	-	-	-			
<b>Total</b>	<b>6.8%</b>	<b>21.0%</b>	<b>19.2%</b>	<b>23.9%</b>	<b>12.1%</b>			

Source: Company

Between 2011G and 2013G, reinsurers' share of gross claims paid increased at a CAGR of 119.4%, from SAR 20.3 million in 2011G to 97.8 million in 2013G. In 2012G, reinsurers' share increased from SAR 20.3 million in 2011G to SAR 73 million in 2012G, resulting in an increase of 259%. This increase is mainly driven by an increase in recoveries from reinsurers on account of large property losses, car insurance and property insurance amounts for 84% of the total share of reinsurers in claims in 2012G the proportion of.

In 2013G reinsurer's share further increased to SAR 97.7 million representing an increase of SAR 24.8 million or 34% compared to 2012G, which again is a result of recovery for high severity large losses in the property segment and one large loss in the marine segment.

Reinsurers' share of gross claims paid declined by 36.7% from 60.1 million in the first six months of 2013G to 38.0 million in 2014G, this was mainly attributable to various low severity and high frequency claims in motor and medical which are borne by the Company.

## Net claims paid

The following table presents net claims paid for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-9: Net Claims Paid**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	58,181	36,383	189,282	57,488	151,247	(37.5%)	420.2%	163.1%
Health	201,319	207,053	190,809	102,661	107,172	2.8%	(7.8%)	4.4%
Property	5,664	9,097	9,187	22,455	5,057	60.6%	1.0%	(77.5%)
Marine	3,416	4,100	8,533	2,675	2,862	20.0%	108.1%	7.0%
Engineering	1,214	9,274	2,663	1,833	3,853	663.9%	(71.3%)	110.2%
Accident and liability	1,406	1,010	2,849	1,159	1,908	(28.2%)	182.1%	64.6%
Protection	4,337	6,379	8,129	3,280	4,012	47.1%	27.4%	22.3%
Other general insurance	2,590	1,093	119	53	558	(57.8%)	(89.1%)	952.8%
Net claims paid	278,127	274,389	411,571	191,604	276,669	(1.3%)	50.0%	44.4%
<b>As percentage of gross claims paid</b>								
Motor	100.0%	88.3%	100.0%	100.0%	100.0%			
Health	97.1%	97.6%	98.0%	97.8%	98.1%			
Property	36.1%	13.9%	11.1%	29.9%	13.0%			
Marine	60.4%	47.7%	38.9%	70.8%	72.0%			
Engineering	62.4%	87.6%	62.2%	53.1%	82.9%			
Accident and liability	100.0%	89.8%	96.5%	99.8%	99.8%			
Protection	85.5%	88.8%	61.4%	57.7%	97.6%			
Other general insurance	80.5%	91.9%	100.0%	100.0%	100.0%			
<b>Total</b>	<b>93.2%</b>	<b>79.0%</b>	<b>80.8%</b>	<b>76.1%</b>	<b>87.9%</b>			

Source: Company

In 2012G, net claims paid declined by 1.3%, from SAR 278.1 million in 2011G to SAR 274.4 million in 2012G, mainly as a result of an increase in the reinsurer's share of claims paid. In 2013G, net claims paid increased to SAR 411.6 million, from SAR 274.4 million in 2012G, representing a growth of 50.0%. The increase was attributable to the growth in claims paid which was driven by higher gross premiums written.

In the first six months of 2014G, net claims paid were SAR 276.6 million, an increase of SAR 85.0 million, or 44.4% from SAR 191.6 million in the first six months of 2013G. This was mainly attributable to the increase in gross premiums written over the same period, which resulted in higher gross claims paid.

## Change in outstanding claims

Changes in outstanding claims represent the change in net reported but unsettled claims as well as net claims incurred but not reported (IBNR).

During 2011G and 2012G, negative changes in outstanding claims represent the positive development in claims including IBNR. In 2013G there has been an increase in total outstanding claims including IBNR which is in line with growth in GWP. As motor is a high frequency/low severity class of business, the Company has strengthened its IBNR reserves in view of the growth in premiums, as a matter of prudence, resulting in negative changes in outstanding claims.

## Net claims incurred

The following table presents net claims incurred for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-10: Net Claims Incurred**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	30,530	29,160	271,675	125,474	158,225	(4.5%)	831.7%	26.1%
Health	217,436	204,670	222,563	110,781	127,229	(5.9%)	8.7%	14.8%
Property	10,304	14,031	12,350	7,304	6,699	36.2%	(12.0%)	(8.3%)
Marine	3,729	4,480	7,073	2,041	5,118	20.1%	57.9%	150.8%
Engineering	1,999	12,305	8,229	1,326	5,113	515.6%	(33.1%)	285.6%
Accident and liability	323	373	4,832	4,517	2,756	15.5%	1195.4%	(39.0%)
Protection	6,447	3,658	11,133	6,493	4,611	(43.3%)	204.3%	(29.0%)
Other general insurance	2,915	(998)	570	20	61	(134.2%)	(157.1%)	205.0%
Total net premiums earned	273,683	267,679	538,425	257,956	309,812	(2.2%)	101.1%	20.1%
<b>As percentage of net premiums earned</b>								
Motor	64.6%	55.7%	87.8%	84.6%	88.5%			
Health	91.0%	88.0%	86.7%	90.9%	84.5%			
Property	115.6%	129.7%	92.1%	113.9%	152.6%			
Marine	16.4%	21.9%	36.1%	17.4%	39.2%			
Engineering	16.8%	104.5%	71.3%	24.5%	102.9%			
Accident and liability	2.0%	2.3%	27.7%	52.7%	29.9%			
Protection	61.9%	32.7%	80.1%	90.6%	69.2%			
Other general insurance	51.1%	(27.7%)	26.7%	1.9%	5.5%			
<b>Total</b>	<b>75.6%</b>	<b>74.6%</b>	<b>83.6%</b>	<b>83.1%</b>	<b>84.0%</b>			

Source: Company

In 2012G, net claims incurred declined by 2.2%, from SAR 273.7 million in 2011G to SAR 267.7 million in 2012G. This is mainly attributable to a decrease in the loss ratios of the motor and health segments, which represent the Company's major lines of business.

Net incurred claims increased by 101.1%, from SAR 267.7 million in 2012G to SAR 538.4 million in 2013G. This is mainly attributable to the increase in the loss ratio of the motor segment. As explained earlier, the frequency of motor claims is high whereas the respective severity is low and in view of the growth in this line of business, the Company has prudently increased IBNR reserves.

In 2013, a total net premium earned for car insurance increased to SAR 271.6 million by 831.7% and this increase is primarily due to the increase in premiums earned in 2013. In the first half of 2014 gross premiums earned increased to SAR 158.2 million by 26.1%, this increase is primarily due to the increase in premiums earned in the same period.

## Policy acquisition costs

Policy acquisition costs represent amortization of deferred commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts.

In 2012G, policy acquisition costs declined by 18.6%, from SAR 40.8 million in 2011G to SAR 33.2 million in 2012G. The decline was primarily attributable to a decrease in broker commission rates in light of a regulatory cap on commission rates. In 2013G, policy acquisition costs increased by 4.6%, from SAR 33.2 million in 2012G to SAR 34.7 million in 2013G, which was mainly due to an increase in the quantum of policies written. Similarly, in the first six months of 2014G, policy

acquisition costs were SAR 21.6 million or 26.2% higher as compared to the corresponding period in 2013G, also due to an increase in the level of gross premiums written over the same period.

Net commission ratio (net commission as a percentage of earned premiums) has steadily declined from 8.5% in 2011G to 5.7% in 2012G and 3.2% in 2013. This was achieved through:

- Increased focus on direct business to reduce dependency on intermediaries, thus reduction in acquisition cost;
- Reduction in commission levels paid to intermediaries; and
- Sales outlets, for direct sales, in various locations in Saudi Arabia to provide easy accessibility to the customers.

### General and administrative expenses

The following table presents general and administrative expenses for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-11: General and Administrative Expenses**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Staff cost	41,233	47,605	55,771	26,331	28,383	15.5%	17.2%	7.8%
Legal and professional	8,374	2,866	5,911	1,547	1,084	(65.8%)	106.2%	(29.9%)
IT expenses	2,576	1,618	3,877	1,409	1,335	(37.2%)	139.6%	(5.3%)
Withholding tax	3,819	4,856	3,210	1,113	2,111	27.2%	(33.9%)	89.7%
Business travel	1,343	1,339	1,464	586	898	(0.3%)	9.3%	53.2%
Printing and stationary	691	470	753	463	294	(32.0%)	60.2%	(36.5%)
Provision for doubtful debts	6,194	(950)	-	(750)	-	(115.3%)	(100.0%)	(100.0%)
Others	8,629	9,056	7,579	3,586	7,554	4.9%	(16.3%)	110.7%
<b>Total</b>	<b>72,859</b>	<b>66,860</b>	<b>78,565</b>	<b>34,285</b>	<b>41,659</b>	<b>(8.2%)</b>	<b>17.5%</b>	<b>21.5%</b>

Source: Financial statements, Company

General and administrative expenses primarily include staff costs, which comprised 56.6% of total general and administrative expenses in 2011G, 71.2% in 2012G, 71.0% in 2013G and 68.1% in the first six months of 2014G. In 2012G, general and administrative expenses declined by 8.2%, from SAR 72.9 million in 2011G to SAR 66.9 million in 2012G. This was mainly due to a decline in provisions for doubtful debts and legal and professional expenses, which were partly offset by an increase in staff costs.

In 2013G, general and administrative expenses increased by 17.5%, from SAR 66.9 million in 2012G to SAR 78.6 million in 2013G, mainly due to higher staff costs. The company has recruited several qualified and experienced Saudi nationals to take on senior managerial and sales positions.

In the first six months of 2014G, general and administrative expenses were 21.5% higher as compared to the corresponding period in 2013G. This was mainly attributable to an increase in staff cost and other expenses which include regulatory fee (calculated as percentage of premium)

The Company's expense ratio (general and administrative expenses dividend by net earned premium) improved steadily, from 20.12% in 2011G, 18.6% in 2012G and 12.2% in 2013G. There is a slight increase from 11.0% in first six months to 2013G to 11.3% in 2014G due to overall increase in expense.

This reduction was achieved through growth in net premiums earned without a proportionate increase in expenses. To achieve this, the Company has undertaken several steps during the last three years, including:

- Improved efficiency of various processes e.g. call centre being introduced for personal lines;
- Tighter control over discretionary expenses; and
- Centralisation of various functions.

## Staff costs

Staff costs comprise salaries, benefits and bonuses of the Company's staff.

Between 2011G and 2013G, staff costs increased at CAGR of 16.3%, from SAR 41.2 million in 2011G to SAR 55.8 million in 2013G. In 2012G, staff costs increased by 15.5%, from SAR 41.2 million in 2011G to SAR 47.6 million in 2012G, mainly as a result of recruitment of experienced and qualified Saudi nationals to take on managerial positions as mentioned earlier. The 17.2% increase in staff costs in 2013G, from SAR 47.6 million in 2012G to SAR 55.8 million in 2013G was attributable to the same reason.

In the first six months of 2014G, staff costs have increased by 2 million compared to 2013G which is mainly due senior level hiring of Saudi nationals during current period.

## Legal and professional expenses

In 2012G, legal and professional expenses declined by 65.8%, from SAR 8.4 million in 2011G to SAR 2.9 million in 2012G, as certain one-off expenses relating to tax field inspection in 2011G were not incurred in 2012G.

In 2013G, legal and professional expenses grew by 106.2%, from SAR 2.9 million in 2012G and SAR 5.9 million in 2013G, mainly due to reclassification of certain regulatory fees under this legal and professional expenses category.

In the first six months of 2014G, staff costs were largely in line with the costs in the corresponding period during 2013G.

## Information technology expenses

Information technology expenses are mainly on account of:

- licensing fee for Infoel S.A. for use of ('CIRIS') system;
- licensing fee for various Microsoft applications;
- ISDN / leased line fee;
- IT consumables and; and
- Hardware maintenance.

In 2011 Information technology expenses declined by 37.2%, from SAR 2.6 million to SAR 1.6 million in 2012G, mainly as a result of decrease of expenses in IT expenditure. This was followed by an increase of 139.6%, to SAR 3.8 million in 2013G, which was primarily attributable to set up of centralized data centre of the company.

In the first six months of 2014G, information technology expenses were largely in-line with the first six months 2013G results, reporting a decrease of SAR 0.1 million only.

## Withholding taxes

Prior to 2013G, the Company was settling withholding taxes on behalf of reinsurers, however, beginning in 2013G withholding taxes are largely borne by the reinsurers. This led to the 33.9% decline in withholding taxes in 2013G, as compared to 2012G.

In 2012G, withholding taxes increased by 27.2%, from SAR 3.8 million in 2011G to SAR 4.9 million in 2012G as a result of increase in the volume of reinsurance ceded outside Kingdom of Saudi Arabia.

Withholding tax in the first six months of 2014G increased 89.7% compared to same period of 2013G. This mainly attributable increase ceded premiums.

## Provision for doubtful debts

The Company maintains a provision for doubtful debtors based on SAMA's implementing regulations.

In 2011G, a provision of SAR 6.2 million was recorded due to an increase in the closing balance of provision calculated as per the adopted policy. Comparatively, in 2012G, a reversal of a provision of SAR 0.1 million was recorded due to recoveries as at 31 December 2012G.

No additional provisions were recorded in 2013G and the first six months of 2014G



## Other general and administrative expenses

Other general and administrative expenses mainly comprise of regulatory fee, bank charges, survey expenses, office maintenance and various other expenses incurred in the normal course of business.

Other general and administrative expenses were marginally higher (SAR 9.1 million) as compared to 2011G (SAR 8.6 million), which was attributable to general inflationary factors. However, in 2013G, other general and administrative expenses declined by 16.3%, from SAR 9.1 million in 2012G to SAR 7.6 million in 2013G. This decline resulted from the reversal of stale cheques amounting to SAR 2.6 million (i.e. resulting in an income). This income was partly offset by various increases in other sub-components.

In the first six months of 2014G, other general and administrative expenses increased by 110.7%, from SAR 3.5 million in the first six months of 2013G to SAR 7.5 million in the corresponding period of 2014G. The increase was primarily due to an increase in regulatory fee which is calculated as a percentage of gross written premiums.

### 6.4.1.3 Net surplus from insurance operations and shareholders' appropriations

The following table presents net underwriting results by line of business for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-12: Net Surplus from Insurance Operations**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	3,387	7,594	770	13,714	(541)	124.2%	(89.9%)	(103.9%)
Health	(39,220)	(14,317)	(6,568)	(13,147)	(14)	(63.5%)	(54.1%)	(99.9%)
Property	(2,088)	(11,017)	(4,854)	(2,672)	(6,697)	427.6%	(55.9%)	150.6%
Marine	13,655	11,276	9,575	6,827	6,614	(17.4%)	(15.1%)	(3.1%)
Engineering	5,520	(7,058)	(1,727)	1,800	(1,958)	(227.9%)	(75.5%)	(208.8%)
Accident and liability	12,570	10,054	8,807	2,725	4,718	(20.0%)	(12.4%)	73.1%
Protection	(12,499)	3,810	(1,026)	(1,496)	2,340	(130.5%)	(126.9%)	(256.4%)
Other general insurance	3,379	3,610	1,229	523	626	6.8%	(66.0%)	19.7%
Commission income	1,055	1,620	4,805	2,183	3,518	53.6%	196.6%	61.2%
<b>Total</b>	<b>(14,241)</b>	<b>5,572</b>	<b>11,011</b>	<b>10,457</b>	<b>8,606</b>	<b>(139.1%)</b>	<b>97.6%</b>	<b>(17.7%)</b>

Source: Company

While overall insurance results improved over the period between 2011G to first six months 2014G, the Company is increasing its focus on more profitable lines of business to lower its overall loss ratio. Such lines of business (i.e. accident & liability as well as marine) will aid the Company in achieving desired loss ratios. The loss ratio of the medical segment, which is one of the major lines of business, has declined year-on-year due to favorable pricing developments and improved claims management. The Company also aims to expand its product offering, improve portfolio management processes and upgraded its risk selection methodologies.

In 2011G, the Company incurred a net deficit from insurance operations of SAR 14.2 million, mainly due to few high severity property losses and a higher expense load. Despite high frequency losses in 2012G, the overall combined ratio dropped from 104.2% in 2011G to 98.9% in 2012 which resulted in a surplus of SAR 5.6 million. The decline in the commission and expense ratios has also contributed to this surplus.

In 2013G, the surplus from insurance operations further increased to SAR 11.0 million, an improvement of 98% in comparison to 2012G's results. Though the overall combined ratio increased, the surplus was achieved through a decrease in the commission and expense ratios supported by a significant growth in the quantum of business.

In the first six months of 2014G, the net surplus from insurance operation have decrease by 17.7% from 10.4 million in the first six months of 2013 to 8.6 million, the decrease was mainly due to prudent reserving during current period and an increase in enlarged expense ratio.

The marine, accident & liability and protection lines of business were the primary contributors to the net surplus from insurance operations during the period 2011G to first six months 2014G, mainly due to low severity and frequency of claims supplemented by higher commission income on policyholders' investments.

Certain lines of business, mainly property, reported net deficit from underwriting results between 2011G and the first six months of 2014G, due to high claim ratios for these lines of businesses. Though the medical line of business reported a net deficit, the loss ratio of this line of business has progressively declined since 2011G.

### Shareholders' appropriation of surplus

In accordance with the implementing regulations for co-operative insurance companies issued by SAMA, 90% of the insurance operations' surplus is appropriated to shareholders' income.

#### 6.4.2 Statement of shareholders' operations

The following table presents the statement of shareholders' operations for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2014G.

**Table 6-13: Statement of Shareholders' Operations and Net Income for the Period**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Net surplus / (deficit) transferred from insurance operations	(14,241)	5,015	9,910	9,411	7,745	(135.2%)	97.6%	(17.7%)
Commission income	1,978	6,665	6,596	2,841	4,815	237.0%	(1.0%)	69.5%
General and administrative expenses	(440)	(1,378)	(1,759)	(590)	(784)	213.2%	27.6%	32.9%
Shareholders' net income for the year	(12,703)	10,302	14,747	11,662	11,776	(181.1%)	43.1%	1.0%
Provision for zakat and income tax	(3,341)	(4,617)	(1,805)	(3,790)	(2,970)	38.21%	(60.9%)	(21.64%)
Net income for the year	(16,044)	5,685	12,942	7,872	8,806	(135.4%)	127.7%	11.9%
Changes unrealised (loss) / gain on available-for-sale investments	394	3,903	(1,919)	(3553)	1,429	890.6%	(149.2%)	(140.2%)
<b>Total comprehensive income for the year</b>	<b>(15,650)</b>	<b>9,588</b>	<b>11,023</b>	<b>4,319</b>	<b>10,235</b>	<b>(161.3%)</b>	<b>15.0%</b>	<b>137.0%</b>

Source: Financial statements

Statement of shareholders' operations comprises statutory appropriation from results of insurance operations, commission income, as well as general and administrative expenses. Changes in the shareholders' net income / (loss) during the period between 2011G and the first six months of 2014G were primarily driven by the appropriation of surplus or deficit from insurance operations. In 2011G, the Company reported a total comprehensive loss of SAR 15.7 million due to the appropriation of deficit from insurance operations.

In 2012G, total comprehensive income increased by SAR 25.1 million, followed by a further increase of SAR 1.4 million in 2013G, which was driven by growth in the Company's surplus from insurance operations resulting in increased appropriation to the shareholders. In the first six months of 2014G, total comprehensive income for the year was SAR 1.7 million higher as compared to the corresponding period in 2013G, due to the same reason.

Commission income comprises income earned from investments related to shareholders' operations. Such investments include bonds, term deposits and equity investments. In 2012G, commission income increased by 237.0%, from SAR 2.0 million in 2011G to SAR 6.7 million in 2012G, mainly as a result of growth in the size of investment portfolio and optimum allocation of shareholders' invested assets. In 2013G, commission income was largely in line with the 2012G results.

In the first six months of 2014G, commission income stood at 4.8 million, 69.5% higher as compared to SAR 2.8 million in the first six months of 2013G. This was due to the realization of gains on bonds held by shareholders' operations.

General and administrative expenses mainly include sitting fees, annual remuneration and reimbursements in respect of the members of the board of directors. In 2012G, general and administrative expenses were 181.1% higher as compared to 2011G as non-independent members of the board of directors waived their compensation in view of the deficit from insurance operations during the year.

Zakat and income taxes are computed based on laws and regulations issued by Department of Zakat and income taxes.

Changes in unrealized gains and losses are mainly recorded on quoted bonds and equities which deteriorated in 2013G compared to 2012G as a result of negative developments in the sukuk and bond markets.

### 6.4.3 Balance sheet

The following table presents a summary of the Company's balance sheet as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-14: Balance Sheet**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Insurance operations' assets	437,775	543,815	643,838	726,125	24.2%	18.4%	12.8%
Shareholders' assets	229,947	261,566	212,663	250,875	13.8%	(18.7%)	18.0%
Total assets	667,722	805,381	856,501	977,000	20.6%	6.3%	14.1%
Insurance operations' liabilities	438,258	543,012	643,251	722,639	23.9%	18.5%	12.3%
Insurance accumulated surplus	(483)	803	587	3,486	(266.3%)	(26.9%)	493.9%
Shareholders' liabilities	59,183	81,214	21,288	49,265	37.2%	(73.8%)	131.4%
Shareholder's equity	170,764	180,352	191,375	201,610	5.6%	6.1%	5.3%
<b>Total Insurance operations' liabilities and accumulated surplus and shareholders' liabilities and equity</b>	<b>667,722</b>	<b>805,381</b>	<b>856,501</b>	<b>977,000</b>	<b>20.6%</b>	<b>6.3%</b>	<b>14.1%</b>

Source: Financial statements

Between 2011G and 2013G, the Company's total assets increased at a CAGR of 13.3%, from SAR 667.7 million at 31 December 2011G to SAR 856.5 million at 31 December 2013G. At 30 June 2014G, total assets were SAR 977.0 million or 14.1% higher as compared to 30 June 2013G. The growth in total assets resulted from the overall expansion in the Company's operations, characterised by higher gross premiums written and surplus from insurance operations.

Largely in line with the growth in insurance operations' assets, the insurance operations' liabilities increased from SAR 438.3 million at 31 December 2011G to SAR 722.6 million at 30 June 2014G. This was also the primary driver for the increase in the total insurance operations' liabilities and accumulated surplus and shareholders' liabilities and equity, from SAR 667.7 million at 31 December 2011G to SAR 977.0 million at 30 June 2014G.

### 6.4.3.1 Insurance operations' assets

The following table presents insurance operations' assets as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-15: Insurance Operations' Assets**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Cash and cash equivalents	90,367	74,118	171,605	134,853	(18.0%)	131.5%	(21.4%)
Short term deposits	-	61,142	26,541	92,620	nm	(56.6%)	249.0%
Premiums and insurance balances receivable - net	110,469	106,291	130,582	150,481	(3.8%)	22.9%	15.2%
Receivable from related parties	14,225	22,096	8,392	18,701	55.3%	(62.0%)	122.8%
Reinsurers' share of unearned premiums	21,771	24,025	27,188	26,863	10.4%	13.2%	(1.2%)
Reinsurers' share of outstanding claims	86,642	92,714	62,804	53,976	7.0%	(32.3%)	(14.1%)
Deferred policy acquisition costs	11,839	14,891	16,707	19,671	25.8%	12.2%	17.7%
Other assets	1,746	3,763	7,610	8,490	115.5%	102.2%	11.6%
Available-for-sale investments	40,878	54,514	86,942	88,323	33.4%	59.5%	1.6%
Long-term deposit	-	7,500	7,500	7,500	nm	-	-
Held-to-maturity investments	-	-	75,000	75,000	nm	nm	-
Due from shareholders	54,791	73,894	14,823	42,291	34.9%	(79.9%)	185.3%
Furniture, fixtures and equipment	5,047	8,867	8,144	7,356	75.7%	(8.2%)	(9.7%)
<b>Total insurance operations' assets</b>	<b>437,775</b>	<b>543,815</b>	<b>643,838</b>	<b>726,125</b>	<b>24.2%</b>	<b>18.4%</b>	<b>12.8%</b>

Source: Financial statements

Total insurance operations' assets mainly include cash and cash equivalents, premiums and insurance balances receivable, investments (available for sale and held to maturity) and short-term deposits. Combined, these accounted for 77.2% of total insurance operations' assets.

Total insurance operations' assets increased by 24.2% at 31 December 2012G, 18.4% at 31 December 2013G and 12.8% at 30 June 2014G, mainly as result of growth short-term deposits, premium & insurance balance receivables and held-to-maturity investments.

The company also intends to allocate SAR 40 million from the Offering proceeds to establish a new head office for the company and develop its infrastructure (please see section 10 "Use of Proceeds").

## Cash and cash equivalents

The following table presents cash and cash equivalents as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-16: Cash and Cash Equivalents**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Cash at bank and in hand	90,367	74,118	41,316	57,407	(18.0%)	(44.3%)	38.9%
Time deposits	-	-	130,289	77,446	-	100%	(40.6%)
<b>Total</b>	<b>90,367</b>	<b>74,118</b>	<b>171,605</b>	<b>134,853</b>	<b>(18.0%)</b>	<b>131.5%</b>	<b>(21.4%)</b>

Source: Financial statements

Cash at bank and in hand mainly include cash held mainly in SAR denominated accounts in Saudi Arabian banks.

Time deposits carry a term of less than three months. Time deposits earned an average effective interest rate of between 0.08% to 3.0% during 2011G to the first six months 2014G.

Cash and cash equivalents declined by 18.0%, from SAR 90.4 million at 31 December 2011G to SAR 74.1 million at 31 December 2012G as a result of increased investments in short term deposits. This was followed by a 131.5% increase at 31 December 2013G and 21.4% decrease at 30 June 2014G, mainly due to allocation of cash to short terms deposits and available for sale investments.

## Short term deposits

Short-term deposits have a term of between three months and one year. Short-term deposits earned an average effective interest rate 1.5% in 2012G, 1.3% in 2013G and 1.52% in the first six months of 2014G.

Short-term deposits declined by 56.6%, from SAR 61.1 million at 31 December 2012G to SAR 26.5 million, as a result of funds utilised from short term deposits to meet liquidity needs of the Company and to carry out investments in held to maturity fixed income securities. This was followed by a 249% increase at 30 June 2014G, to SAR 92.6 million, due to the conversion of available cash in short term deposits.

## Premiums and insurance balances receivable – net

The following table presents net premiums and insurance balances receivable as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-17: Premiums and Insurance Balances Receivable – Net**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Receivables from policyholders	46,202	44,906	58,847	61,382	(2.8%)	31.0%	4.3%
Reinsurance from insurance intermediaries	77,725	58,657	61,922	100,868	(24.5%)	5.6%	62.9%
Receivables from reinsurers	5,722	20,958	28,043	6,461	266.3%	33.8%	(77.7%)
Provision for doubtful debts	(19,180)	(18,230)	(18,230)	(18,230)	(5.0%)	-	-
<b>Total</b>	<b>110,469</b>	<b>106,291</b>	<b>130,582</b>	<b>150,481</b>	<b>(3.8%)</b>	<b>22.9%</b>	<b>15.2%</b>

Source: Company

Receivables from policyholders mainly comprise amounts due from direct customers and insurance intermediaries.

Standard credit terms provided by the Company to the policyholders are as follows:

- 30 to 60 days for corporate clients;
- 90 days for brokers;
- None for individual customers; and
- No customer to be offered credit period in excess of 90 days.

However, certain medical and motor insurance policyholders are granted instalment facilities upon meeting minimum annual premium criteria.

Receivables from policyholders declined from SAR 46.2 million at 31 December 2011G to SAR 44.9 million at 31 December 2012G, mainly due to various measures undertaken by the Company to improve its collection period, including formulation and implementation of potent receivables management processes as well as reporting and governance initiatives including regular credit control meetings of relevant stakeholders. At 31 December 2013G, receivables from policyholders increased to SAR 58.8 million, which was followed by a further increase to SAR 61.3 million at 30 June 2014G. The increase in receivables from policyholders was driven by the increase in the gross premiums written.

Receivable from insurance intermediaries relates to amounts due from insurance brokers. Receivables from insurance intermediaries declined by SAR 19.1 million or 24.5% at 31 December 2012G, which was followed by an increase of SAR 3.3 million at 31 December 2013G. This variance was attributable to a combination of an increase in the level of direct business and collections' management. At 30 June 2014G, receivables from intermediaries further increased by SAR 38.0 million or 62.9% higher as compared to 31 December 2013G, which was mainly due to the fact that major renewals take place mid of the year,

Receivables from reinsurers mainly relate to outstanding claim payments. Arrangements with reinsurers normally require settlement on quarterly basis. Receivables from reinsurers declined by SAR 22.0 million or 77.0%, from SAR 28.0 million at 31 December 2013G to SAR 6.4 million at 30 June 2014G, mainly as a result of settlement of reinsurers' balance

In accordance with SAMA's implementing regulations, doubtful debts are provided on the following basis:

- 10% of the total amounts due from reinsurers exceeding 180 days;
- 15% of the total amounts due from the insured exceeding 90 days;
- 25% of the total amounts due from the insured exceeding 180 days;
- 75% of the total amounts of uncollected receivables exceeding 360 days; and
- 100% of any disputed and uncollected receivables.

The Company maintained prudent provisioning protocols for doubtful debts and complied with requirements set out in SAMA's implementing regulations.

No additional provisions were recorded in 2013G and the first six months of 2014G as existing provisions exceed SAMA's minimum requirement.

The following table presents average days premiums' outstanding as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-18: Days Premiums' Outstanding**

SAR in 000's	As at 31 December			As at 30 June
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited
Gross insurance receivable	129,649	124,521	148,812	168,711
GWP	427,790	460,486	775,596	497,826
Receivables / GWP	30.3%	27.0%	19.2%	33.9%
Days premium outstanding	111	99	70	31
Collection period (in months)	3.6	3.2	2.3	1.0

Source: Company

Days premiums' outstanding and the collection period improved between 31 December 2011G and 30 June 2014G, from 111 days to 31 days, as the Company formalised and implemented its credit policy and established credit control policies as well as a credit control governance committee.

### Receivables from related parties

Receivables from related parties' balances were mainly on account of receivable from AXA Insurance (Saudi Arabia) B.S.C.(c). Balances outstanding at 31 December 2011G and 31 December 2012G primarily arose from the transfer of the insurance portfolio to the Company. During 2013G, this amount was settled and the balance at 31 December 2013G and 30 June 2014G was mainly on account of various transactions that took place during the period.

Receivables from related parties increased from SAR 8.4 million at 31 December 2013G to SAR 18.7 million at 30 June 2014G, an increase of SAR 10.3 million or 122.8%. This was mainly due to reinsurance various transactions with AXA Insurance (Saudi Arabia) B.S.C.(c).

## Reinsurers' share of unearned premiums

Reinsurers' share of unearned premiums relates to reinsurers' share of gross premiums written that are yet to be realised over the term of their respective policies.

Reinsurers' share of unearned premiums increased by 10.4%, from SAR 21.8 million at 31 December 2011G to SAR 24.0 million at 31 December 2012G, followed by a 13.2% increase to SAR 27.2 million at 31 December 2013G and 1.2% decrease to SAR 26.8 million at 30 June 2014. The increase in reinsurers' share of unearned premiums between 31 December 2013G and 30 June 2014G was mainly driven by an increase in the level of gross premiums written and facultative reinsurance placements.

## Reinsurers' share of outstanding claims

Reinsurers' share of outstanding claims relates to receivables from reinsurers' on account of reported but unsettled claims as well as IBNR.

Reinsurers' share of outstanding claims increased by 7.0%, from SAR 86.6 million at 31 December 2011G to SAR 92.7 million at 31 December 2012G, mainly due to the increase in the balance of outstanding claims as well as the increase in facultative placements (i.e. an increase in risk cessions). This was followed by 32.2% decline to SAR 62.8 million at 31 December 2013G and 14.1% decline to SAR 53.9 million at 30 June 2014G as a result of higher outstanding claims on motor and medical which are mainly borne by the Company

## Deferred policy acquisition costs

The following table presents the movement in deferred policy acquisition costs during the financial year ended 31 December 2011G, 2012G and 2013G and the six months' period ended 30 June 2014G.

**Table 6-19: Deferred Policy Acquisition Costs**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Balance at the beginning of the year	18,004	11,839	14,891	16,707	(34.2%)	25.8%	12.2%
Incurred during the period	34,614	36,247	36,545	24,647	4.7%	0.8%	(32.6%)
Amortised during the year	(40,779)	(33,195)	(34,729)	(21,683)	(18.6%)	4.6%	(37.6%)
<b>Total</b>	<b>11,839</b>	<b>14,891</b>	<b>16,707</b>	<b>19,671</b>	<b>25.8%</b>	<b>12.2%</b>	<b>17.7%</b>

Source: Financial statements, Company

Deferred policy acquisition costs are on account of commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition of insurance constrictions. Deferred policy acquisition costs are amortised over the term of respective insurance contracts.

Deferred policy acquisition costs increased by 25.8%, from SAR 11.8 million at 31 December 2011G to SAR 14.9 million at 31 December 2012G, followed by a 12.2% increase to SAR 16.7 million at 31 December 2013G and 17.7% increase to SAR 19.6 million at 30 June 2014G. The increase in deferred policy acquisition costs was mainly driven by the overall increase policies sold over the same period.

## Other assets

Other assets mainly include accrued commissions and other prepaid expenses, mainly office rental charges paid in advance of duration of respective tenancy agreements.

Other assets increased from SAR 1.7 million at 31 December 2013G to SAR 3.8 million at 31 December 2012G, mainly due to an increase in accrued interest resulting from increased investments in term deposits. The 102.2% increase to SAR 7.6 million at 31 December 2013G and 11.6% increase to SAR 8.4 million at 30 June 2014G were attributable to the same reason.

## Available for sale investments

The following table presents available for sale investments as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-20: Available for Sale Investments**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Quoted bonds	40,878	46,817	75,489	73,056	14.5%	61.2%	(3.2%)
Quoted equity	-	7,697	11,453	15,267	nm	48.8%	33.3%
<b>Total</b>	<b>40,878</b>	<b>54,514</b>	<b>86,942</b>	<b>88,323</b>	<b>33.4%</b>	<b>59.5%</b>	<b>1.6%</b>

Source: Company

The Company's investment strategy is formulated based on guidance from SAMA's implementing regulations.

Available for sale investments are carried at fair value. Changes in the fair value of available for sale investments are recognised in the statements of shareholders' comprehensive income and financial position for insurance operations.

Quoted bonds mainly include the Company's holding of Saudi and foreign governmental and corporate bonds.

Quoted equities include local investments in stocks (a portfolio comprising Saudi corporate stocks).

Total available for sale investments increased by 33.4%, from SAR 40.9 million at 31 December 2011G to SAR 54.5 million at 31 December 2012G, followed by a 59.5% increase to SAR 86.9 million at 31 December 2013G and a further increase of 1.6% increase to SAR 88.3 million at 30 June 2014G. The increase in the balance of available for sale investments over the reporting period was due to additional investments made by the Company as a result of overall improvement in liquidity position of the Company.

The Company does not have any other investments, except as disclosed in this prospectus.

## Long-term deposits

Long-term deposits carry a term that exceeds one year. Long-term deposits earned an average effective interest rate of 2.0% in 2012G, 1.8% in 2013G and 2.01% in the first six months of 2014G.

## Held-to-maturity investments

The following table presents held-to-maturity investments as at 31 December 2011G, 2012G, 2013G and 30 June 2013G and 2014G.

**Table 6-21: Held-to-Maturity Investments**

Type of security	Issuer	Maturity period	Profit margin	As at 31 December			As at 30 June
				2011G Audited	2012G Audited	2013G Audited	2014G Unaudited
Sukuks	Saudi Government	20 years	3.21%	-	-	60,000	60,000
Sukuks	Saudi Company	10 years	3.47%	-	-	15,000	15,000
<b>Total</b>				<b>-</b>	<b>-</b>	<b>75,000</b>	<b>75,000</b>

Source: Financial statements

Held-to-maturity investments hold fixed or determined payments over the term of the investment. Held-to-maturity investments are measured at amortised cost, less provision for impairment in value. The Company acquired sukuk issued by General Authority of Civil Aviation (GACA) during 2013G for a total value of SAR 60.0 million. These bonds carry a coupon rate of 3.21% and an S&P credit rating of AA-. is due maturity in 20 years following the purchase date.

Additionally, the Company acquired sukuk issued by Saudi Electricity Company (SEC). These bonds were purchased on 26 March 2013 with a total value of SAR 15.0 million. These bonds carry a coupon rate of 3.47% and an S&P credit rating of AA-. This investment is due maturity in 10 years following the purchase date.



## Due from shareholders

Due from shareholders' balances are on account of transfer of funds from insurance operations to cover expenses and channel appropriations.

Due from shareholders balance increased by 34.9%, from SAR 54.8 million at 31 December 2011G to SAR 73.9 million at 31 December 2012G, due to an increase in funds transferred for expenses. This was followed by a SAR 59.1 million or 79.9% decline to SAR 14.8 million as a result of a SAR 53.4 million settlement made during the year. At 30 June 2014G, due from shareholders was SAR 42.3 million or 185.3% higher as compared to 31 December 2013G due to incremental transfers of funds from insurance operations to shareholders' operations.

## Furniture, fixtures and equipment

The following table presents the net book value of furniture, fixtures and equipment as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-22: Net Book Value Furniture, Fixtures and Equipment**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Furniture and fixtures	807	700	947	1,886	(13.3%)	35.3%	99.2%
Equipment	4,240	8,167	7,197	5,470	92.6%	(11.9%)	(24.0%)
<b>Total</b>	<b>5,047</b>	<b>8,867</b>	<b>8,144</b>	<b>7,356</b>	<b>75.7%</b>	<b>(8.2%)</b>	<b>(9.7%)</b>

Source: Financial statements, Company

Equipment mainly comprises computers and other information technology equipment.

Additions of SAR 5.7 million were made in 2012G resulting in the 92.6% increase in the net book value of equipment, from SAR 4.2 million at 31 December 2011G to SAR 8.2 million at 31 December 2012G. Additions were mainly driven by the establishment of new outlets and infrastructure modifications. The decline in the net book value at 31 December 2013G and 30 June 2014G was mainly attributable to depreciation charges.

The Company utilises the straight-line depreciation method to determine its depreciation costs based on estimated useful lives of five years for furniture and fixtures and three to four years in respect of equipment.

## 6.4.3.2 Shareholders' assets

The following table presents the shareholders' assets as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-23: Shareholders' Assets**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Cash and cash equivalents	129,880	325	891	9,217	(99.7%)	174.2%	934%
Short term deposits	65,706	138,819	-	20,218	111.3%	(100.0%)	nm
Other assets	1,413	3,087	1,208	1,418	118.5%	(60.9%)	17.4%
Available-for-sale investments	12,948	63,085	74,314	83,772	387.2%	17.8%	12.7%
Held-to-maturity investments	-	-	60,000	60,000	nm	nm	-
Long-term deposits	-	36,250	56,250	56,250	nm	55%	-
Statutory deposits	20,000	20,000	20,000	20,000	-	-	-
<b>Total shareholders' assets</b>	<b>229,947</b>	<b>261,566</b>	<b>212,663</b>	<b>250,875</b>	<b>13.8%</b>	<b>(18.7%)</b>	<b>18.0%</b>

Source: Financial statements

Shareholders' assets mainly include investments (available-for-sale and held-to-maturity) and long term deposits. Combined, these accounted for 79.0% of total shareholders' assets at 30 June 2014G.

Shareholders' assets increased by 13.8%, from SAR 229.9 million at 31 December 2011G to SAR 261.6 million at 31 December 2012G, mainly due to an increase in short-term deposits and investments, this increase was partially offset by a decline in cash and cash equivalents. At 31 December 2013G, total shareholders' assets were SAR 48.9 million or 18.7% lower as compared to 31 December 2012G, largely as a result of a decline in short term deposits. This was followed by an increase of 18.0%, to SAR 250.8 million at 30 June 2014G, mainly due to an increase in short-term deposit, driven by an increase in cash inflows.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand as well as time deposits.

The balance of cash and cash equivalents declined from SAR 129.9 million at 31 December 2011G to SAR 0.3 million at 31 December 2012G as a result of investment of excess cash in short term deposits. Cash and cash equivalents at 31 December 2013G was largely in line with the 31 December 2012G balance.

At 30 June 2014G, cash and cash equivalents were SAR 8.3 million higher as compared to 31 December 2013G due to transfer of cash balance from insurance operations to shareholders operations.

### Short term deposits

Short-term deposits have a term of between three months and one year. Short-term deposits earned an average effective interest rate of 0.74% in 2011G, 0.81% in 2012G, 0.79% in 2013G and 1.6% in the first six months of 2014G.

The balance of short-term deposits increased from SAR 65.7 million at 31 December 2011G to SAR 138.8 million at 31 December 2012G due to investment of excess cash in short term deposits. No balance for short-term deposits was recorded at 31 December 2013G on account of maturity of deposits.

### Other assets

Other assets comprise interest on bonds and bank deposits as well as advances to employees and suppliers of office consumables.

In 2012G, other assets were SAR 1.7 million higher as compared to 31 December 2011G as a result of an increase in the headcount of employees and an expansion in operations, thereby driving an increase in advances to employees and suppliers of office consumables. This was followed by an increase of SAR 3.8 million, to SAR 7.6 million at 31 December 2013G, due to the increase in accrued interest resulting from the increase in investments of term deposits. At 30 June 2014G, other assets were SAR 0.2million higher as compared to 31 December 2013G due to further increases in accrued interest in light of further investments in term deposits.

### Available-for-sale investments

The following table presents available-for-sale investments as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-24: Available-for-Sale Investments**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Quoted bonds	-	55,479	55,982	70,313	nm	0.9%	25.6%
Quoted equity	12,948	7,606	18,332	13,459	(41.3%)	141.0%	(26.6%)
<b>Total</b>	<b>12,948</b>	<b>63,085</b>	<b>74,314</b>	<b>83,772</b>	<b>387.2%</b>	<b>17.8%</b>	<b>12.7%</b>

Source: Audited financial statement, Company

Available for sales investments increased by 387.2%, from SAR 12.9 million at 31 December 2011G to SAR 63.1 million at 31 December 2012G, followed by a 17.8% growth to SAR 74.3 million at 31 December 2013G. The increase in available for investments was due to the fact that the Company carried out additional investments in quoted bonds as depicted in the table above.

At 30 June 2014G, available for sale investments were 12.7% higher as compared with 31 December 2013 due to purchase of quoted bonds.

## Held-to-maturity investments

Held-to-maturity investment related to shareholders' operations of SAR 60.0 million at 30 June 2014G comprises Saudi Government sukuk issued by GACA with a term of 20 years and a coupon rate of 3.21%. These bonds were purchased on 10 July 2013.

## Long-term deposits

Long-term deposits of SAR 56.3 million at 31 December 2013G and 31 December June 2014G are related to deposits made in two local banks, with a term exceeding one year.

## Statutory deposits

In accordance with the Implementing Regulations for Insurance Companies, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA.

### 6.4.3.3 Insurance operations' liabilities

The following table presents insurance operations' liabilities as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-25: Insurance Operations' Liabilities**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Reinsurers' balances payable	3,430	36,548	39,165	39,744	965.5%	7.2%	1.5%
Unearned premiums	173,017	180,584	210,840	283,878	4.4%	16.8%	34.6%
Outstanding claims	182,379	171,792	154,587	167,055	(5.8%)	(10.0%)	8.1%
Claims incurred but not reported and other reserve	34,097	44,046	158,195	170,042	29.2%	259.2%	7.5%
Advance premiums	-	3,656	7,517	-	100%	105.6%	(100.0%)
Deferred reinsurance commission	3,120	5,263	5,097	3,405	68.7%	(3.2%)	(33.2%)
Accrued and other liabilities	27,969	35,518	51,355	41,452	27.0%	44.6%	(19.3%)
Payable to a related party	-	49,730	-	-	100%	(100.0%)	-
Employee termination benefits	14,246	15,875	16,495	17,063	11.4%	3.9%	3.4%
<b>Total insurance operations' liabilities</b>	<b>438,258</b>	<b>543,012</b>	<b>643,251</b>	<b>722,639</b>	<b>23.9%</b>	<b>18.5%</b>	<b>12.3%</b>

Source: Financial statements

Insurance operations' liabilities increased by 23.9%, from SAR 438.3 million at 31 December 2011G to SAR 543.0 million at 31 December 2012G mainly due to payables attributed to a related party balance of SAR 49.7 million recorded at 31 December 2012G. At 31 December 2013G, insurance operations' liabilities were SAR 100.2 million higher as compared to 31 December 2012G, mainly as a result of an SAR 114.1 million increase in IBNR and other reserves resulting from prudent reserving.

At 30 June 2014G, total insurances operations' liabilities were SAR 79.0 million higher as compared to 31 December 2013G, mainly due to a SAR 26.9 million and SAR 24.3 million increase in unearned premiums as a result of the timing of policy renewal and outstanding claims (including IBNR) respectively. This increase is partially offset by decline in accrued and other liabilities by SAR 9.9 million as a result of settlement of accrued expenses.

## Reinsurers' balance payable

Reinsurers' balance payable primarily relates to balances payable to AXA Global P&C (previously AXA Cessions) under the reinsurance treaty arrangement. This balance is settled on a quarterly basis.

At 31 December 2012G, reinsurers' balance payable was SAR 33.1 million higher as compared to 31 December 2011G as a result of several facultative reinsurance placements and reinstatement premiums ceded. It marginally increased to SAR 39.7 million at 30 June 2014G, from SAR 39.2 million at 31 December 2013G.

## Unearned premiums

Unearned premiums are on account of insurance premiums that will be earned in the future. Recognition of these premiums in the results of insurance's operations is deferred on a basis consistent with the term of the related policy coverage.

Unearned premiums increased by 4.4%, from SAR 173.0 million at 31 December 2011G to SAR 180.6 million at 31 December 2012G, followed by a 16.8% increase to SAR 210.8 million at 31 December 2013G and 34.6% increase to SAR 283.8 million at 30 June 2014G. The increase in unearned premiums was principally driven by the increase in gross premiums written over period between 1 January 2011G to 30 June 2014G.

## Outstanding claims

The following table presents outstanding claims by line of business as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-26: Outstanding Claims**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	35,494	27,375	11,598	15,633	(22.9%)	(57.6%)	34.8%
Health	27,956	27,238	46,338	65,235	(2.6%)	70.1%	40.8%
Property	82,509	87,560	66,295	54,518	6.1%	(24.3%)	(17.8%)
Marine	16,724	15,084	8,851	9,503	(9.8%)	(41.3%)	7.4%
Engineering	11,744	12,711	14,839	15,967	8.2%	16.7%	7.6%
Accident and liability	2,140	1,533	3,573	4,868	(28.4%)	133.1%	36.2%
Protection	2,710	809	2,562	1,296	(70.1%)	216.5%	(49.4%)
Other general insurance	3,102	(517)	529	35	(116.7%)	(202.2%)	(93.4%)
<b>Closing balance</b>	<b>182,379</b>	<b>171,792</b>	<b>154,587</b>	<b>167,055</b>	<b>(5.8%)</b>	<b>(10.0%)</b>	<b>8.1%</b>

Source: Financial statements, Company

Claims outstanding represent the amount of claims reported during the period that are pending settlement. The amount is gross of the reinsurance share of claims. The amount is payable to policyholders upon completion of an investigation, formulation of required documentation and validation of the amount due for settlement.

Outstanding claims declined by 5.78%, from SAR 182.4 million at 31 December 2011G to SAR 171.8 million at 31 December 2012G, followed by a 10.0% decline to 154.6 million at 31 December 2013G and 8.1% increase to SAR 167.0 million at 30 June 2014G. The increase in outstanding claims between 31 December 2011G and 30 June 2014G is due to higher reported motor, medical claims partially offset by reduction in reported claims in property segment.

## Claims incurred but not reported (IBNR) and other reserve

The following table presents IBNR and other reserves by line of business as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-27: IBNR and Other Claim Expense Reserves**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Motor	3,556	10,888	104,918	107,873	206.2%	863.6%	2.8%
Health	21,901	20,048	34,886	41,126	(8.5%)	74.0%	17.9%
Property	2,078	4,071	5,312	5,267	95.9%	30.5%	(0.8%)
Marine	2,015	2,995	3,507	4,227	48.7%	17.1%	20.5%
Engineering	1,060	2,634	5,243	6,363	148.5%	99.0%	21.4%
Accident and liability	887	1,161	2,090	2,066	30.9%	80.0%	(1.1%)
Protection	2,584	2,210	2,241	3,120	(14.5%)	1.4%	39.2%
Other general insurance	16	38	-	-	-	-	-
<b>Closing balance</b>	<b>34,097</b>	<b>44,046</b>	<b>158,195</b>	<b>170,042</b>	<b>29.2%</b>	<b>259.2%</b>	<b>7.5%</b>

Source: Company

IBNR provisions are calculated using certain actuarial techniques with reference to past claim settlement trends. The Company undertakes a review of IBNR provisions on a monthly basis.

IBNR and other reserves for claim expenses increased by 29.2%, from SAR 34.1 million at 31 December 2011G to SAR 44.0 million at 31 December 2012G. This was mainly attributable to higher IBNR provisions in respect of the motor and property segments on account of the increase in the frequency of claims coupled with growth in gross premiums written. This was partially offset by a decline in IBNR provisions for the health segment, which resulted from positive developments in the health insurance portfolio.

At 31 December 2013G, IBNR and other reserves for claim expenses was SAR 114.1 million, or 259.2%, higher as compared to 31 December 2012G. This was primarily attributable to an increase in IBNR provisions for the motor segment by SAR 94.0 million or 863.6% and health segment by SAR 15.3 million or 97.8%.

IBNR and other claim expense reserves increased by 7.5%, from SAR 158.2 million at 31 December 2013G to SAR 170.0 million at 30 June 2014G, which is in line with increase in outstanding claims.

## Advance premiums

Balances for advance premiums are recorded when amounts are received from policyholders and intermediaries before the effective commencement date of the policy term. As a result, no balances were recorded at 31 December 2011G and 30 June 2014G.

## Deferred reinsurance commissions

The following table presents the movement in deferred reinsurance commissions during the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2014G.

**Table 6-28: Deferred Reinsurance Commissions**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Opening balance	3,248	3,120	5,263	5,097	(3.9%)	68.7%	(3.2%)
Commission received during the year	9,823	15,023	13,707	7,801	52.9%	(8.8%)	(43.1%)
Commission earned during the year	(9,951)	(12,880)	(13,873)	(9,493)	29.4%	7.7%	(31.6%)
<b>Closing balance</b>	<b>3,120</b>	<b>5,263</b>	<b>5,097</b>	<b>3,405</b>	<b>68.7%</b>	<b>(3.2%)</b>	<b>(33.2%)</b>

Source: Financial statements, Company

Deferred reinsurance commissions represent the outstanding balance of unearned commissions as at each balance sheet date.

Variances in the closing balance of deferred reinsurance commissions were driven by commissions received and earned during the period. In 2012G, commissions received and commissions earned increased by 52.9% and 29.4%, respectively, as a result of an increase in reinsurance commissions generated from the property and marine segments. This was followed by a decline in commissions received and earned in 2013G, by 8.8% and 7.7%, respectively, which were mainly attributable to a decrease in the level of facultative placements in respect of the property segment. As at 30 June 2014G, commissions earned exceeded commissions received by SAR 1.7 million thereby decreasing the carried forward balance of SAR 5.1 million as at 31 December 2013G by the same amount.

## Accrued and other liabilities

The following table presents accrued and other liabilities as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-29: Accrued and Other Liabilities**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Accrued salaries and other	2,718	7,030	11,814	7,641	158.6%	68.1%	(35.3%)
Commission payable	5,967	8,252	8,616	7,760	38.3%	4.4%	(9.9%)
Regulatory fee	2,302	3,237	3,913	3,214	40.6%	20.9%	(17.9%)
Unclaimed cheques	13,447	8,149	12,951	12,374	(39.4%)	58.9%	(4.5%)
Payables to vendors	-	3,329	7,148	2,927	nm	114.7%	(59.1%)
Other	3,535	5,521	6,913	7,536	56.2%	25.2%	9.0%
<b>Total</b>	<b>27,969</b>	<b>35,518</b>	<b>51,355</b>	<b>41,452</b>	<b>27.0%</b>	<b>44.6%</b>	<b>(19.3%)</b>

Source: Financial statements, Company

Accrued and other liabilities increased from SAR 28.0 million at 31 December 2011G to SAR 35.5 million at 31 December 2012G, mainly due to:

- SAR 4.3 million or 158.6% increase in accrued salaries and other, as a result of growth in the number of staff combined with increase in annual salaries due to increments and the recruitment of senior management personnel.
- SAR 3.3 million increase in payables and vendors, as a result of an increase in business operations.
- SAR 2.3 million or 38.3% increase in commission's payable.

The increase in accrued and other liabilities as a result of the above, was partially offset by a SAR 5.3 million or 39.4% decline in unclaimed cheques at 31 December 2012G as a result of stale cheques reversals.

At 31 December 2013G, accrued and other liabilities stood at SAR 51.4 million, an increase of SAR 15.8 million or 44.6% as compared to 31 December 2012G. This growth was mainly due to:

- SAR 4.8 million or 68.1% increase in accrued salaries and other, mainly as result of additional recruitments.

- SAR 4.8 million or 58.9% increase in unclaimed cheques.
- SAR 3.8 million or 114.7% increase in payables to vendors.

At 30 June 2014G, accrued and other liabilities further decreased by 19.3%, to SAR 41.4 million. The decrease was primarily attributable to the settlement / payments of accrued and other liabilities.

#### Payable to a related party

The balance of "payable to a related party" at 31 December 2012G pertains to AXA Global P&C (previously AXA Cessions) Paris, the major reinsurer of the Company and a related party. This balance pertains to the reinsurer's share of outstanding claims relating to a SAR 70 million claims by a certain customer reported in 2012G. The Company received this balance prior to the closure of books and the claim was settled subsequent to the year end. Thereby, the Company recorded this amount as a payable to the related party until the actual outstanding claim got settled.

#### Employee termination benefits

Employees' termination benefits comprise statutory provisions for end of service benefits maintained by the Company, in line with the Ministry of Labor's regulations.

End of service benefits' balance increased by 11.4%, from SAR 14.2 million at 31 December 2011G to SAR 15.9 million at 31 December 2012G, and further to SAR 16.5 million at 31 December 2013G mainly as a result of increments in employees' salaries and head count, combined with an increase in the period of employment.

At 30 June 2014G, the balance of end of service benefits is up by 0.6 million compared to 31 December 2013G due to additional provision during the period which is partially offset by settlement of termination of benefits of certain employees who resigned during the first six months of 2014G.

#### 6.4.3.4 Insurance accumulated surplus

The following table presents the Company's accumulated surplus from insurance operations as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-30: Insurance Accumulated Surplus**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Accumulated surplus from insurance operations	-	557	1,658	2,519	nm	197.7%	51.9%
Fair value reserve on available-for-sale investments	(483)	246	(1,071)	967	(150.9%)	(535.4%)	(190.3%)
<b>Total insurance accumulated surplus</b>	<b>(483)</b>	<b>803</b>	<b>587</b>	<b>3,486</b>	<b>(266.3%)</b>	<b>(26.9%)</b>	<b>493.9%</b>

Source: Financial statements

Insurance accumulated deficit of SAR 0.5 million at 31 December 2011G increased to surplus of SAR 0.8 million at 31 December 2012G as a result of an accumulated surplus from insurance operations and fair value reserve on available for sales investments during the year. This was followed by a decline to SAR 0.6 million as a result of SAR 1.1 million fair value loss on available for sale investments.

At 30 June 2014G, insurance accumulated surplus was SAR 2.9 million as compared to 31 December 2013G due to an increase in the accumulated surplus from insurance operations.

#### Accumulated surplus from insurance operations

In accordance with the requirements of the implementing regulations for co-operative insurance issued by SAMA, 10.0% of the net surplus from insurance operations is transferred quarterly to accumulated surplus from insurance operations.

#### Fair value reserve on available-for-sale investments

Fair value reserve on available-for-sale investments represents accumulated changes in the fair value of available for sale investments that are transferred to the insurance accumulated surplus.

### 6.4.3.5 Shareholders' liabilities

The following table presents shareholders' liabilities as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-31: Shareholders' Liabilities**

SAR in 000's	As at 31 December			As at 30 June	Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Accrued zakat and income tax	3,985	5,942	5,445	6,372	49.1%	(8.4%)	17.0%
Accrued and other liabilities	407	1,378	1,020	602	238.6%	(26.0%)	(41.0%)
Due to insurance operations	54,791	73,894	14,823	42,291	34.9%	(79.9%)	185.3%
<b>Total shareholders' liabilities</b>	<b>59,183</b>	<b>81,214</b>	<b>21,288</b>	<b>49,265</b>	<b>37.2%</b>	<b>(73.8%)</b>	<b>131.4%</b>

Source: Financial statements

Shareholders' liabilities primarily include payable balance to insurance operations. These are mainly on account of expenses incurred by shareholders' operations but funded by insurance operations. The balance of due to insurance operations increased by 37.2%, from SAR 59.2 million at 31 December 2011G to SAR 81.2 million at 31 December 2012G as a result of an increase in funds transferred for expenses. This was followed by a decline of 73.8%, to SAR 21.3 million at 31 December 2013G as a result of a SAR 53.4 million settlements made during the year.

At 30 June 2014G, due to insurance operations balance was SAR 49.2 million, SAR 28.0 million or 131.4% higher as compared to 31 December 2013G as a result of an increase in the level of funds transferred from insurance operations.

The Company creates a provision for zakat based on 2.5% of the approximate zakat base adjusted net income / loss attributable to Saudi shareholders of the Company while taxable income attributable to foreign shareholders is subject to annual income tax rate of 20.0%. Note that the company has got the last zakat assessment in May 2014G.

### 6.4.3.6 Contingent liabilities

The shareholders' of the AXA Insurance (Saudi Arabia) B.S.C. (c) (the 'Seller'), at the time of formation of the Company, had principally agreed to transfer certain assets and liabilities as at 1 January 2009G of the insurance portfolio in the Kingdom of Saudi Arabia to the Company at a value to be determined by SAMA.

On 1 October 2012G, SAMA approved the portfolio transfer, with effect from 1 January 2009G, at a consideration of SAR 106.6 million. Consequent to SAMA's approval, the Company has formally entered into a purchase agreement with the shareholders' of the Seller to effect the transfer. Also, the shareholders of the Company have approved the portfolio transfer at their Extra Ordinary General Assembly Meeting held on 10 December 2012G.

Settlement of such consideration can only be made upon fulfilling certain conditions dictated by SAMA which include, among others, the following:

- Maintenance of required solvency margin and minimum share capital;
- Restriction on repayment up to a maximum of 50% of the profit earned in the current year;
- Restriction on settlement in the year of loss or out of retained earnings; and
- Limitation on duration within which payment of consideration can be made.

Unless above conditions are met, the consideration of SAR 106.6 million is not payable and hence disclosed as a contingent liability. Management will however, reassess the conditions for settlement of the consideration at each balance sheet date during the period in which payment can be made and will recognize a liability, if required.



### 6.4.3.7 Shareholders' equity

The following table presents the shareholders' equity as at 31 December 2011G, 2012G, 2013G and 30 June 2014G.

**Table 6-32: Shareholders' Equity**

SAR in 000's	As at 31 December			As at 30 June		Increase / (Decrease)	
	2011G Audited	2012G Audited	2013G Audited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Share capital	200,000	200,000	200,000	200,000	-	-	-
Fair value reserve	394	4,297	2,378	3,807	990.6%	(44.7%)	60.1%
Accumulated deficit	(29,630)	(23,945)	(11,003)	(2,197)	(19.2%)	(54.0%)	(80.0%)
<b>Total shareholders' equity</b>	<b>170,764</b>	<b>180,352</b>	<b>191,375</b>	<b>201,610</b>	<b>5.6%</b>	<b>6.1%</b>	<b>5.3%</b>

Source: Financial statements

#### Share capital

The Company's authorised and issued share capital amounted to SAR 200.0 million at 31 December 2011G, 2012G, 2013G and 30 June 2014, comprising 20.0 million shares with a par value of SAR 10.0 each share.

As of the date of this Prospectus, no shares of the Company are under option.

#### Fair value reserve

Fair value reserve on available-for-sale investments represents accumulated changes in the fair value of shareholders' available-for-sale investments that are transferred to the shareholders equity in accordance with the prescribed accounting regulations.

#### Accumulated surplus/deficit

Accumulated deficit represents net gains/losses realised for the year in which they materialise and previous years in addition to zakat and income tax expense.

### 6.4.4 Cash flow statement

The following table summarises the Company's cash flow statement for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2014G.

**Table 6-33: Cash Flow Statement Summary**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Cash flow from operating activities	(57,719)	78,433	174,296	80,523	29,677	(235.9%)	122.2%	(63.1%)
Cash flow from investing activities	(44,130)	(94,682)	(76,809)	(138,472)	(66,429)	114.6%	(18.9%)	(52.0%)
Net increase / (decrease) in cash and cash equivalents	(101,849)	(16,249)	97,487	(57,949)	(36,752)	(84.0%)	(700.0%)	(36.6%)
Cash and cash equivalents, beginning of the year	192,216	90,367	74,118	74,118	171,605	(53.0%)	(18.0%)	131.5%
<b>Cash and cash equivalents, end of the year</b>	<b>90,367</b>	<b>74,118</b>	<b>171,605</b>	<b>16,169</b>	<b>134,853</b>	<b>(18.0%)</b>	<b>131.5%</b>	<b>734.0%</b>

Source: Financial statements

In 2011G the Company reported net cash outflows of SAR 101.8 million mainly as a result of net deficit incurred since the first year of operations. In 2012G, net cash outflow reduced by SAR 85.6 million or 84.0%, mainly as a result of the improvement in results of insurance operations, which positively impacted the Company's operational cash flow.

in 2013G the Company reported net cash inflows of SAR 97.5 million and a decrease of SAR 36.7 million in the first six months of 2014G, mainly due to increase in operational activity causing strain on operational cash flows during the period. Cash flow from operating activities

#### 6.4.4.1 Cash Flow from Operating Activities

The following table summarises the Company's cash flow from operating activities for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-34: Cash from Operating Activities**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Net results from insurance operations	-	557	1,101	1,046	861	nm	97.7%	(17.7%)
<b>Adjustments</b>								
Shareholders' appropriation of surplus from insurance operations	(14,241)	5,015	9,910	9,411	7,745	(135.2%)	97.6%	(17.7%)
Depreciation	1,880	1,962	3,388	1,279	1,795	4.4%	72.7%	40.3%
	<b>(12,361)</b>	<b>7,534</b>	<b>14,399</b>	<b>11,736</b>	<b>10,401</b>	<b>(160.9%)</b>	<b>91.1%</b>	<b>(11.4%)</b>
<b>Changes in operating assets and liabilities:</b>								
Premium and insurance balances receivable - net	26,257	4,178	(24,291)	(9,661)	(19,899)	(84.1%)	(681.4%)	106.0%
Reinsurers' share of unearned premiums	(1,224)	(2,254)	(3,163)	18,113	325	84.2%	40.3%	(98.2%)
Reinsurers' share of outstanding claims	(64,011)	(6,072)	29,910	4,928	8,828	(90.5%)	(592.6%)	79.1%
Deferred policy acquisition costs	6,165	(3,052)	(1,816)	(1,544)	(2,964)	(149.5%)	(40.5%)	92.0%
Other assets	1,092	(2,017)	(3,847)	(7,573)	(880)	(284.7%)	90.7%	(88.4%)
Receivable from related parties	(14,225)	(520)	13,704	(14,516)	(10,309)	(96.3%)	nm	(29.0%)
Reinsurers' balances payable	(16,567)	33,118	2,617	(14,551)	579	(299.9%)	(92.1%)	(104.0%)
Unearned premiums	(6,922)	7,567	30,256	27,654	73,038	(209.3%)	299.8%	164.1%
Advance premiums	-	3,656	3,861	-	(7,517)	nm	5.6%	nm
Outstanding claims	61,270	(10,587)	(17,205)	(21,645)	24,315	(117.3%)	62.5%	(212.3%)
Claims incurred but not reported and other reserve	(1,703)	9,949	114,149	69,887	-	(684.2%)	1,047.3%	(100%)
Deferred reinsurance commission	(128)	2,143	(166)	(1,275)	(1,692)	nm	nm	32.7%
Accrued and other liabilities	(5,243)	7,549	15,837	6,098	(9,903)	(244.0%)	109.8%	(262.4%)
Payable to a related party	(3,038)	49,730	(49,730)	(49,730)	-	nm	(200.0%)	(100.0%)
Employee termination benefits	573	1,629	620	955	568	184.3%	(61.9%)	(40.5%)
Due from shareholders	(27,654)	(24,118)	49,161	61,647	(35,213)	(12.8%)	(303.8%)	(157.1%)
<b>Net cash provided from operating activities</b>	<b>(57,719)</b>	<b>78,433</b>	<b>174,296</b>	<b>80,523</b>	<b>29,677</b>	<b>(235.9%)</b>	<b>122.2%</b>	<b>(63.1%)</b>

Source: Financial statements

In 2011G, the Company reported net cash outflow from operating activities of SAR 57.7 million due to deficit incurred in insurance operations, combined with cash outflow due to changes in operating assets and liabilities.

However, in 2012G and 2013G, cash inflow from operations improved considerably, to SAR 78.4 million and SAR 174.3 million, respectively. The increase in operating cash inflows was driven by a growth in surplus from insurance operations and cash inflow from changes in operating assets and liabilities. Settlement of reinsurers' share of claims, increase in payables to reinsurers and a related party were the primary reasons for the cash inflow from change in operating assets and liabilities during 2012G. While in 2013G, cash inflow from changes in operating assets and liabilities was mainly attributable to an increase in IBNR and a decline in the balance receivable from shareholders.

In the first six months of 2014G, the Company's cash inflow from operations was decreased by 63.15 due to settlement of related party balances and transfer of funds to shareholders operation.

#### 6.4.4.2 Cash flow from investing activities

The following table summarises the Company's cash flow from investing activities for the financial years ended 31 December 2011G, 2012G, 2013G and the six months period ended 30 June 2013G and 2014G.

**Table 6-35: Cash Flow from Investing Activities**

SAR in 000's	Financial year ended 31 December			First six months ended 30 June		Increase / (Decrease)		
	2011G Audited	2012G Audited	2013G Audited	2013G Unaudited	2014G Unaudited	Dec 2012G	Dec 2013G	June 2014G
Purchase of furniture, fixtures and equipment	(2,769)	(5,782)	(2,665)	(752)	(1,007)	108.8%	(53.9%)	33.9%
Short term deposits	-	(61,142)	34,601	(104,060)	(66,079)	nm	(156.6%)	(36.5%)
Purchase of available-for-sale investments	(41,361)	(25,007)	(34,651)	(33,660)	(8,410)	(39.5%)	38.6%	(75.0%)
Proceeds from sale of available-for-sale investments	-	4,749	906	-	9,067	nm	(80.9%)	100.0%
Long term deposit	-	(7,500)	-	-	-	nm	(100.0%)	nm
Purchase of held-to-maturity investments	-	-	(75,000)	-	-	nm	nm	nm
<b>Cash flow from investing activities</b>	<b>(44,130)</b>	<b>(94,682)</b>	<b>(76,809)</b>	<b>(138,472)</b>	<b>(66,429)</b>	<b>114.6%</b>	<b>(18.9%)</b>	<b>(52.0%)</b>

Source: Financial statements

Cash outflow from investing activities during the period from 1 January 2011G to 30 June 2014G mainly relates to the purchase of available-for-sale and held-to-maturity investments, and investments in short term deposits.

In 2012G, cash outflow from investing activities increased by SAR 50.6 million or 114.6%, mainly due to investment of SAR 61.1 million carried out during the year. Cash outflow from investing activities declined by SAR 17.9 million or 18.9% in 2013G as investments of short-term deposits carried out in 2012G matured during the year. This was partially offset by outflow of SAR 75.0 million that pertain to the purchase of additional held-to-maturity investments.

In the first six months of 2014G, the Company reported cash outflow from investing activities of SAR 66.4 million. This was primarily on account of investments in short term deposits.

## 7. DESCRIPTION OF SHARES

### 7.1 SHARE CAPITAL

The share capital of the Company is SAR 200,000,000 (two hundred million), consisting of 20,000,000 (twenty million) ordinary shares with a nominal value of SAR 10 (ten) each.

### 7.2 ORDINARY SHARES

The Shares may not be issued at less than their nominal value. However, the Shares may be issued at an issue price higher than their nominal value, in which case the difference in value is to be added to the reserve, even if the share premium reserve has reached its maximum limit. A Share is treated as indivisible by the Company. In the event that a Share is owned by more than one person, they must select one of them to exercise, on their behalf, the rights pertaining to the Share, and such persons are jointly responsible for the obligations arising from the ownership of the Share.

### 7.3 CAPITAL INCREASE

If the Board of Directors considers it to be economically feasible, and after obtaining the approval of the competent authorities, the Extraordinary General Assembly may adopt a resolution to increase the Company's share capital by issuing new shares having the same nominal value as the Shares, provided that the original share capital shall have been paid in full, with due consideration to the requirements of the Companies Regulations, the Capital Market Law and the Insurance Law and its Implementing Regulations. The Extraordinary General Assembly will specify the manner in which the share capital will be increased and Shareholders shall have pre-emptive rights to subscribe for any new shares to be issued for cash.

### 7.4 CAPITAL DECREASE

The Extraordinary General Assembly may, where justifiable and after obtaining the approval of the competent authorities, reduce the Company's share capital if it proves to be in excess of the Company's needs or if the Company sustains losses. Such resolution shall be issued only after obtaining an auditor's report on the reasons for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations. The resolution shall provide for the manner in which the reduction shall be made.

### 7.5 RIGHTS OF THE SHAREHOLDERS

Under Article 108 of the Companies Regulations, a Shareholder is vested with all the rights attached to the Shares, which include in particular the right to receive a share in the profits declared for distribution, the right to a share in the Company's assets upon liquidation, the right to attend General Assemblies (for any Shareholder holding at least twenty (20) Shares) and participate in the deliberations and vote on the resolutions proposed at such meetings, the right to dispose of Shares, the right to inspect the Company's books and documents, the right to supervise the acts of the Board of Directors, the right to institute proceedings against the Directors and the right to contest the validity of the resolutions adopted at General Assemblies. Shareholders are not entitled to require the Company to buy back their Shares.

### 7.6 GENERAL ASSEMBLIES

A duly convened General Assembly is deemed to represent all the Shareholders, and must be held in the city where the Company's head office is located.

With the exception of the constituent General Assembly, the general meetings of Shareholders are either Ordinary General Assemblies or Extraordinary General Assemblies. With the exception of those matters reserved for the Extraordinary General Assembly, the Ordinary General Assembly deals with all matters concerning the Company. The Ordinary General Assembly must be convened at least once a year, within six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assemblies may be convened as required.

The Extraordinary General Assembly has the power to amend the By-Laws (to the extent permissible under the Companies Regulations). Furthermore, the Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly, subject to the same requirements applicable to the Ordinary General Assembly.

## 7.7 CONVENING A GENERAL ASSEMBLY

The General Assembly must be convened by the Board of Directors. The Board of Directors must convene a meeting of the Ordinary General Assembly if requested to do so by the auditors or by Shareholders representing at least five per cent. (5%) of the Company's capital. The Company must publish an invitation to Shareholders to attend the General Assembly in the Official Gazette and in a daily newspaper circulated in the location of the Head Office, at least twenty-five (25) days prior to the date of the General Assembly. The invitation must include the agenda of the meeting. Alternatively, the Company may send a notice containing the invitation to the Shareholders to attend the General Assembly by registered mail during the period set out above. A copy of the notice and the agenda shall be sent during the notice period set out above to the Companies Department at MOCI. A list of Shareholders attending the General Assembly in person or by proxy shall be prepared.

The General Assembly meetings shall be chaired by the Chairman of the Board of Directors or, in his absence, by his deputy from among the members of the Board of Directors. The General Assembly shall appoint a secretary for the meeting and a person responsible for counting the votes. Minutes of meetings shall be prepared showing the names of the Shareholders attending in person or by proxy, in addition to the number of Shares they represent and the votes attached thereto. The minutes shall also include the resolutions which are adopted in the General Assembly and the number of votes for and against each resolution. The minutes should also include a summary of the discussions that took place during the meeting. The minutes shall be kept after the conclusion of each meeting in a special register signed by the chairman of the General Assembly, the secretary and the person charged with counting the votes.

## 7.8 QUORUM OF AN EXTRAORDINARY GENERAL ASSEMBLY

A meeting of the Extraordinary General Assembly is quorate if attended by Shareholders representing at least fifty per cent. (50%) of the Company's capital. If such quorum is not present at the first meeting, a second meeting must be held within thirty (30) days following the time set for the first meeting. Notice of such meeting must be published in compliance with the procedures set out in Section 7.7 above.

The second meeting is quorate if attended by Shareholders representing at least twenty-five per cent. (25%) of the Company's capital.

## 7.9 QUORUM OF AN ORDINARY GENERAL ASSEMBLY

A meeting of the Ordinary General Assembly is quorate if attended by Shareholders representing at least fifty per cent. (50%) of the Company's capital. If such quorum is not present at the first meeting, a second meeting must be held within thirty (30) days following the time set for the first meeting. Notice of such meeting must be published in compliance with the procedures set out in Section 7.7 above. The second meeting is deemed quorate irrespective of the number of Shares represented at such meeting.

## 7.10 TRANSFER OF SHARES

The transfer of Shares is governed by, and must comply with, the regulations governing companies listed on Tadawul and the regulations issued by SAMA from time to time. Transfers made other than in accordance with such regulations are void.

## 7.11 VOTING RIGHTS

Each Shareholder holding at least twenty (20) Shares shall have the right to attend a General Assembly and may authorise in writing another Shareholder (other than a member of the Board of Directors who is a Shareholder or an employee of the Company) to attend the General Assembly on his/her behalf. Votes at the meetings of Ordinary and Extraordinary General Assemblies are counted on the basis of one (1) vote for every Share represented at the meeting.

Resolutions of the Ordinary General Assembly are passed if approved by a majority of the Shares represented at the meeting. Resolutions of the Extraordinary General Assembly are passed if approved by a majority of at least two-thirds of the Shares represented at the meeting. If the resolution relates to an increase or a reduction in the Company's capital, extending the term of the Company, merging the Company with another company or organisation or winding-up of the Company, then such resolution may only be passed if approved by a majority of at least three-quarters of the Shares represented at the meeting.

## 7.12 TERM OF THE COMPANY

The term of the Company is ninety-nine (99) Gregorian years commencing on the date of issuance of the Minister of Commerce and Industry's resolution announcing the incorporation of the Company. The term of the Company may be extended by a resolution adopted by the Extraordinary General Assembly at least one (1) year prior to the expiry of its term.

### 7.13 DISSOLUTION AND LIQUIDATION OF THE COMPANY

Upon the expiry of the Company's term, or if, based on a proposal by the Board of Directors, the Extraordinary General Assembly decides to dissolve the Company, the Extraordinary General Assembly shall determine the method of liquidation and shall appoint one (1) or more liquidators and specify their powers and fees. The powers of the Board of Directors cease upon the expiry of the Company's term. However, the Board of Directors remains responsible for the management of the Company until the liquidator(s) are appointed. The Company's administrative departments maintain their powers to the extent that they do not interfere with the powers of the liquidator(s).

## 8. DIVIDEND POLICY

It is the intention of the Company to make dividend payments with a view to maximising shareholder value commensurate with the on-going capital expenditure and investment requirements of the Company. The dividend policy of the Company is in compliance with the By-Laws and approved by the Shareholders. Dividends may only be distributed by the Company from its annual net profits subject to the following limitations contained in Article 46 of the By-Laws:

1. The prescribed Zakat and income tax shall be set aside.
2. Not less than twenty per cent. (20%) of the net profits shall be set aside for the statutory reserve. The Ordinary General Assembly may suspend such allocation when the said reserve amounts to the total of the paid-up capital.
3. The Ordinary General Assembly may, upon a recommendation of the Board, set aside a certain percentage of the annual profits to create an additional reserve and allocate it for a certain purpose or purposes to be specified by the General Assembly.
4. Subsequently, an initial payment shall be made to the Shareholders constituting not less than five per cent. (5%) of the paid-up capital. Thereafter, the remaining balance shall be distributed among the Shareholders as dividends or may be transferred to retained earnings.
5. Subject to a resolution of the Board, periodical/interim dividends may be distributed to the Shareholders which shall be deducted from the annual profits specified under paragraph (4) above in accordance with the rules and regulations issued by the competent authorities.

The Company is required to notify the CMA of any resolutions relating to the distribution of dividends and any recommendation to distribute dividends. Dividends shall be paid to the Shareholders at such times as specified by the Board in accordance with the directives issued by MOCI and subject to the prior written approval of SAMA.

Any declaration of dividends will be dependent upon the Company's earnings, its financial condition, the condition of the markets, the general economic climate, and other factors, including analysis of investment opportunities and reinvestment needs, cash and capital requirements, and business prospects, as well as other legal and regulatory considerations and any dividend restrictions under any debt financing arrangements the Company may have entered into.

The Company has not yet paid dividends due to an accumulated deficit.

## 9. CAPITALISATION

The Company's share capital is SAR 200,000,000 (two hundred million), consisting of 20,000,000 (twenty million) shares with a nominal value of SAR 10 (ten) per share, all of which are cash shares. The Founding Shareholders subscribed to sixty per cent. (60%) of the total shares and the remaining forty per cent. (40%) were subscribed to by the public through an IPO that took place on 18 April 2009. No preferential rights have been granted to the Founding Shareholders or other Shareholders.

**Table 9-1: Capitalisation and Indebtedness**

	Saudi Riyals
	2013G
<b>Insurance Operations Liabilities</b>	
Due to Reinsurers	39,165,000
Gross Unearned Premiums	210,840,000
Unearned Reinsurance Commission	5,097,000
Gross Outstanding Claims	312,782,000
Due Payments, Accrued Expenses and Other Liabilities	75,367,000
Accumulated Surplus and Fair Value Reserves	587,000
<b>Total Insurance Operations Liabilities</b>	<b>643,838,000</b>
<b>Total Shareholders' Liabilities &amp; Equity</b>	
<b>Shareholders' Liabilities</b>	
Due Zakat and Payable Tax	5,445,000
Amounts Due To Related Parties	-
Amounts Due to Insurance Operations	14,823,000
Other Liabilities	1,020,000
<b>Total Shareholders' Liabilities</b>	<b>21,288,000</b>
<b>Shareholders' Equity</b>	
Share capital	200,000,000
Accumulated Losses and Fair Value Reserves	(8,625,000)
<b>Total Shareholders' Equity</b>	<b>191,375,000</b>
<b>Total Shareholders' Equity &amp; Liabilities</b>	<b>212,663,000</b>
<b>Total Insurance Operations Liabilities and Shareholders' Equity &amp; Liabilities</b>	<b>856,501,000</b>

Source: Audited Financial Statements

There are no issued or existing instruments, declared and not yet issued instruments, or any term loans which are covered or not covered by either a personal guarantee or a mortgage at the date of this Prospectus.

The Company has no loans or debts, including any overdraft facilities, liabilities under acceptance, acceptance credit or lease purchase obligations, which are covered or not covered by either a personal guarantee or a mortgage as at the date of this Prospectus.

There are no mortgages, rights or encumbrances on the properties of the Company as at the date of this Prospectus. The Company has no contingent liabilities or guarantees as at the date of this Prospectus.

The Company's capital is not under option as of the date of this Prospectus.

The Company's capital has not been changed since its incorporation and remains at SAR 200,000,000 (two hundred million).



## 10. USE OF PROCEEDS

### 10.1 NET PROCEEDS

The total gross proceeds from the Offering are estimated to be SAR 250,000,000, of which SAR 10,000,000 will be allocated to fees and expenses in connection with the Offering, including fees of each of the Financial Advisor, Lead Manager, Legal Advisors to the Company, Legal Advisors to the Underwriter, Auditors, Market Consultant, media and public relations consultants, other advisors, printing and distribution expenses, in addition to underwriting expenses and other fees and expenses related to the Offering.

The net proceeds of the Offering are therefore expected to be SAR 240,000,000, after deducting all the expenses of the Offering.

### 10.2 USE OF PROCEEDS

The Company intends to use the proceeds to:

1. maintain the statutory deposit and an adequate solvency margin in accordance with the requirements of the Insurance Law and its Implementing Regulations to support future growth plans;
2. develop the existing operations of the Company, including the investment in a new head office (the location of which has not yet been determined) and infrastructure; and
3. make a contribution of SAR 50,000,000 (being twenty per cent (20%) of the capital raised) towards the consideration payable for the portfolio acquired pursuant to the Portfolio Transfer.

The Shareholders will not receive any proceeds resulting from the Offering.

The following table illustrates the use of proceeds:

**Table 10-1: Additional Capital Allocation**

	SAR thousands
Additional Capital	250,000
Offering expenses	(10,000)
Portfolio Transfer	(50,000)
New Office	(40,000)
Capital available for maintenance of solvency*	150,000
Additional Capital Available for maintenance of solvency	150,000

\*SAR 25,000,000 from the amount allocated to maintain the solvency will be used as a statutory deposit to comply with the Insurance Law and its Implementing Regulations which require an insurance company to deposit in a local bank a statutory deposit (amounting to (10%) of the relevant company's paid-up capital) to the order of SAMA.

Total (SAR Thousands)	Expense Per Quarter (SAR Thousands)									Total
	30 Jun 2015G	30 Sep 2015G	31 Dec 2015G	31 Mar 2016G	30 Jun 2016G	30 Sep 2016G	31 Dec 2016G	31 Mar 2017G	30 Jun 2017G	
Offering expenses	10,000									10,000
Portfolio Transfer	50,000									50,000
New Office			10,000	5,000	5,000	5,000	5,000	5,000	5,000	40,000
Capital for solvency	150,000									150,000

Source: Company

**Table 10-2: Use of the Additional Capital Available for Maintenance of Solvency**

	SAR thousands
Statutory Deposit	25,000
Investment*	125,000

\*The Company will invest an amount of (SAR 125,000,000) (which is the amount remaining from the additional capital available for the maintenance of the solvency following the deduction of the statutory deposit) in accordance with the investment parameters stipulated in Schedule 1 of the Implementing Regulations. The Company will make its investment decisions on the basis of available financial instruments, their expected returns and the risk appetite of the Company (although at all times the investment limits prescribed by SAMA will be adhered to). The Finance and Investment Committee in the Company shall monitor these investments and ensure compliance with applicable regulations.

The following table sets out the details of Company's expected investments, although it should be noted that these investments remain subject to the availability of the relevant instruments and the suitability of their expected return.

**Table 10-3: Expected Investment of the Company**

Type of Investment	SAR thousands
Deposits with local banks	50,000
Bonds or Sukuk issued by the Saudi Government or institutions where the government owns a large share (in the absence of such bonds and Sukuk it is expected that this amount will be invested in deposits with local banks)	50,000
Bonds issued by foreign governments or companies	12,000
Bonds or Sukuk issued by local companies	7,000
Shares	6,000
<b>Total</b>	<b>125,000</b>

Further information on the use of proceeds is set out below.

## 1. Solvency Margin

Insurance companies in the Kingdom of Saudi Arabia practise their business in accordance with the Insurance Law and SAMA Implementing Regulations.

The Insurance Law and SAMA Implementing Regulations stipulate that the Company must maintain a minimum solvency margin equivalent to the highest of the following three criteria:

- minimum capital requirement of SAR 200,000,000;
- premium solvency margin; and
- claims solvency margin.

As an exception to the above, an insurance company may comply with the minimum solvency margin calculated in accordance with the "premium solvency margin" method for the first three (3) years from the date of issuance of its insurance licence.

The table below sets out the Company's solvency margin as at 30 June 2014:

**Table 10-4: Solvency Margin**

	SAR thousands
Minimum Capital Requirement	200,000
Premium Solvency Margin	158,532
Claims Solvency Margin	93,246
Minimum Solvency Margin	200,000
Net Admissible Assets	165,081
Solvency Margin Cover (%)	82%

Source: Company

SAR 150,000,000 of the Net Proceeds of the Offering is proposed to be used to enhance the net admissible assets and solvency margin cover, which will be invested in accordance with Article (61) of the Implementing Regulations. The table below sets out the expected contribution of the Net Proceeds in maintaining the solvency margin cover:

**Table 10-5: Expected Contribution in Maintaining the Solvency Margin Cover**

As at 31 December (Estimated)	SAR thousands				
	2014G	2015G	2016G	2017G	2018G
Minimum Capital Requirement	200,000	200,000	200,000	200,000	200,000
Premium Solvency Margin	143,777	152,318	163,166	175,322	188,938
Claims Solvency Margin	66,471	111,720	153,730	163,587	174,426
Minimum Solvency Margin	200,000	200,000	200,000	200,000	200,000
<b>Before Offering:</b>					
Net Admissible Assets*	147,120	147,868	153,140	146,187	143,232
Solvency Margin Cover (%)	74%	74%	77%	73%	72%
<b>After Offering:</b>					
Net Admissible Assets	147,120	300,988	309,380	305,547	305,712
Solvency Margin Cover (%)	74%	150%	155%	153%	153%

\*The calculation of solvency and admissible assets is computed in accordance with Article 63 and Article 68 of the Implementing Regulations issued by SAMA.

Source: Company

The proceeds allocated to maintaining an adequate solvency margin will be utilised to generate optimum returns for the Shareholders and will be invested in accordance with applicable regulations in the Kingdom of Saudi Arabia.

## 2. New Head Office, Branch and Services Platform

The Company intends to allocate SAR 40,000,000 of the Net Proceeds of the Offering for this purpose. The Company will seek necessary regulatory approvals prior to the investment in property.

This will help strengthen the Company's capabilities and presence in the Kingdom and better support the Company's strategy and provide the necessary infrastructure for the Company's expansion plans across the Kingdom.

## 3. Portfolio Transfer

On 1 October 2012G, SAMA approved the Portfolio Transfer, which took effect from 1 January 2009G at a consideration of SAR 106,570,000. The Shareholders subsequently approved the Portfolio Transfer on 10 December 2012G. Following this, the Company entered into an agreement with AXA Saudi to implement the Portfolio Transfer. In line with SAMA regulations, the Company intends to use SAR 50,000,000 of the Net Proceeds of the Offering towards consideration for the Portfolio Transfer. The Company will seek necessary regulatory approvals prior to making any payment for the Portfolio Transfer.

The Company shall submit a quarterly report on the use of the Offering proceeds to the CMA, and any material developments on the use of such Offering proceeds shall be announced to the public.

## 11. DECLARATIONS BY THE DIRECTORS, CEO, SENIOR OFFICERS AND SECRETARY OF THE BOARD

The Directors, the CEO and the CFO, the Secretary and the other Senior Officers declare that:

- they have not at any time been declared bankrupt or been subject to bankruptcy proceedings;
- they have not been employed in a managerial or supervisory capacity by an insolvent company in the five (5) years preceding the date of this Prospectus;
- except as disclosed in Section 12 ("Legal Information") they do not themselves, nor do any of their relatives or Affiliates, have any material interest in any written or verbal contract or arrangement in effect or contemplated at the date of this Prospectus;
- except as disclosed in Section 5 ("Management of the Company and Corporate Governance"), neither they nor any of their relatives has any kind of interest in the Shares, debt instrument or the business of the Company;
- the Company is prohibited from granting a loan to a member of the Board or guaranteeing a loan entered into by a member of the Board;
- no commissions, discounts, brokerages or other non-cash compensation was granted by the Company or any member of the Company's group to any member of the Board, senior manager, promoter or expert in connection with the issue or sale of any securities in the three (3) years immediately preceding the date of this Prospectus;
- there has been no interruption in the Company's business that may affect or have a significant impact on its financial situation during the twelve (12) months preceding the date of this Prospectus;
- no material change in the nature of the business of the Company is contemplated as at the date of this Prospectus;
- there has been no material adverse change in the financial or trading position of the Company in the three (3) years immediately preceding the date of this Prospectus and during the period from the end of the period covered in the external auditor's report to the date of this Prospectus;
- the Company has not issued any debt instruments, nor does it have any other term loans or any other material outstanding borrowings or indebtedness (including bank overdrafts, liabilities under acceptance, acceptance credits or hire purchase commitments); and
- the Company has prepared its internal control policies on sound principles by which the Company has implemented a policy regulating and resolving possible conflicts of interest issues, which includes the misuse of the Company's assets and misfeasance due to Related Party transactions. The Company has ensured that its operational and financial policies are sound and it will ensure the implementation of the necessary supervisory controls in accordance with Article 10 of the Corporate Governance Regulation in order to manage potential risks. The Directors review and revise internal monitoring controls on an annual basis.

In addition to the above, the Board of Directors declare, that:

- the Company will have sufficient funds to meet its capital requirements for at least twelve (12) months from the date of this Prospectus;
- no shares of the Company are under option;
- the financial information appearing in this Prospectus and the audited financial statements for the years ended 2011G, 2012G and 2013G and the interim financial information for the six (6) months ended 30 June 2014G and the notes attached thereto by the Auditor have been prepared in accordance with IFRS; and
- all Financial Statements have been obtained from the audited financial statements for the years ended 2011G, 2012G and 2013G and the interim financial information for the six (6) months ended 30 June 2014G and no material amendments have been made thereto.

Lastly, the Board of Directors confirm that:

- unless approved by the General Assembly, the Board of Directors may not have a direct or indirect interest in the transactions and contracts entered into by the Company;
- the members of the Board of Directors will notify the Board of any direct or indirect interest they may have in the transactions and contracts entered into by the Company, and this notification will be recorded in the minutes of the Board meeting;
- the members of the Board of Directors may not vote on any decision that relates to a transaction or contract with the Company in which they hold a direct or indirect interest;
- members of the Board of Directors and the Company's CEO shall not have the right to vote on decisions relating to their fees and remuneration;
- members of the Board of Directors shall not obtain a loan from the Company, and the Company shall not guarantee any loan entered into by a member of the Board of Directors; and
- the members of the Board of Directors shall not disclose to the Shareholders (unless in a General Assembly meeting) or third parties the Company secrets that they are privy to pursuant to their position as Directors.

The members of the Board of Directors undertake to:

- record all Board decisions by means of written minutes of meetings, which shall be signed by the members of the Board;
- disclose the details of any Related Party transactions in accordance with the Companies Regulations and the Corporate Governance Regulations in the agenda of the General Assembly meeting in order to allow the Shareholders the chance to approve such Related Party transactions in their General Assembly meetings; and
- comply with the provisions of Articles 69, 70 and 72 of the Companies Regulations and Article 18 of the Corporate Governance Regulations.

## 12. LEGAL INFORMATION

### 12.1 SUMMARY OF MATERIAL AGREEMENTS

#### 12.1.1 Reinsurance Agreements

Reinsurer	Reinsured	Covered Business	Reinsurance Period	Minimum and Deposit Premium SAR
AXA Global P&C	The Company	Business allocated to the Company's Non-Marine Department but excluding Motor	Losses occurring during 01/01/2014G to 31/12/2014G	8.8 million (subject to an annual adjustment based on premium declared)
AXA Global P&C	The Company and other AXA Group companies	Business allocated to the Company's Non-Marine Department but excluding Motor	Losses occurring during 01/01/2014G to 31/12/2014G	3.5 million (subject to an annual adjustment based on premium declared)
AXA Global P&C	The Company	Business classified as Property facultative business	Risk attaching between 01/01/2014G to 31/12/2014G	There is no minimum cost. This arrangement is on a proportional basis (subject to an annual adjustment based on premium declared)
AXA Global P&C	The Company and other AXA Group companies	Marine business underwritten from Saudi Arabia, Oman, United Arab Emirates, Bahrain, Kuwait and Qatar including incidental interests abroad	Losses occurring during 01/01/2014G to 31/12/2014G	2.6 million (subject to an annual adjustment based on premium declared)
Various Lloyds Syndicates	The Company	Marine Cargo business of whatsoever nature insured including consequential loss	Risk attaching between 01/01/2014G to 31/12/2014G	There is no minimum cost. This arrangement is on a proportional basis (subject to an annual adjustment based on premium declared)
AXA Global P&C	The Company and other AXA Group companies	Business allocated to the Company's Accident Department or such other exposures in other class of business	Losses occurring during 01/01/2014G to 31/12/2014G	0.8 million (subject to an annual adjustment based on premium declared)
AXA Global Life	The Company	All type of Health policies issued to individuals and Groups	Risk attaching between 01/01/2014G to 31/12/2014G	18 thousand (subject to an annual adjustment based on premium declared)
AXA Global Life	The Company	All Group Life Policies covering up to 2,500 original insured members	Risk attaching between 01/01/2014G to 31/12/2014G	There is no minimum cost. This arrangement is on a proportional basis (subject to an annual adjustment based on premium declared)
AXA Global Life	The Company	All Group Life and individual Life Policies	Losses occurring during 01/01/2014G to 31/12/2014G	195 thousand (subject to an annual adjustment based on premium declared)

Reinsurer	Reinsured	Covered Business	Reinsurance Period	Minimum and Deposit Premium SAR
AXA Corporate Solutions Assurance	The Company	Corporate Business for accounts with a turnover of at least EUR 600,000,000 and projects with a contract value exceeding EUR 100,000,000	Risk attaching between 01/01/2014G to 31/12/2014G	There is no minimum cost. This arrangement is on a proportional basis (subject to an annual adjustment based on premium declared)
AXA Corporate Solutions Assurance	The Company	Marine Cargo and Marine yacht business	Risk attaching between 01/01/2014G to 31/12/2014G	There is no minimum cost. This arrangement is on a proportional basis (subject to an annual adjustment based on premium declared)

Source: Company

### 12.1.2 Related Party Transactions

On 24 August 2014G, AXA SA as the Licensor (registered in France) and the Company entered into a trademark licence agreement (the "Agreement") whereby the Licensor granted the Company a non-exclusive, royalty-free license to use the "AXA" trademark in Saudi Arabia.

The Agreement may be terminated by either party if there is an incurable or persisting breach of one or more obligations set out in the Agreement. The Licensor has the right to terminate the Agreement by serving 30 days' prior written notice if either (i) a third party other than Licensor or one of its affiliates, acquires all or substantially all of the assets and/or business of the Licensee, by merger or acquisition or any other operation, or (ii) a change of control, within the meaning of Article L.233-3 of the Code De Commerce, occurs at the Company other than as a result of an intra-group transfer.

The Agreement is governed by French Law and only the Tribunal de Commerce is competent to deal with a dispute about the interpretation or execution of the Agreement and its consequences.

The Company intends to enter into a technical support services agreement with AXA Gulf. This was disclosed in the IPO prospectus. A draft technical support services agreement has been submitted for approval to SAMA. This has not been signed to date as the Company is awaiting SAMA's approval. The Company is not aware of the expected date of SAMA's approval and whether or not the approval will contain any conditions and/or restrictions. The Company will therefore determine the timing of signing the agreement once it has received and considered SAMA's approval.

The Company does not have an indication as to when SAMA's approval may be granted. The Company last submitted the technical support services agreement for approval on 31 July 2013G.

Insurance contracts have been issued in favour of YBA Kanoo. In addition, various costs and expenses in relation to leased offices, maintenance, parking and airline tickets have been paid to YBA Kanoo. Ali Abdullah, a member of the Board and a member of the YBA Kanoo board has an interest in the insurance contracts and the various transactions mentioned above. The Company has issued various insurance policies for YBA Kanoo. During 2013, the Company had issued 1,205 insurance policies and endorsements with a total gross written premium of SAR 23,322,703 in favour of YBA Kanoo. During the period ended 30 June 2014G, the Company had issued a total of 579 insurance policies and endorsements with a combined value of SAR 12,783,167 in favour of YBA Kanoo. These policies were issued in various lines of business including construction, accident, health, liability, marine, engineering and property. All insurance policies are issued on an arm's length basis.

Summaries of the reinsurance treaties entered into with AXA Group entities are set out at Section 12.1.1 above.

## 12.2 LICENCES AND PERMITS

The Company has secured all the requisite operational, insurance and other licences from the competent authorities to be able to carry out its business.

### 12.2.1 Commercial Registration

The Company was registered as a joint stock company with commercial registration number 1010271203 dated 20/7/1430H (corresponding to 13/7/2009G) pursuant to ministerial resolution number Q/192 dated 9/6/1430H (corresponding to 13/6/2009G). The Company's commercial registration expires on 9/6/1529H (corresponding to 2/5/2077G). The Company has nine branches in Saudi Arabia all of which are registered at the Ministry of Commerce and Industry.

### 12.2.2 SAMA Licence

The Company obtained a SAMA licence (number WMN/25/20101) on 11/02/1431H (corresponding to 26/01/2010G) which was renewed on 11/02/1434H (corresponding to 24/12/2012G).

This licence permits the Company to carry out insurance and reinsurance activities in both general insurance and health insurance and is due to expire on 10/02/1437H (corresponding to 22/11/2015G).

### 12.2.3 CCHI Accreditation

The Company has obtained an accreditation from the CCHI on 13/08/1435H (corresponding to 11/06/2014G) and is valid for one year from the issuance date.

### 12.2.4 SAGIA Licence

The Company obtained a SAGIA license (number 102731078207-01) on 04/07/1431H (corresponding to 16/06/2010G) in respect of carrying out insurance activities. This licence expires on 15/09/2015G.

## 12.3 INTELLECTUAL PROPERTY

The Company does not own the "AXA" logo or trademark but instead licenses the use of the "AXA" logo and trademark from AXA SA. The Company has entered into a trademark licence agreement in relation to the "AXA" logo and trademark which is summarised in section 12.1.2 above. See Section 2.1.12 ("Intellectual Property Risk") for further information.

The "AXA" logo is registered with the Directorate of Trademarks at MOCI.

The Company is the registered owner of the following domain names:

www.axa-cooperative.com

www.axa-gulf.com

netcargoksa.axa-gulf.com

partners.axa-gulf.com

www.axa-portal.com

The Company does not own or license any other intellectual property.

## 12.4 INSURANCE

The Company has the benefit of various insurance policies in respect of its operations and employees. Summaries of the various insurance policies are presented below:

Type of Policy Cover	Insurer	Insured	Coverage	Coverage validity
Public and Products Liability Policy	Tawuniya	The Company (AXA Insurance Policy)	The Company is indemnified in respect of its legal liability for accidental death or bodily injury of third parties and loss or damage to third party property (excluding product liability)	01/03/2014G to 28/02/2015G
Workmen's Compensation Policy	Tawuniya	The Company (AXA Insurance Policy)	<p>The Company is indemnified in respect of its legal liability as employer as determined by the Saudi Courts except under the Labour Law.</p> <p>The Company is also indemnified against any liability to pay compensation under the Labour Law where liability is not accepted under the GOSI Scheme provided that such non-acceptance does not amount to non-compliance by the Company in filing and recovery of claims under the GOSI Scheme.</p>	01/03/2014G to 28/02/2015G

Source: Company



## 12.5 DISPUTES AND LITIGATION

Save as disclosed in the Prospectus and with the exception of some minor disputes and claims relating to outstanding claims pursuant to insurance policies issued in the ordinary course of the business, the Board of Directors and senior management of the Company as at the date of this Prospectus confirm that the Company is not a party to any judicial, arbitral or administrative procedures that may individually or collectively have a material adverse effect on the Company's business prospects, financial condition and results of operations.

As at the date of this prospectus, there are currently 12 on-going litigation claims against the Company. The Company is currently defending these claims. Notwithstanding the Company's defences, the Board has decided to provision a total amount of SAR 3.3 million for these claims. The Company are the defendant in all but one litigation case. All on-going litigation cases have been filed in the normal course of business and are not considered material by the Company.

## 12.6 REAL ESTATE

The table below is a summary of properties leased by the Company from third parties (none of which are Founding Shareholders), which are of material importance to the Company:

**Table 12-1: Real Estate Leased by the Company**

No.	Purpose/Type of Property	City	Size/Area in sqm
1.	Branch Office	Riyadh	1,043
2.	Branch Office	Jeddah	501
3.	Branch Office	Khobar	2,800

Source: Company

## **13. SUMMARY OF COMPANY'S BY-LAWS**

### **13.1 DATE OF INCORPORATION OF THE COMPANY**

The Company was founded on 10/06/1430H (corresponding to 03/06/2009G).

### **13.2 NAME AND FORM OF THE COMPANY**

The name of the Company is "AXA Cooperative Insurance Company", a Saudi joint stock company.

### **13.3 HEAD OFFICE**

The head office of the Company is located in Riyadh and may be relocated to any other city in Saudi Arabia pursuant to an Extraordinary General Assembly resolution and after obtaining SAMA's approval. The Company may also, after obtaining SAMA's approval, open branch or agency offices inside or outside Saudi Arabia.

### **13.4 OBJECTIVES OF THE COMPANY**

The principal activities of the Company are to engage in cooperative insurance operations and all related activities including reinsurance activities under the Law on Supervision of Cooperative Insurance and the By-Laws and other regulations promulgated in the Kingdom of Saudi Arabia. The Company may undertake all necessary activities for achieving its objectives whether in respect of insurance or investing its funds or to own, dispose of, transfer, lease or replace fixed assets or cash, whether directly or indirectly, through companies to be established by the Company or acquired by it or in participation with other entities.

The Company may also own or have interest in or participate in any manner with other entities undertaking similar activities or other financial activities which may help the Company in achieving its objectives. The Company may exercise such activities inside or outside the Kingdom.

### **13.5 TERM OF THE COMPANY**

The term of the Company is ninety-nine (99) Gregorian years commencing on the date on which the Minister of Commerce and Industry issued the resolution announcing the incorporation of the Company. The term of the Company may be extended by a resolution adopted by the Extraordinary General Assembly at least one (1) year prior to the expiry of its term.

### **13.6 CAPITAL OF THE COMPANY**

The share capital of the Company is SAR 200,000,000 (two hundred million), divided into 20,000,000 (twenty million) Shares with a nominal value of SAR 10 (ten) per Share.

### **13.7 SUBSCRIPTION IN THE SHARE CAPITAL**

The Founding Shareholders subscribed for 12,000,000 (twelve million) shares for a value of SAR 120,000,000 (one hundred and twenty million), representing sixty per cent. (60%) of the share capital and paid their value in full. The remaining 8,000,000 (eight million) shares for a value of SAR 80,000,000 (eighty million) were offered for public subscription through an IPO.

### **13.8 DECREASE OF CAPITAL**

The Company may reduce its capital if it proves to be in excess of the Company's needs or if the Company sustains losses. Such decision must be made by a resolution of the Extraordinary General Assembly and requires the approval of the competent authorities. Such resolution may only be passed after the preparation of a report by the Company's Auditors' setting out the reasons for the reduction of the Company's capital, the obligations of the Company and the effect of such reduction on such obligations. The resolution shall set out the manner in which the reduction in capital is to be effected. If the reason for reducing the capital is due to the reduced amount being in excess of the Company's needs, the Company's creditors must be invited to express their objection to such reduction in capital within sixty (60) days from the date of publication of the resolution relating to the reduction in a daily newspaper published in the city where the Company's head office is located. If any creditor objects to the reduction in the capital of the Company and submits to the Company, within the said period, documentary evidence of his debt, the Company must settle such debt if it is due, or provide adequate security for its payment if it has not fallen due at the time.

## 13.9 TRANSFER OF SHARES

The Shares shall be transferable in accordance with the rules, regulations and directives issued by the CMA. As an exception to the foregoing, the cash shares subscribed to by the Founding Shareholders shall not be transferable before publishing the balance sheet for two (2) full fiscal years, each covering the period of at least twelve (12) months from the date of incorporation of the Company. Such provisions shall apply to any Shares subscribed for by the Founding Shareholders in case of increasing the Company's capital before the lapse of the prohibition period. However, cash shares may be transferred during the prohibition period in compliance with the rights selling provisions from one founder to another to any Board member to serve as qualification shares or from the heirs of any founders to any third party in case of death.

## 13.10 WITHHOLDING OF DIRECTORS' SHARES

Each Director shall provide the Company with guarantee shares equivalent to no less than 5,000 Shares against any contract arising between him and the Company, which have been approved at an Ordinary General Assembly. Such right of attachment shall include dividends due on the attached Shares.

## 13.11 DISPOSAL OF DIRECTORS' SHARES

The Board of Directors may, after obtaining the approval of the competent authority, sell the Shares provided by the Company's Directors as guarantee shares against contracts that arise between them and the Company, provided that the debt is already due. This action shall be taken after the second written notice to the involved Director requesting payment of debt within two (2) weeks. In the event the involved Director fails to settle the debt the Board of Directors may then sell the Director's Shares through Tadawul. Any remaining balance after settlement of the debt will be paid to the Shareholder or its custodian of heirs.

## 13.12 CONSTITUTION OF THE BOARD OF DIRECTORS

The Board is comprised of eight (8) members appointed by the Ordinary General Assembly for a term not exceeding three (3) years.

## 13.13 VACANCIES

Membership of the Board shall be terminated upon the expiration of the appointment period, the resignation, death or if it is proven that the Board member has been in breach of his duties, provided that the prior approval of the Ordinary General Assembly is obtained. The membership may also be revoked if the member is absent from three (3) consecutive meetings without justification, or if he is declared insolvent or bankrupt or has made a settlement request with his creditors or has ceased to pay his debts or if he has become mentally ill or proved to have committed a dishonest or immoral act or been convicted of forgery. If the post of a Board member becomes vacant, the Board of Directors may temporarily appoint a member to such vacant office, provided that such appointment is presented for approval at the first Ordinary General Assembly following such appointment. If the number of Directors falls below the quorum required for a Board meeting, an Ordinary General Assembly must be convened as soon as possible to appoint new Directors to the vacant seats on the Board.

## 13.14 POWERS OF THE BOARD

Without prejudice to any of the powers conferred on the General Assembly, the Board of Directors shall be vested with the broadest powers to manage the business of the Company. The Board of Directors may, within limits of its authorities, deputise one (1) or more of its members or others to carry out specific assignments.

## 13.15 REMUNERATION OF THE BOARD

The remuneration of the Chairman of the Board of Directors for performing his duties shall be SAR 180,000 (one hundred and eighty thousand) per annum. The remuneration of each member of the Board of Directors for performing their respective duties shall be SAR 120,000 (one hundred and twenty thousand) per annum.

The Chairman and each member of the Board shall be paid an amount of three thousand Saudi Riyals (SAR 3,000) for attending each Board meeting, and an amount of one thousand five hundred Saudi Riyals (SAR 1,500) for attending each meeting of the Board's subcommittees. In any event, the remuneration of the Chairman and the Directors may not exceed five per cent. (5%) of the net profits.

### **13.16 CHAIRMAN, MANAGING DIRECTOR AND SECRETARY**

The Board of Directors shall appoint a Chairman from among its members, and the Board shall appoint a Managing Director for the Company from among its members. The Chairman and the Managing Director shall have the power to represent the Company before judicial bodies and third parties. The Chairman and the Managing Director shall have the authority to sign on behalf of the Company, implement Board resolutions and delegate their duties to others. The Managing Director shall be responsible for the executive management of the Company.

The Board shall appoint a secretary to the Board, and the Board may also appoint advisors to assist the Board in the affairs of the Company. The secretary's and the advisors' remuneration shall be determined by the Board.

### **13.17 COMMITTEES OF THE BOARD**

The Board shall form an Audit Committee consisting of at least three (3) members and not more than five (5) other members who should be non-executive and the majority of whom shall not be Board members (as may be resolved by the SAMA, the MOCI and the CMA).

The Board shall form an Executive Committee consisting of at least three (3) members and not more than five (5) members, and the executive committee shall elect from its members a chairman to preside over its meetings. In the absence of a chairman, the committee shall elect an interim chairman from the attending members, and the executive committee's member may delegate any other member to vote on his behalf for three meetings only. The term of the executive committee shall be the term of the Board, and the Board shall fill any vacancy in the Executive Committee.

Subject to any instructions stipulated by SAMA or the Board, the Executive Committee shall assume all powers determined by SAMA or the Board, and the Executive Committee, within its designated authorities, shall assist the Managing Director or the General Manager.

The meeting of the Executive Committee shall be valid only if attended by at least two (2) members in person or by proxy, provided that the members attending in person shall not be fewer than two (2). The decisions of the Executive Committee shall be adopted unanimously, and, in case of dispute, decisions of the Executive Committee shall be adopted by a three-quarters majority vote of the members present or represented. The Executive Committee shall hold its meetings from time to time as its chairman sees appropriate, however, six (6) meetings at least shall be held annually, and a meeting shall be convened at any time if requested by at least two (2) members.

### **13.18 BOARD MEETINGS**

The Board shall convene in the head office of the Company following an invitation by the Chairman or when requested by two (2) Board members. The Board can meet outside the Company's premises and it shall meet at least four (4) times in a fiscal year, provided that the interval between the meetings shall not exceed four (4) months.

A Board meeting shall be quorate only if attended by at least two-thirds of its members in person or by proxy, provided that the members attending in person shall not be fewer than four (4) members. Resolutions of the Board shall be adopted unanimously, and in cases of dispute, resolutions shall be adopted by a two-thirds majority vote of the present and represented members. Board resolutions may be adopted by way of circulation unless one of the members requests, in writing, to hold a meeting to discuss the resolution. In this case, resolutions shall be presented to the Board at the next meeting. Any Board member who has a direct or indirect interest in any matter or suggestion presented to the Board or the Executive Committee shall inform the Board or the Executive Committee of his interest in the presented matter. Such member, without being excluded from the quorum required for the validity of the meeting, shall abstain from participating in discussions and voting at the Board or Executive Committee with regards to such matter or suggestion.

### **13.19 MINUTES OF MEETINGS**

Deliberations and resolutions of the Board shall be recorded in the form of minutes to be signed by the Chairman and the Secretary. Such minutes shall also be recorded in a register to be signed by the Chairman and the Secretary.

### **13.20 GENERAL ASSEMBLY**

A General Assembly duly convened shall be deemed to represent all the Shareholders, and shall be held in the city where the Company's head office is located. Each Shareholder holding twenty (20) Shares (or more) shall have the right to attend a General Assembly, and each Shareholder may authorise another Shareholder (other than a member of the Board of Directors of the Company) to attend the General Assembly on his behalf.

### **13.21 ORDINARY GENERAL ASSEMBLY**

The meeting of the Ordinary General Assembly shall not have a quorum unless attended by Shareholders representing at least fifty per cent. (50%) of the Company's capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened within the following thirty (30) days. Notice of such meeting shall be published in manner prescribed in Article (88) of the Companies Regulations. The second meeting shall be considered as valid irrespective of the number of shares represented therein.

Except for matters reserved for an Extraordinary General Assembly, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year, within six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assembly meetings may be convened whenever needed.

### **13.22 EXTRAORDINARY GENERAL ASSEMBLY**

The meeting of the Extraordinary General Assembly shall not have a quorum unless attended by Shareholders representing at least fifty per cent. (50%) of the Company's capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened within the following thirty (30) days. The second meeting shall be considered as valid if attended by a number of Shareholders representing at least one-quarter (1/4) of the Company's capital.

An Extraordinary General Assembly shall have the power to amend the Company's by-laws, except for such provisions as may be impermissible to be amended under the regulations. The Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter.

### **13.23 MANNER OF CONVENING GENERAL ASSEMBLIES**

The General Assembly shall be convened by the Board of Directors. The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the Auditors or by a number of Shareholders representing at least five per cent. (5%) of the Company's capital. The Company must publish an invitation to Shareholders to attend the General Assembly in the Official Gazette and in a daily newspaper circulated in the location of the head office of the Company, at least twenty-five (25) days prior to the date of the General Assembly. The invitation must include the agenda of the meeting.

### **13.24 VOTING MAJORITIES**

Resolutions of the Ordinary General Assembly shall be passed if supported by an absolute majority of the Shares represented at the meeting. However, if a resolution relates to valuing in kind or preferential shares, a majority of the subscribers of cash shares is needed such that they represent at least two-thirds of the cash shares after discounting the shares subscribed to by those given in kind shares or those benefiting from preferential shares – such subscribers shall not have a vote in these resolutions, even if they also own cash shares. Resolutions of the Extraordinary General Assembly shall be passed if supported by a majority of at least two-thirds of the Shares represented at the meeting. If the resolution to be adopted at a General Assembly relates to an increase or reduction of the Company's share capital, extending the Company's term, dissolving the Company prior to the expiry of its term or merging the Company with another company or establishment, then such resolution shall be passed if supported by a majority of at least three-quarters of the Shares represented at the meeting.

### **13.25 APPOINTMENT OF AUDITORS**

At a general assembly, the Shareholders shall appoint 2 (two) auditors annually from among the auditors licensed to work in the Kingdom. The auditors' remuneration shall be fixed by the Shareholders at a General Assembly. The Shareholders may, at a General Assembly, further reappoint the same auditors.

### **13.26 ANNUAL ACCOUNTS**

The fiscal year of the Company shall start on 1 January and end on 31 December of the same year. However, the first fiscal year of the Company shall commence on the date of the ministerial resolution declaring its incorporation and shall end on 31 December of the following year.

The Board shall prepare, at the end of each fiscal year, an inventory of the value of the Company's assets and liabilities at that date. The Board shall also prepare the Company's financial statements and a report on the Company's activities and financial position for the preceding year. The report shall include the method proposed by the Board for the distribution of net profits within a period not exceeding 40 (forty) days after the end of the annual financial period to which they relate. The Board of Directors shall place such documents at the disposition of the auditor at least 55 (fifty-five) days prior to the

date set for convening the General Assembly. The Chairman of the Board shall sign the said documents and they shall be placed at the disposition of the Shareholders in the Head Office at least 25 (twenty-five) days prior to the date set for the General Assembly. The Chairman of the Board of Directors shall publish in a daily newspaper circulated in the city where the Head Office is located, the Financial Statements and a comprehensive summary of the Board of Directors' report and the full text of the auditors' Report, and shall send a copy of such documents to the Companies Department at MOCI, the CMA and SAMA at least 25 (twenty-five) days prior to the date set for convening the Ordinary General Assembly.

### 13.27 INSURANCE ACCOUNTS

The insurance operations accounts shall be kept separate from the Shareholders' income statement, according to the following details:

1. An independent account shall be dedicated to earn Premiums, reinsurance commissions and other commissions;
2. An independent account shall be dedicated to Compensation incurred by the Company;
3. At the end of every year, the total surplus which represents the difference between total Premiums and Compensation minus the marketing, administrative and operational expenses and the necessary Technical Provisions in accordance with the directives in this regard shall be determined;
4. Net surplus shall be determined by adding to, or subtracting from, the total surplus in paragraph 3 above, the policyholders' investment return share after calculating the policyholders' earnings and deducting what they owe in expenses realised; and
5. Net surplus shall be distributed as follows: ten per cent. (10%), either directly to the policyholders or reducing their Premiums for the following year and carrying over the balance to the Shareholders' income statement.

### 13.28 SHAREHOLDERS' INCOME STATEMENT

1. The Shareholders' profits from their funds investment shall be in accordance with the rules set by the Board of Directors.
2. The share of the Shareholders in the net surplus shall be as set forth in sub-paragraph 5 above of Section 13.27.

### 13.29 DISTRIBUTION OF ANNUAL PROFITS

The Shareholder's profits shall be distributed as follows:

1. Zakat and income tax allocations are to be withheld.
2. Twenty per cent. (20%) of the net profits shall be withheld to form a statutory reserve. The Ordinary General Assembly may discontinue this withholding of the net profits when the said reserve reaches the entire paid-up capital.
3. The Ordinary General Assembly may, upon request of the Board of Directors, withhold an additional percentage of the annual net profits to form an additional reserve to be allocated for specific purposes decided by the Ordinary General Assembly.
4. Out of the balance of the profits, there shall be paid to the Shareholders an initial payment of not less than five per cent. (5%) of the paid-up capital.
5. The balance shall be distributed among the Shareholders as a share in the profits or transferred to the retained earnings account.
6. By resolution of the Board of Directors, periodic profits, deducted from the annual profits specified in sub-paragraph 4 above, may be distributed in accordance with applicable rules and regulations issued by competent authorities.

### 13.30 COMPANY LOSSES

If the Company's losses total three-quarters of its capital, then the members of the Board of Directors shall call a meeting of the Extraordinary General Assembly to consider whether the Company shall continue to exist or be dissolved prior to the expiry of the period specified therefore under Article 5 of the Company's By-Laws. The Extraordinary General Assembly's resolution shall be published in the Official Gazette.

### 13.31 DISSOLUTION AND WINDING UP OF THE COMPANY

Upon the expiry of the Company's term, or if it is dissolved prior to such time, the Extraordinary General Assembly shall, based on a proposal by the Board of Directors, decide the method of liquidation, appoint one (1) or more liquidators and specify their powers and fees. The powers of the Board of Directors shall cease upon the expiry of the Company's term. However, the Board of Directors shall remain responsible for the management of the Company until the liquidator(s) are appointed. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidator(s).

## 14. UNDERWRITING

### 14.1 UNDERWRITER

Saudi Fransi Capital is the sole Underwriter for the Offering.

السعودي الفرنسي كابيتال  
Saudi Fransi Capital



#### Saudi Fransi Capital

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Fax: +966 (11) 1282 6823

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The Company has entered into the underwriting agreement (the "Underwriting Agreement") with the Underwriter pursuant to which the Underwriter has agreed, subject to certain conditions, to fully underwrite the Offering. The principal terms of the Underwriting Agreement are set out below.

### 14.2 SUMMARY OF THE UNDERWRITING AGREEMENT

Under the terms of the Underwriting Agreement:

- the Company undertakes to the Underwriter that, on the Allocation Date, it will issue and allocate to the Underwriter all of the unsubscribed Rights Issue Shares at the Offer Price;
- the Underwriter undertakes to the Company that it will, on the Allocation Date, purchase all of the unsubscribed Shares at the Offer Price; and
- the Underwriter will receive a fixed fee in return for its services which will be paid from the Offering proceeds.

**Table 14-1: Underwriting Commitments**

Underwriter	Number of Rights Issue Shares underwritten	Percentage of Rights Issue Shares underwritten
SFC	25,000,000	100

Source: Company

The Company has committed to satisfy all terms of the Underwriting Agreement.

### 14.3 COMMISSION AND EXPENSES

A total amount of SAR 10,000,000 (ten million) will be allocated to the underwriting fees and expenses in connection with the Offering. This fee includes the fees of each of the Financial Advisor, Lead Manager, Legal Advisors to the Company, Legal Advisors to the Underwriters, Auditors, Market Consultant, media and public relations consultants, other Advisors, printing and distribution expenses, in addition to underwriting expenses and other fees and expenses related to the Offering. These estimations are subject to final confirmation. The Offering expenses will be deducted from the Company's account after the completion of the Offering.

## 15. OFFERING EXPENSES

The total gross proceeds from the Offering are estimated to be SAR 250,000,000 (two hundred and fifty million), of which SAR 10,000,000 (ten million) will be allocated to fees and expenses in connection with the Offering, including fees of each of the Financial Advisor, Lead Manager, Legal Advisors to the Company, Legal Advisors to the Underwriters, Auditors, Market Consultant, media and public relations consultants, other Advisors, printing and distribution expenses, in addition to underwriting expenses and other fees and expenses related to the Offering. These estimations are subject to final confirmation. The Offering expenses will be deducted from the Company's account after the completion of the Offering.



## **16. WAIVERS**

The Company has not applied to the CMA for an exemption from any of the requirements mentioned in the Listing Rules.

## 17. SUBSCRIPTION TERMS AND CONDITIONS

All Eligible Persons (being Registered Shareholders and investors who purchased the Rights during the Trading Period) must carefully read the Subscription Terms and Conditions prior to completing the Subscription Application Form, given that the completion, execution and submission of the Subscription Application Form to a Receiving Agent constitutes acceptance and agreement to the Subscription Terms and Conditions.

Signing the Subscription Application Form and submitting it to the Receiving Agent is considered a binding agreement between the Company and the Eligible Person. Eligible Persons may obtain a copy of this Prospectus and Subscription Application Form from the following Receiving Agents:

Receiving Agents		
Arab National Bank	King Faisal Street P.O. Box 9802, Riyadh 11423 Kingdom of Saudi Arabia Tel: +966 (11) 402 9000 Fax: +966 (11) 402 7747 Email: abinayba@anb.com.sa www.anb.com.sa	
Banque Saudi Fransi	Maathar Street P.O. Box 56006, Riyadh 11554 Kingdom of Saudi Arabia Tel: +966 (11) 404 2222 Fax: +966 (11) 404 2311 Email: communications@alfransi.com.sa www.alfransi.com.sa	
The National Commercial Bank	King Abdulaziz Road P.O. Box 3555, Jeddah 21481 Kingdom of Saudi Arabia Tel: +966 (12) 649 3333 Fax: +966 (12) 643 7426 Email: contactus@alahli.com www.alahli.com.sa	
Riyad Bank	King Abdulaziz Road P.O. Box 22622, Riyadh 11614 Kingdom of Saudi Arabia Tel: +966 (11) 401 3030 Fax: +966 (11) 404 2618 Email: customercare@riyadbank.com www.riyadbank.com	
Samba Financial Group	King Abdulaziz Road P.O. Box 833, Riyadh 11421 Kingdom of Saudi Arabia Tel: +966 (11) 477 4770 Fax: +966 (11) 479 9402 Email: customercare@samba.com.sa www.samba.com.sa	

## 17.1 SUBSCRIPTION TO THE NEW SHARES

In accordance with this Prospectus, 25,000,000 (twenty-five million) Shares will be offered for subscription through the New Shares representing one hundred and twenty-five per cent. (125%) of the Company's pre-Offering share capital, at an Offer Price of SAR 10 per share, with a nominal amount of SAR 10 (ten) and a total Offering value of SAR 250,000,000 (two hundred and fifty million). The New Shares will be issued as 1.25 (one and a quarter) Rights for every 1 (one) existing Share. Subscription to the New Shares is offered to the Qualifying Investors.

If Eligible Persons do not exercise their Rights and subscribe for the New Shares by the end of the Second Offering Period, the Rump Shares resulting from the non-exercise or sale of the Rights by Eligible Persons will be made available to Institutional Investors during the Rump Offering. Registered Shareholders may trade their Rights deposited in their accounts through Tadawul. These Rights will be considered acquired by all Registered Shareholders in the Company's Shareholders' Register as of the Eligibility Date. Each Right grants its holder eligibility to subscribe to one New Share at the Offer Price. The Rights shall be deposited within two working days after the date of the Offering EGM.

Rights will appear in the Registered Shareholders' accounts under a new symbol assigned to the Rights Issue. The schedule and details of the Offering are as follows:

**Eligibility Date:** The end of trading on the day of the Offering EGM on Tuesday 21/04/1436H (corresponding to 10/02/2015G).

**First Offering Period:** Starts from 11:00 am on Tuesday 28/04/1436H (corresponding to 17/02/2015G) until close of trading at 3:30 pm on Thursday 07/05/1436 H (corresponding to 26/02/2015G) during which only Registered Shareholders may exercise their Rights to subscribe (in whole or in part) for the New Shares up to the number of Rights deposited in their accounts after the Offering EGM. The subscription for the New Shares will be approved, subject to the number of Rights available in the relevant account at the end of the Trading Period. The First Offering Period coincides with the Trading Period during which Registered Shareholders and Qualifying Investors may trade in the Rights. Subscription in New Shares will occur by submitting a Subscription Application Form to any branch of a Receiving Agent by submitting a filled subscription form or through an ATM or through the telephone or through subscribing electronically with the Receiving Agents that offer such services to subscribers. At the end of the Trading Period, if a Registered Shareholder owns a number of Rights lower than the number of Rights that were subscribed for during the same phase, his/her subscription application will be rejected. He will be informed of this rejection and a refund of the subscription amount will be issued by the Registered Shareholder's Receiving Agent.

**Trading Period:** Coincides with the start of the First Offering Period and will commence at 11:00 am on Tuesday 28/04/1436H (corresponding to 17/02/2015G) and will last for 8 working days up to and including the last day of the First Offering Period, being 3:30 pm on Thursday 07/05/1436H (corresponding to 26/02/2015G). Tadawul is preparing mechanisms to regulate the Trading of Rights and has assigned a new symbol for the Company's Rights Issue (separate from the Company's existing trading symbol). The trading system will cancel the Company's Rights Issue symbol once the Trading Period expires. This period includes the following options:

- (a) Registered Shareholders have the following options in the First Offering Period and Trading Period to:
  - (i) keep the Rights they have as at the Eligibility Date and exercise their Rights to subscribe for the New Shares;
  - (ii) sell some or all their Rights through the Exchange;
  - (iii) purchase additional Rights on the Exchange; or
  - (iv) refrain from taking any action in relation to the Rights Issue, whether selling their Rights or exercising the right to purchase additional Rights. The Rump Shares resulting from not exercising or selling their Rights will be offered in the Rump Offering.
- (b) Those who purchase Rights during this period, may trade those Rights either by selling them or buying part or all of these Rights. If they purchase and do not sell their Rights during this period, they may exercise these Rights and subscribe for New Shares only in the Second Offering Period by filling a Subscription Application Form or through an ATM machine or through the telephone or through subscribing electronically with one of the Receiving Agents that provide such services to their customers. If they do not subscribe for the Rights by the end of the Second Offering Period, then the Rump Shares resulting from the non-exercise or sale of the Rights will be offered on the Exchange during the Rump Offering.

**Second Offering Period:** Starts at 11:00 am on Sunday 10/05/1436H (corresponding to 01/03/2015G) until the close of trading at 3:30 pm on Tuesday 12/05/1436H (corresponding to 03/03/2015G). No trading of Rights will be permitted during this period. During this period:

- (a) Registered Shareholders who own Shares in the Company as of the Eligibility Date and who did not subscribe for New Shares in the Company either in whole or in part during the First Offering Period, may exercise their Right during this phase and in the same way set out in the First Offering Period. If they purchased additional Rights during the Trading Period, they may exercise their Rights and subscribe in the New Shares during the Second Offering Period by filling a Subscription Application Form or through an ATM machine or through the telephone or through subscribing

electronically with one of the Receiving Agents that provide such services to their customers. If they don't subscribe for these Shares by the end of this phase, then these Shares will be placed on the market for the Rump Offering.

- (b) Qualifying Investors who do not sell their rights until the end of such period, may exercise their Rights and subscribe in the New Shares in this phase through the same procedures outlined in the First Offering Period. If they do not subscribe for the New Shares by the end of this phase, then the Rump Shares resulting from non-exercise or sale of the Rights will be placed on the market for the Rump Offering.

**Rump Offering:** Rump Shares, if any, will be offered to a number of Institutional Investors, provided that such Institutional Investors shall submit offers to purchase the Rump Shares from 10:00 am on Sunday 17/05/1436H (corresponding to 08/03/2015G) until 10:00 am on 18/05/1436H (corresponding to 09/03/2015G). The Rump Shares will be allocated to Institutional Investors in order of priority based on the price per Share offered by the relevant Institutional Investor until all of the Rump Shares have been allocated, with any remaining Rump Shares being allocated on a proportional basis among those Institutional Investors that tendered offers at the same price. Fractional Shares will be added to the Rump Shares and, for allocation purposes, will form part of, and be treated the same as, the Rump Shares. All proceeds resulting from the sale of Rump Shares and the Fractional Shares up to the Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed to the Eligible Persons no later than Thursday 28/05/1436H (corresponding to 19/03/2015G). In the event that any Rump Shares are not purchased by the Institutional Investors, such Shares will be allocated to the Underwriter, who will purchase such Shares at the Offer Price.

**Final Allocation of Shares:** Shares will be allocated to each investor based on the number of Rights fully and properly exercised by it. As for the persons entitled to Fractional Shares, these fractions will be combined and offered to Institutional Investors during the Rump Offering. All proceeds resulting from the sale of Rump Shares and Fractional Shares up to the paid Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed to the Eligible Persons no later than Thursday 28/05/1436H (corresponding to 19/03/2015G).

**Trading of the New Shares on the Market:** Trading of the New Shares on the Exchange is expected to commence once all related formalities pertaining to their registration and allocation have been completed.

The Company has filed a request with the CMA for registration of the New Shares and their inclusion in the Exchange. The Company will be submitting a request to the CMA to allow trading of the New Shares after the completion of the Offering.

## 17.2 ELIGIBLE PERSONS WHO DO NOT SUBSCRIBE FOR THE NEW SHARES

Tadawul will modify the Company's share price at the close of the trading day on the date which the Offering EGM is held on, based on the value of the subscription and the number of New Shares issued under this Prospectus, in addition to the market value of listed Shares at closing time. Registered Shareholders who do not participate in whole or in part in the New Shares subscription will be subject to a decrease in their percentage of ownership in the Company and the value of the Shares they currently hold. Eligible Persons who did not subscribe to and did not sell their Rights will be vulnerable to losses. Eligible Persons who do not subscribe for New Shares will not get any compensation for not subscribing for the New Shares, except to receive proportional cash compensation from the proceeds of the sale price in excess of the Offer Price of the Rump Shares (if any). Registered Shareholders who do not participate in the Rights Issue will retain the same number of Shares that they owned before the capital increase.

If Institutional Investors wish to buy the Rump Shares at the Offer Price only, or if they do not wish to subscribe and the Underwriter therefore covers the Rump Shares at the Offer Price, then the non-participating Eligible Persons will not receive any compensation as a result of them not subscribing for the New Shares by exercising their Rights.

Compensation Amounts (if any) will be paid to the Eligible Persons who did not subscribe wholly or partially for the New Shares and Shareholders entitled to Fractional Shares by dividing the Compensation Amount by the total number of Shares not subscribed for by Eligible Persons and Shareholders entitled to Fractional Shares. The compensation per Share will thus be determined and paid to the Eligible Persons who did not subscribe for all or part of the Shares they were entitled to, as well as those entitled in Fractional Shares.

## 17.3 FILLING THE SUBSCRIPTION APPLICATION FORM

Eligible Persons wishing to exercise their full right and subscribe for all the Rights to which they are entitled, must fill and submit a completed Subscription Application Form, together with the subscription monies for their full entitlement and the required accompanying documents, to one of the Receiving Agents.

The number of New Shares that the Eligible Person is entitled to will be calculated based on the existing Rights owned prior to the closing of the Second Offering Period. The subscription monies that the Subscriber must pay are calculated by multiplying the number of existing Rights owned prior to closing of the Second Offering Period by 10 Riyals.

By completing and presenting the Subscription Application Form, the Subscriber:

- agrees to subscribe for the number of New Shares as stated in the Subscription Application Form;
- warrants that he/she has carefully read the Prospectus and understood all its contents;
- accepts the By-Laws and the terms and conditions mentioned in the Prospectus;
- does not waive his/her right to claim any damages directly arising from any incorrect or inadequate significant information in the Prospectus, or for any material information missing there from, which would directly impact the Subscriber's acceptance to subscribe had it been contained in the Prospectus;
- accepts the number of shares allocated to him/her and all other subscription instructions and terms mentioned in the Prospectus and the Subscription Application Form; and
- warrants not cancelling or amending the Subscription Application Form after submitting it to the Receiving Agent.

## 17.4 DOCUMENTS REQUIRED TO BE SUBMITTED WITH THE SUBSCRIPTION APPLICATION FORMS

The Subscription Application Form must be submitted together with the following documents, as applicable to each case, and the Receiving Agents shall match the copy of each document with the original document and then return the original documents to the Subscriber:

- original and copy of the personal identification card (in case of an individual subscriber);
- original and copy of the family identification card (for family members);
- original and copy of the power of attorney (in case of authorising another person for the subscription);
- original and copy of the custody deed (for orphans) (for individual subscribers);
- original and copy of the residence permit (Iqama) for non-Saudis, whenever applicable (for individual subscribers); and
- original and copy of the commercial registration (in case of entities).

The subscription amount shall be paid in full, upon submission of the Subscription Application Form to a branch of one of the Receiving Agents, by authorising the Receiving Agent to debit the account of the Subscriber at the Receiving Agent with the required amount, or through a certified cheque drawn at one of the local banks and in favour of "AXA Cooperative Insurance Company – Rights Issue".

Power of attorney will be restricted to first class relatives (children, parents, wife, husband). In case of applying on behalf of another person, the attorney shall write his name and sign the Subscription Application Form. He shall attach the original and a copy of a valid power of attorney issued by a notary public for those who are living in Saudi Arabia or legalised through a Saudi embassy or consulate in the relevant country for those residing outside Saudi Arabia.

## 17.5 SUBMISSION OF THE SUBSCRIPTION APPLICATION FORM

Receiving Agents shall start receiving Subscription Application Forms in their branches in the Kingdom during the First Offering Period and the Second Offering Period. Subscription Application Forms can be submitted by Institutional Investors for any Rump Shares only during the Rump Offering. Subscription Application Forms can be delivered during either of the offering periods either through a branch of the Receiving Agents or the tele-banking services section or ATMs or internet banking of any of the Receiving Agents providing such services. The Subscription Application Form includes further information which is to be strictly followed.

Upon completing, signing and submitting the Subscription Application Form, the Receiving Agent shall stamp it and provide the Subscriber with a copy thereof. If the information filled in the form turns out to be incomplete or incorrect or the form is not stamped by the Receiving Agent, the Subscription Application Form will be considered void. The Eligible Person shall accept the subscription terms and conditions and fill all sections of the Subscription Application Form. In case the form completed by an applicant does not meet any of the subscription terms and conditions, the Company shall have the right to reject that application in part or whole. Any application providing incomplete or incorrect information or not stamped by a Receiving Agent will be considered void. The application form may not be amended or withdrawn after submission to the Receiving Agents, and shall be considered a binding contract between the Subscriber and the Company, once approved by the Company.

The Subscriber from among Eligible Persons is deemed to have bought the number of New Shares allocated to him when the following terms are fulfilled:

- delivery by the Eligible Persons of the Subscription Application Form to any of the Receiving Agents' branches;
- payment in full by the Eligible Person to the Receiving Agents of the total Offer Price (as specified above) of the Shares subscribed for; and
- delivery to the Eligible Person by the Receiving Agents of the allocation letter specifying the number of Shares allocated to him/her.

Eligible Persons will not be allocated New Shares exceeding the number of New Shares that they subscribed for.

## 17.6 ALLOCATION

The Company and Lead Manager shall open an escrow account called “AXA Cooperative Insurance Company – Rights Issue”, in which the subscription proceeds shall be deposited. The New Shares shall be allocated to each investor based upon the number of Rights that he/she properly exercised. As for Shareholders entitled to Fractional Shares, these shall be accumulated and offered to Institutional Investors during the Rump Offering. All proceeds resulting from the sale of Rump Shares and Fractional Shares up to the paid Offer Price shall be distributed to the Company and any proceeds in excess of the Offer Price shall be distributed pro rata to the Eligible Persons no later than Thursday 28/05/1436H (corresponding to 19/03/2015G). Excess unsubscribed for Shares shall be purchased by and allocated to the Underwriter.

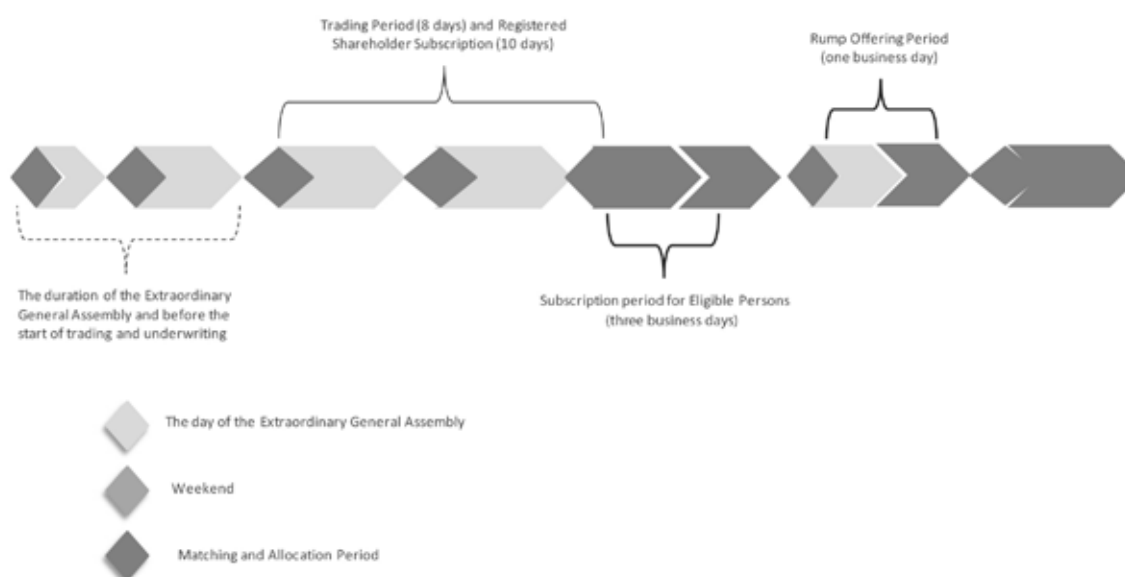
Fractional Shares will be accumulated and offered to the Institutional Investors during the Rump Offering Period. The proceeds of these shares will be paid to the involved Shareholders no later than Thursday 28/05/1436H (corresponding to 19/03/2015G).

Final notice for the number of Shares allocated to each Eligible Person without any charges or withholdings by the Lead Manager or Receiving Agents is expected to take place by depositing the shares into the accounts of Subscribers. Eligible Persons shall contact the branch of the Receiving Agent where they have submitted the Subscription Application Form to obtain any further information. The announcement regarding the allocation shall be made no later than Wednesday 20/05/1436H (corresponding to 11/03/2015G).

## 17.7 COMPENSATION PAYMENT

The compensation to Eligible Persons who do not subscribe for all or part of the Rights Issue, if any, shall be paid no later than Thursday 28/05/1436H (corresponding to 19/03/2015G).

## 17.8 ILLUSTRATION OF THE NEW RIGHTS MECHANISM



## 17.9 FREQUENTLY ASKED QUESTIONS ABOUT THE RIGHTS ISSUE

### 1. What is a Rights Issue?

A Rights Issue is one way for publicly listed companies to raise money. Companies raise money through a rights issue by issuing shares for cash and giving their existing shareholders a right to buy these shares, typically at a discount to the market price for the shares, in proportion to their existing shareholdings.

As such, the Rights Issue is an offering of a Right or Rights that give their holders the priority to subscribe for New Shares upon approval of the capital increase of the Company. Each Right grants its holder the right to subscribe for one (1) New Share at the Offer Price. Rights may be traded in accordance with the mechanism set out in this Prospectus.

### 2. How will this Prospectus assist a Registered Shareholder and Qualifying Investors?

This Prospectus should provide Registered Shareholders and Qualifying Investors with sufficient information on the Rights Issue to assist them to participate in the Offering.

### **3. Who is granted the Rights?**

The Rights are granted to all Shareholders in the Company's register as at the close of trading on the date of the Offering EGM.

### **4. What is the size of the Offering?**

The Company intends to issue 25,000,000 (twenty-five million) New Shares pursuant to the Rights Issue at the Offer Price. This will represent an increase of the Company's share capital from SAR 200,000,000 (two hundred million) to SAR 450,000,000 (four hundred and fifty million), which represents an increase of 125% (one hundred and twenty-five per cent.) to the existing share capital.

### **5. When are the Rights deposited?**

The Rights are deposited within two days after the Offering EGM. The Rights will appear in the portfolios of Registered Shareholders under a new symbol specifying the Rights Issue. These Rights cannot be traded or exercised by the Registered Shareholders until the beginning of the First Offering Period.

### **6. How are Registered Shareholders notified of the Rights being deposited in their accounts?**

The Registered Shareholders are notified through an announcement on the Tadawul website.

### **7. How many Rights are allocated to each Registered Shareholder?**

The number of Rights allocated to each Registered Shareholder is based on the Rights Issue Ratio and the number of Shares held by the Registered Shareholder as at the close of trading on the date of the Offering EGM.

### **8. What is the Rights Issue Ratio?**

It is the ratio that informs the Registered Shareholder how many Rights he is entitled to in relation to the Shares that he owned at the close of trading on the date of the Offering EGM. It is calculated by dividing the number of New Shares by the number of the Company's existing Shares. This has been calculated to be one and a quarter (1.25) for every one (1) Share held by a Registered Shareholder as at the close of trading on the date of the Offering EGM. Accordingly, if a Registered Shareholder held 1,000 (one thousand) Shares at such date, he will be allocated 1,250 (one thousand and two hundred and fifty) Rights in relation to such existing Shares.

### **9. What is the First Offering Period, the Trading Period and the Second Offering Period?**

The First Offering Period and the Trading Period are for the same duration and are from 11:00 am on Tuesday 28/04/1436H (corresponding to 17/02/2015G) to 3:30 pm on Thursday 07/05/1436H (corresponding to 26/02/2015G). During the First Offering Period, the Rights allocated to each of the Registered Shareholders (as explained above) will be deposited in their accounts and the Registered Shareholders can choose to exercise their right to subscribe for New Shares in relation to such Rights. In addition, as this is also the Trading Period, both Registered Shareholders and Qualifying Investors can buy/sell the Rights on the Tadawul. Following the expiry of such periods, the Second Offering Period will commence from 11:00 am on Sunday 10/05/1436H (corresponding to 01/03/2015G) to 3:30 pm on Tuesday 12/05/1436H (corresponding to 03/03/2015G) during which the holders of any Rights (that were bought during the Trading Period) can exercise their right to subscribe for New Shares (corresponding to the number of Rights they hold). No trading of Rights is permitted during the Second Offering Period.

### **10. What is the value of the Rights upon the commencement of the Trading Period?**

The opening price of each Right is the difference between the closing price of a Share on the last trading day preceding the commencement of the Trading Period, and the Offer Price. For example, if the closing price of a Share is SAR 35 (thirty-five Saudi Riyals) and the Offer Price is SAR 10 (ten Saudi Riyals), the opening price of the Rights will be SAR 25 (twenty-five Saudi Riyals).

### **11. What do I need to do as a Registered Shareholder in relation to the Rights allocated to me?**

You have the following options in relation to the Rights during the First Offering Period/Trading Period:

1. keep the Rights and exercise the right to subscribe for New Shares in relation to such Rights;
2. sell some or all of the Rights allocated to you on the Tadawul;
3. purchase additional Rights on the Tadawul which can then be exercised during the Second Offering Period; or
4. not take any action in relation to such Rights including selling them or exercising the right to subscribe for New Shares. In this case, such New Shares as corresponding to such Rights will be allocated to the Rump Offering as Rump Shares.



**12. Can Registered Shareholders subscribe for more Shares than the number of Rights allocated to them?**

As explained above, during the Trading Period, Registered Shareholders can purchase additional Rights which can be exercised to subscribe for additional New Shares during the Second Offering Period.

**13. Is it possible to subscribe for New Shares through multiple Subscription Application Forms with different Receiving Agents?**

Yes, provided that the total number of New Shares that are included in all Subscription Application Forms does not exceed the number of Rights owned by the applicant at the end of the Trading Period. The Subscription Application Form will be cancelled if the number of New Shares subscribed for exceeds the number of Rights owned by the relevant applicant at the end of the Trading period.

**14. If my Shares in the Company are deposited in multiple investment portfolios, in which investment portfolio will the Rights be deposited?**

The Rights will be deposited in the same portfolio that contains the Shares to which the Rights relate. For example, if a Registered Shareholder owns 1000 shares in the Company, of which 800 Shares are held in portfolio (a) and 200 shares are held in portfolio (b), the total number of Rights that will be deposited in the investment portfolios of such Registered Shareholder will be 1,250 Rights (based on the Rights Issue Ratio) of which 1000 will be deposited in portfolio (a) and 250 will be deposited in portfolio (b.).

**15. If I submit the Subscription Application Forms to different Receiving Agents, in which investment portfolio will the New Shares be deposited following their allocation?**

All New Shares allocated to you will be deposited in the investment portfolio that you specified in the first Subscription Application Form.

**16. How do I exercise my right to subscribe for New Shares?**

You need to submit a completed Subscription Application Form at any branch of the Receiving Agents (mentioned in this Prospectus) during the First Offering Period and/or the Second Offering Period (only in relation to Rights purchased during the Trading Period).

**17. Are share certificate holders allowed to subscribe and trade?**

Yes, they are allowed to subscribe. However, they will only be able to trade after depositing their certificates in investment accounts through the Receiving Agents or the Tadawul's depository centre and submitting all other necessary documents.

**18. If I buy Shares after the Eligibility Date, will I be eligible to participate in the Rights Issue?**

No, Shares purchased after the Eligibility Date will not carry the right to participate in the Rights Issue. However, you will be able to purchase Rights during the Trading Period which can then be exercised to subscribe for New Shares in the Second Offering Period.

**19. If I take up my Rights, when will my New Shares be admitted to trading?**

If you take up your rights under the Rights Issue, the New Shares are expected to be admitted to trading after the completion of all procedures relating to the registration, allocation and listing of all the New Shares. The actual date(s) will be communicated through local newspapers published in KSA as well as on Tadawul's website: [www.tadawul.com.sa](http://www.tadawul.com.sa).

**20. What happens if a Registered Shareholder exercises his right to subscribe for New Shares but then sells the underlying Rights during the Trading Period?**

In such a scenario, unless such Registered Shareholder has bought sufficient Rights at the end of the Trading Period corresponding to the number of New Shares he applied for during the First Offering Period, his subscription application for New Shares will be rejected entirely and he will be notified by the Receiving Agent and refunded any amounts paid towards such subscription.

**21. Can persons who purchase additional Rights trade them again?**

Yes, purchasers of additional Rights may sell them and purchase other Rights but only until the end of the Trading Period.



**22. Is it possible to sell only a portion of the Rights held by a Registered Shareholder?**

Yes, it is possible to sell only a portion of these Rights and subscribe for New Shares for the remaining portion of such Rights.

**23. Is it possible to subscribe during the weekend between the First and Second Offering Periods?**

No, that is not possible.

**24. Can the Eligible Person sell the Right after expiry of the Trading Period?**

No, that is not possible. After the expiry of the Trading Period, the Eligible Person may only exercise the right to subscribe for the New Shares corresponding to the number of Rights he holds. In case the Right is not exercised, the New Shares corresponding to such Rights will be offered to the Institutional Investors during the Rump Offering.

**25. What happens to Rights that have not been exercised at the end of the Second Offering Period?**

The New Shares corresponding to such Rights will be Rump Shares and will be sold through the Rump Offering. During the Rump Offering, such Rump Shares will be allocated to Institutional Investors in order of priority based on the price per Share offered by the relevant Institutional Investor until all of the Rump Shares have been allocated. Any remaining Rump Shares will be allocated on a proportional basis among those Institutional Investors that tendered offers at the same price. All Fractional Shares will be added to and, for allocation purposes, will form part of and be treated the same as the Rump Shares.

**26. Will the Rights Issue affect my shareholding in the Company?**

Yes, the Rights Issue will affect your shareholding in the Company in the following ways:

1. If you choose not to exercise the right to subscribe for New Shares corresponding to the Rights allocated to you, your ownership interest in the Company will be diluted correspondingly which will result in a decrease in your voting power and the value of your investment portfolio.
2. If you choose to exercise the right to subscribe for all the New Shares corresponding to the Rights allocated to you during the First Offering Period, your ownership interest in the Company will remain unchanged.
3. If you choose to exercise the right to subscribe for all the New Shares corresponding to the Rights allocated to you and any additional Rights you decide to purchase during the Trading Period, your ownership interest in the Company will be greater than before the Rights Issue.

By way of example, a Registered Shareholder who currently holds 10,000 (ten thousand) Shares will have an ownership interest of approximately 0.05 per cent. in the Company's share capital. The number of Rights allocated to him during the First Offering Period will be 12,500 (twelve thousand and five hundred). Accordingly:

1. If he does not exercise the right to subscribe for 12,500 (twelve thousand and five hundred) New Shares, his ownership interest in the new share capital of the Company will be reduced and then represent approximately 0.02%.
2. If he exercises the right to subscribe for 12,500 (twelve thousand and five hundred) New Shares, his ownership interest in the new share capital of the Company will remain unchanged and continue to represent approximately 0.05%.
3. If he exercises the right to subscribe for more than 12,500 (twelve thousand and five hundred) New Shares, his ownership interest in the new share capital of the Company could represent more than 0.05%.

**27. Will I be entitled to Fractional Shares as part of the Rights Issue?**

No, all Fractional Shares will be allocated to the Rump Offering.

**28. Will there be any additional fees for the trading in Rights?**

The same commissions that apply to the trading of Shares will also apply on the sale and purchase of Rights, without a minimum commission being imposed.

**29. Can I sell the New Shares for which I have subscribed for?**

After the commencement of dealings in the New Shares, you will be able to sell your New Shares in the ordinary course.

### 30. Can I change my decision to take up my rights?

Once you have submitted your Subscription Application Form through the Receiving Agents, you cannot withdraw your application or change the number of New Shares for which you have subscribed.

#### Further Assistance

If you have any other questions, please email the Company's designated email address: khalid.shuwaier@axa-gulf.com.

For legal reasons, the Company will only be able to provide information contained in this document and information relating to the Company's register of members and will not be able to give advice on the merits of the Rights Issue or to provide financial, tax, legal or investment advice.

## 17.10 TRADING OF NEW SHARES

Trading of the New Shares will take place upon completion of all relevant procedures. This is expected to take place after the allocation of New Shares, in coordination with the CMA, and will be announced at a later date.

## 17.11 MISCELLANEOUS NOTICES

The Subscription Application Form and all related terms, conditions and covenants hereof shall be binding upon and inure to the benefit of the parties to the subscription and their respective successors, permitted assigns, executors, administrators and heirs; provided that, except as specifically contemplated herein, neither the Subscription Application Form nor any of the rights, interests or obligations arising pursuant thereto shall be assigned or delegated by any of the parties to the subscription without the prior written consent of the other party.

The terms and conditions set out in this Prospectus and any receipt of the Subscription Application Forms or any related agreements are subject to the regulations of the Kingdom, and shall be interpreted and executed according to such regulations.

This Prospectus may be distributed in Arabic and English. The Arabic text shall take precedence in the event of any conflict between the Arabic and English versions of this Prospectus.

Although the CMA has approved this Prospectus, it may suspend this subscription offer if the Company, at any time after the adoption of this Prospectus by the CMA and before approving the listing of New Shares in the market, becomes aware of (1) a significant change that has occurred in any of the key information contained in this Prospectus, or any of the documents required to be included under the Listing Rules, or (2) any additional issues that should have been included in this Prospectus. In these cases it is incumbent on the Company to submit to the CMA a supplementary prospectus, according to the requirements of the Listing Rules. A supplementary prospectus will therefore be published and an announcement made about applicable subscription dates. It is also possible that this subscription be suspended in the event of non-approval of the EGM on any of its details.

## 17.12 THE SAUDI ARABIAN STOCK EXCHANGE ("TADAWUL")

In 1990, full electronic trading in Saudi Arabia equities was introduced. Tadawul was founded in 2001 as the successor to the Electronic Securities Information System. Transactions take place through the automatic matching of orders. Each valid order is accepted and generated according to the price level. Market orders (orders placed at the best price) are executed first, followed by limit orders (orders placed at a price limit), provided that if several orders are generated at the same price, they are executed according to the time of entry.

Tadawul distributes a comprehensive range of information through various channels, including the Tadawul website and Tadawul Information Link. The Tadawul Information Link supplies trading data in real time to information providers such as Reuters.

Exchange transactions are settled on an immediate basis, meaning that ownership transfer takes place immediately after the trade is executed.

Issuers are required to report all material announcements via Tadawul for onward dissemination to the public. Surveillance and monitoring is the responsibility of Tadawul as the operator of the market. The aim of supervision is to ensure fair trading and an orderly market.

### 17.13 ENTRY OF ORDERS

Trading in shares occurs on "Tadawul" system through an integrated trading mechanism covering the entire trading process from execution of the trade transaction through to settlement thereof. Trading occurs on each business day of the week between 11:00 am to 3:30 pm during which orders are executed. However, during times other than those times, orders can be entered, amended or deleted from 10:00 am to 11:00 am. The operating times change during the month of Ramadan and they are announced by the Management of Tadawul.

Tadawul performs the matching of orders based on the price and then time of entry. In general, market orders are executed first, followed by orders of limited price, and if several orders are entered at the same price, they are executed as they occur according to the time of entry. Tadawul distributes a comprehensive range of information through various channels, including in particular the Tadawul website on the Internet and Tadawul Information Link, which supplies trading data in real time to the information providers such as Reuters. Exchange transactions are settled on a T+0 basis the same day, meaning that shares ownership transfer takes place immediately after the trade transaction is executed.

The Company is required to disclose all decisions and information that are important for the investors via Tadawul. Surveillance and monitoring of the Market is the responsibility of the CMA and Tadawul in its automated capacity in which the Market functions, to ensure fair trading and smooth flow of trading in shares.

### 17.14 LISTING OF THE NEW SHARES

An application has been made to the CMA to admit the New Shares to listing. The listing is expected to be approved and trading to commence on the Exchange once the final allocation of the New Shares has been concluded. An announcement will be made on the Tadawul website in due course. The dates and times stated in this Prospectus are only provisional and may be changed or extended at any time subject to approval of the CMA.

Although the Company's existing Shares are listed, it will only be possible to trade in the New Shares once the allocation of the New Shares to successful Subscribers and Rump Offering Participants has been approved and these have been placed in their Tadawul accounts. It is absolutely forbidden to trade in the New Shares until the allocation has been approved. Subscribers who engage in any forward trading activity shall be acting at their own risk. The Company shall have no legal responsibility in such an event.

### 17.15 RESOLUTIONS AND APPROVALS UNDER WHICH SHARES ARE OFFERED

The Company has obtained SAMA's approval to increase its share capital by SAR 250,000,000 (two hundred and fifty million) through the Offering pursuant to SAMA's letter number 351000081746 dated 23/06/1435H (corresponding to 24/04/2014G). Upon completion of the Offering, the Company's share capital will be SAR 450,000,000 (four hundred and fifty million) comprising forty-five million Shares with nominal value of SAR 10 (ten) per share. The Board has issued its resolution dated 20/09/1435H (corresponding to 17/07/2014G) recommending the increase of the Company's capital. The Offering EGM held on 21/04/1436H (corresponding to 10/02/2015G) has approved the recommendation of the Board of Directors to increase the capital and the subscription therein will be limited to the Registered Shareholders.

### 17.16 CHANGE IN THE SHARE PRICE AS A RESULT OF THE CAPITAL INCREASE

The closing price of the Company's Shares on the day of the Offering EGM was 21.8 and will be reset to 14.75 in the opening session the next day. The change represents a decrease of 40.4 per cent.

The method of calculating the share price as a result of the capital increase is as follows:

**First:** Calculate the market value of the Company at the close of trading on the day of the Offering EGM:

Number of Shares in issue at the end of the day of the Offering EGM multiplied by the closing price for the Company's Shares on the day of the EGM = market value of the Company at the close of trade on the day of the EGM.

**Second:** Calculate the price of Shares in the opening session on the day following the day the Offering EGM:

(The market value of the Company at the close of trading on the day of the EGM + the value of the Rights Issue Shares) / (Number of Shares in issue at the end of the day the Offering EGM + the number of New Shares offered in this Offering) = share price reset for the opening session on the day following the day of the Offering EGM.

## **18. ACKNOWLEDGEMENTS AND DECLARATIONS RELATING TO THE OFFER AND DETAILS OF THE CAPITAL MARKET**

By completing and delivering the Subscription Application Form, the Subscriber:

- accepts that he/she is subscribing for the New Shares with the number of New Shares specified in the Subscription Application Form;
- warrants that he/she read this Prospectus and understands all its contents;
- accepts the By-Laws and all subscription instructions and terms mentioned in this Prospectus;
- keeps his/her right to sue the Company for damages caused by incorrect or incomplete information contained in this Prospectus, or by ignoring material information that should have been part of this Prospectus and could affect his/her decision to purchase the New Shares;
- declares that neither he/she, nor any of his/her family members included in the Subscription Application Form, has previously subscribed for any New Shares and that the Company has the right to reject all duplicate applications;
- accepts the number of New Shares allocated to him/her (to a maximum of the amount he/she has subscribed for) and all other subscription instructions and terms mentioned in this Prospectus and the Subscription Application Form; and
- warrants that he/she will not cancel or amend the Subscription Application Form after submitting it to the Receiving Agent.

## 19. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the Head Office of the Company in Riyadh during official working hours, from 9:00 am to 5:00 pm Sunday to Thursday, 14 days prior to, and during, the Offering Period:

- the Company's Commercial Registration Certificate;
- the By-Laws;
- the recommendation from the Board for the Capital Increase dated 20/09/1435H (corresponding to 17/07/2014G);
- approval of the Offering from the CMA;
- extraordinary General Assembly resolution approving the Capital Increase;
- approval from SAMA to the Capital Increase and the Offering;
- market study report prepared by Business Monitor International;
- letters of consent to the inclusion of their name, logo and statements in this Prospectus from:
  - Saudi Fransi Capital as the Financial Advisor, Underwriter and Lead Manager;
  - Clifford Chance Law Firm as Saudi Legal Advisor to the Company;
  - KPMG Al Forzan & Al Sadhani as the Professional Financial Diligence Auditor;
  - PricewaterhouseCoopers and Al-Ghanem Certified Public Accountants as the auditors to the Company; and
  - Business Monitor International as the Market Consultant;
- Contracts in which a Director or a senior executive of the Company or any of their relatives has an interest in relation to the business of the Company; and
- the Company's audited financial statements for the financial years ended 31 December 2011G, 2012G and 2013G.

## 20. AUDITORS' REPORT

AXA COOPERATIVE INSURANCE COMPANY  
(A Saudi Joint Stock Company)  
INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE  
THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014 (UNAUDITED)  
AND INDEPENDENT AUDITORS' LIMITED REVIEW REPORT



## INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

To the shareholders of  
AXA Cooperative Insurance Company  
(A Saudi Joint Stock Company)

### Scope of review

We have reviewed the accompanying interim statement of financial position of AXA Cooperative Insurance Company (a Saudi joint stock company) (the "Company") as at June 30, 2014 and the related interim statements of insurance operations and accumulated surplus, shareholders' income, shareholders' comprehensive income for the three-month and six-month periods then ended and the interim statement of changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the six-month period ended June 30, 2014 and the notes which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Accounting Standard (IAS) - 34 "Interim Financial Reporting" and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the Standard on Review of Interim Financial information issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with IAS- 34.

### Emphasis of matter

We draw attention to Note 2 of the accompanying interim condensed financial statements. These interim condensed financial statements are prepared in accordance with IAS-34 and not in accordance with the Standard of Interim Financial Reporting issued by SOCPA.

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Omar M. Al Sagga  
License Number 369



Al-Ghanem  
P.O. Box 762  
Dammam 31421  
Saudi Arabia

Nader Abdullah Al-Ghanem  
License Number 270



July 20, 2014



**AXA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM STATEMENT OF FINANCIAL POSITION**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	As at,	
		June 30, 2014	December 31, 2013
		(Unaudited)	(Audited)
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents		134,853	171,605
Short-term deposits		92,620	26,541
Premiums and insurance balances receivable		168,711	148,812
Less: Provision for doubtful debts		(18,230)	(18,230)
Premiums and insurance balances receivable - net	5	150,481	130,582
Receivable from related parties	5	18,701	8,392
Reinsurers' share of unearned premiums		26,863	27,188
Reinsurers' share of outstanding claims		53,976	62,804
Deferred policy acquisition costs		19,671	16,707
Other assets		8,490	7,610
Available-for-sale investments	3	88,323	86,942
Long-term deposit		7,500	7,500
Held-to-maturity investments	3	75,000	75,000
Due from shareholders		42,291	14,823
Furniture, fixtures and equipment		7,356	8,144
TOTAL INSURANCE OPERATIONS' ASSETS		726,125	643,838
SHAREHOLDERS' ASSETS			
Cash and cash equivalents		9,217	891
Short-term deposits		20,218	-
Other assets		1,418	1,208
Available-for-sale investments	3	83,772	74,314
Long-term deposits		56,250	56,250
Held-to-maturity investments	3	60,000	60,000
Statutory deposit	4	20,000	20,000
TOTAL SHAREHOLDERS' ASSETS		250,875	212,663
TOTAL ASSETS		977,000	856,501

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.

**AXA COOPERATIVE INSURANCE COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM STATEMENT OF FINANCIAL POSITION (Continued)**  
(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	As at,	
		June 30, 2014	December 31, 2013
		(Unaudited)	(Audited)
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Reinsurers' balances payable		39,744	39,165
Unearned premiums		283,878	210,840
Outstanding claims		167,055	154,587
Claims incurred but not reported and other reserve		170,042	158,195
		337,097	312,782
Advance premiums		-	7,517
Deferred reinsurance commission		3,405	5,097
Accrued and other liabilities		41,452	51,355
Employee termination benefits		17,063	16,495
Total insurance operations' liabilities		722,639	643,251
Accumulated surplus from insurance operations		2,519	1,658
Fair value reserve on available-for-sale investments		967	(1,071)
Total insurance operations' surplus		3,486	587
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		726,125	643,838
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued zakat and income tax	6	6,372	5,445
Accrued and other liabilities		602	1,020
Due to insurance operations		42,291	14,823
Total shareholders' liabilities		49,265	21,288
Shareholders' equity			
Share capital	7	200,000	200,000
Fair value reserve		3,807	2,378
Accumulated deficit		(2,197)	(11,003)
Total shareholders' equity		201,610	191,375
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		250,875	212,663
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY		977,000	856,501
CONTINGENCIES	10		

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.

**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**INTERIM STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	For three-month period ended June 30,		For six-month period ended June 30,	
		2014	2013	2014	2013
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES					
Gross premiums written	5	184,324	115,645	497,826	385,990
Less: Reinsurance premiums ceded	5	(28,518)	(13,828)	(55,714)	(42,943)
Net premiums written		155,806	101,817	442,112	343,047
Changes in unearned premiums		34,520	60,724	(73,363)	(32,580)
Net premiums earned		190,326	162,541	368,749	310,467
Reinsurance commissions	5	5,205	3,685	9,493	7,234
Commission income		1,943	1,459	3,518	2,183
Total revenues		197,474	167,685	381,760	319,884
COSTS AND EXPENSES					
Gross claims paid		140,622	104,907	314,703	251,719
Less: Reinsurers' share		(2,943)	(5,368)	(38,034)	(60,115)
Net claims paid		137,679	99,539	276,669	191,604
Changes in outstanding claims		22,062	34,768	33,143	66,352
Net claims incurred		159,741	134,307	309,812	257,956
Policy acquisition costs		10,963	8,797	21,683	17,186
General and administrative expenses		21,946	17,792	41,659	34,285
Total costs and expenses		192,650	160,896	373,154	309,427
Net surplus from insurance operations		4,824	6,789	8,606	10,457
Shareholders' appropriation of surplus		(4,341)	(6,110)	(7,745)	(9,411)
Net results from insurance operations after appropriation of surplus		483	679	861	1,046
Accumulated surplus, beginning of the period		2,036	557	1,658	557
Accumulated surplus, end of the period		2,519	1,236	2,519	1,603

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

INTERIM STATEMENT OF SHAREHOLDERS' INCOME

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	For three-month period ended June 30,		For six-month period ended June 30,	
		2014	2013	2014	2013
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net surplus transferred from insurance operations		4,341	6,110	7,745	9,411
Commission income		2,433	1,175	4,815	2,841
General and administrative expenses		(720)	(558)	(784)	(590)
Shareholders' net income for the period		6,054	6,727	11,776	11,662
Weighted average number of outstanding shares		20 million	20 million	20 million	20 million
Basic and diluted earnings per share (Saudi Riyals)	9	0.30	0.34	0.59	0.58

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

INTERIM STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	For three-month period ended June 30,		For six-month period ended June 30,	
		2014	2013	2014	2013
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Shareholders' net income for the period		6,054	6,727	11,776	11,662
Provision for zakat and income tax	6	(1,563)	(2,234)	(2,970)	(3,790)
Net income for the period		4,491	4,493	8,806	7,872
Unrealized (loss) gain on available-for- sale investments	3	1,355	(2,708)	1,429	(3,553)
Total comprehensive income for the period		5,846	1,785	10,235	4,319

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

Unaudited	Share capital	Fair value reserve	Accumulated deficit	Total
Balance at January 1, 2014	200,000	2,378	(11,003)	191,375
Net income for the period	-	-	8,806	8,806
Changes in fair value reserve on available-for-sale investments	-	1,429	-	1,429
Balance at June 30, 2014	200,000	3,807	(2,197)	201,610
Unaudited				
Balance at January 1, 2013	200,000	4,297	(23,945)	180,352
Net income for the period	-	-	7,872	7,872
Changes in fair value reserve on available-for-sale investments	-	(3,553)	-	(3,553)
Balance at June 30, 2013	200,000	744	(16,073)	184,671

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.

**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**INTERIM STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	Six-month period ended	
		June 30, 2014	June 30, 2013
		(Unaudited)	(Unaudited)
Cash flow from operating activities			
Net result from insurance operations		861	1,046
Adjustments to reconcile net result from insurance operations to net cash from operating activities:			
Shareholders' appropriation of surplus from insurance operations		7,745	9,411
Depreciation		1,795	1,279
		10,401	11,736
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable - net		(19,899)	(9,661)
Reinsurers' share of unearned premiums		325	18,113
Reinsurers' share of outstanding claims		8,828	4,928
Deferred policy acquisition costs		(2,964)	(1,544)
Other assets		(880)	(7,573)
Receivable from related parties		(10,309)	(14,516)
Reinsurers' balances payable		579	(14,551)
Unearned premiums		73,038	27,654
Outstanding claims		24,315	(21,645)
Claims incurred but not reported and other reserve		-	69,887
Advance premiums		(7,517)	-
Deferred reinsurance commission		(1,692)	(1,275)
Accrued and other liabilities		(9,903)	6,098
Payable to a related party		-	(49,730)
Employee termination benefits		568	955
Due from shareholders		(35,213)	61,647
Net cash provided by operating activities		29,677	80,523
Cash flow from investing activities			
Purchase of furniture, fixtures and equipment		(1,007)	(752)
Short-term deposits		(66,079)	(104,060)
Purchase of available-for-sale investments	3	(8,410)	(33,660)
Proceeds from sale of available-for-sale investments	3	9,067	-
Net cash used in investing activities		(66,429)	(138,472)
Net change in cash and cash equivalents		(36,752)	(57,949)
Cash and cash equivalents, beginning of the period		171,605	74,118
Cash and cash equivalents, end of the period		134,853	16,169
Supplemental cash flow information			
Non-cash investing activity			
Unrealized gain on available-for-sale investments	3	2,038	(2,930)

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

INTERIM STATEMENT OF SHAREHOLDERS' CASH FLOWS

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	Six-month period ended	
		June 30, 2014	June 30, 2013
		(Unaudited)	(Unaudited)
Cash flow from operating activities			
Shareholders' net income for the period		11,776	11,662
Adjustments to reconcile net income to net cash provided by operating activities:			
Appropriation of surplus from insurance operations		(7,745)	(9,411)
		4,031	2,251
Changes in operating assets and liabilities:			
Other assets		(210)	3,087
Zakat and income tax paid		(2,043)	(3,112)
Accrued and other liabilities		(418)	714
Due to insurance operations		35,213	(61,647)
Net cash provided by (used in) operating activities		36,573	(58,707)
Cash flow from investing activities			
Short-term deposits		(20,218)	62,170
Purchase of available-for-sale investments	3	(13,057)	(3,193)
Proceeds from sale of available-for-sale investments	3	5,028	-
Net cash (used in) provided by investing activities		(28,247)	58,977
Net increase in cash and cash equivalents		8,326	270
Cash and cash equivalents, beginning of the period		891	325
Cash and cash equivalents, end of the period		9,217	595
Supplemental cash flow information			
Zakat and income tax charged to shareholders'			
comprehensive income	6	(2,970)	(3,790)
Unrealized gain (loss) on available-for-sale investments	3	1,429	(3,553)

The accompanying notes from 1 to 12 form an integral part of these interim condensed financial statements.



## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

### a. General information

AXA Cooperative Insurance Company (the "Company") is a Saudi joint stock company established in the Kingdom of Saudi Arabia by the Royal Decree No. M/36 dated 27 Jumada II 1429H (July 1, 2008) (date of inception). The Company was incorporated vide Ministerial Order No Q/192, dated 10 Jumada II 1430H, (June 3, 2009) (date of ministerial resolution). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010271203 issued in Riyadh on 20 Rajab 1430H (July 13, 2009). The Company's registered address is P.O. Box 753, Riyadh 11421, Kingdom of Saudi Arabia.

The principal activities of the Company are to engage in cooperative insurance operations and all related activities including reinsurance activities under the Law on Supervision of Co-operative Insurance Companies (the "Law") and the Company's bye-law and other regulations promulgated in the Kingdom of Saudi Arabia. The Company obtained licence from the Saudi Arabian Monetary Agency ("SAMA") to practice general and medical insurance and reinsurance business in the Kingdom of Saudi Arabia vide licence no. TMN/25/2010, dated 11 Safar 1431H (corresponding to January 26, 2010). The Company has commenced insurance operations on 4 Rabi' I 1431H (corresponding to February 18, 2010) after obtaining full product approval for certain products and temporary approval for the remaining products. Currently, the Company is in the process of obtaining full product approval for the remaining products from the regulators. Management believes that such approvals will be obtained in due course.

### b. Portfolio transfer

The shareholders' of the AXA Insurance (Saudi Arabia) B.S.C. (c) (the 'Seller'), at the time of formation of the Company, had principally agreed to transfer certain of the Seller's assets and liabilities and the insurance portfolio (the "Transfer") in Saudi Arabia to the Company with effect from January 1, 2009, subject to approval and at a value to be determined by SAMA.

On 15 Dhul-Qadah 1433H (corresponding to October 1, 2012), SAMA approved the transfer, with effect from January 1, 2009, at a maximum consideration of Saudi Riyals 106.57 million. Consequent to SAMA's approval, the Company has formally entered into a purchase agreement with the shareholders' of the Seller to effect the transfer. Also, the shareholders of the Company have approved the portfolio transfer at their Extra Ordinary General Assembly Meeting held on December 10, 2012. The effects of the transfer have been reflected in the financial statements for the period from June 3, 2009 to December 31, 2010 and the year ended December 31, 2011. Also see Note 9.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of these interim condensed financial statements are set out below. These policies are consistently applied for all periods presented.

### 2.1 Basis of preparation

The Company has prepared its interim condensed financial statements for the three-month and six-month periods ended June 30, 2014 and 2013 in accordance with International Accounting Standard (IAS) 34 - "Interim Financial Reporting". Accordingly, these interim condensed financial statements are not intended to be a presentation in conformity with accounting principles generally accepted in the Kingdom of Saudi Arabia, i.e. in accordance with Standard on Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants.

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by management and the Board of Directors of the Company.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

As per the law and the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

Transfer to shareholders' operations	90%
Transfer to insurance operations	10%
	100%

The accompanying interim condensed financial statements include all adjustments comprising mainly of normal recurring accruals considered necessary by the Company's management to present a fair statement of the financial position, results of operations and cash flows.

#### 2.2 Accounting policies

The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual audited financial statements as at and for the year ended December 31, 2013, except for the adoption of certain amendments and revisions to existing standards as mentioned below, which had no significant financial impact on the interim condensed financial statements of the Company. These interim condensed financial statements should therefore be read in conjunction with the audited financial statements for the year ended December 31, 2013. The Company's interim results may not be indicative of its annual results.

Standard	Description
Amendment to IAS 32	Financial instruments: Presentation on asset and liability offsetting
Amendments to IFRS 10, 12 and IAS 27	Consolidation for investment entities
Amendment to IAS 36	Impairment of assets: Recoverable amount disclosures for impaired assets
Amendment to IAS 39	Novation of derivatives and hedge accounting
Amendment to IAS 12	Income taxes
IFRIC 21	Levies

The Company's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the periods commencing on or after July 1, 2014:

Standard	Description
Amendment to IAS 19	Defined benefit plans
Amendment to IFRS 9	Financial instruments regarding general hedge accounting
IFRS 9	Financial instruments
IFRS 14	Regulatory deferral accounts
Annual improvements 2012	
Annual improvements 2013	

#### 2.3 Use of estimates and assumptions in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions 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. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

#### 2.4 Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment) which is subject to risk and reward that are different from those of other segments. 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 assets do not include cash and cash equivalents, short-term deposits, available-for-sale investments, held-to-maturity investments, receivable from related parties, premiums and insurance balances receivable, other assets, due from shareholders' operations and furniture, fixtures and equipment; and
- Segment liabilities do not include reinsurers' balances payable, advance premiums, accrued and other liabilities and employee termination benefits.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Accident and liability;
- Motor;
- Property;
- Marine;
- Engineering;
- Health; and
- Protection

### 3 Investments

Available-for-sale investments

As at and for the six-month period ended June 30, 2014 (Unaudited)

	Insurance operations	Shareholders' operations
Balance, beginning of the period	86,942	74,314
Purchases	8,410	13,057
Disposals	(9,067)	(5,028)
Unrealized gain - net	2,038	1,429
Balance, end of the period	88,323	83,772

As at and for the year ended December 31, 2013 (Audited)

	Insurance operations	Shareholders' operations
Balance, January 1, 2013	54,514	63,085
Purchases	34,651	20,059
Disposals	(906)	(6,911)
Unrealized gain	(1,317)	(1,919)
Balance, December 31, 2013	86,942	74,314

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

These represent investments in publicly traded sukuk bonds and certain other publicly traded equity securities.

Available-for-sale investments at June 30, 2014 include 1,923,078 shares (2013: 1,923,078) in Najam for Insurance Services, and are held by the Company at Nil value.

Held-to-maturity investments

Insurance operations:

Type of security	Issuer	Maturity period	Profit margin	Book value net of amortization	
				June 30, 2014	December 31, 2013
				(Unaudited)	(Audited)
Sukuks	Saudi government	20 years	3.21%	60,000	60,000
Sukuks	Saudi company	10 years	3.47%	15,000	15,000
				75,000	75,000

Shareholders' operations:

Type of security	Issuer	Maturity period	Profit margin	Book value net of amortization	
				June 30, 2014	December 31, 2013
				(Unaudited)	(Audited)
Sukuks	Saudi government	20 years	3.21%	60,000	60,000

#### 4 Statutory deposit

The statutory deposit represents 10% of the paid-up share capital which is maintained in accordance with the Law. This statutory deposit cannot be withdrawn without the consent of SAMA.

# AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

### 5 Related party transactions and balances

#### a) Related party transactions

For three-month period ended June 30,		For six-month period ended June 30,		
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gross premiums written	5,121	5,675	12,783	13,178
Net claims paid	1,935	1,921	4,327	5,378
Reinsurance ceded	19,992	11,806	38,434	29,201
Reinsurers' share of outstanding claims	17,585	2,963	22,027	4,102
Reinsurance commissions	1,874	1,205	3,754	3,319
Expenses charged by related parties	620	734	983	1,043
Directors remunerations	618	558	650	590
Key management personnel	1,486	1,417	2,973	2,886

#### b) Related party balances

##### i) Premiums and insurance balances receivable

	June 30, 2014	December 31, 2013
	(Unaudited)	(Audited)
Receivable from policy holders	4,793	1,954
Receivable from reinsurers	1,718	2,511
	6,511	4,465
Provision for doubtful debts	(1,475)	(972)
Total	5,036	3,493

##### ii) Receivable from related parties

Receivable from a related party at June 30, 2014 and December 31, 2013 represents amount receivable from the Seller and AXA Insurance Gulf B.S.C (c.).

##### iii) Reinsurers' balances payable

Reinsurers' balances payable mainly include balances payable to AXA Cessions Paris.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 6 Zakat and income tax matters

### Components of zakat base

Significant components of zakat base of the Company principally comprise of shareholders' equity at the beginning of the period, adjusted net income and certain other items.

### Provision for zakat and income tax

Provision for zakat has been made at 2.5% of approximate zakat base attributable to the Saudi shareholders of the Company.

Provision for income tax has been made at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

### Status of zakat and income tax certificate

The Company has filed revised tax and zakat returns for the years from 2009 to 2012 to reflect the effect of the portfolio transfer. During the period ended June 30, 2014 the Department of Zakat and Income Tax ("DZIT") has issued assessments for the years from 2009 to 2012 amounting to Saudi Riyals 11.6 million. The Company has filed an appeal against the assessment of the DZIT for additional demand arising out of various disallowances for years 2009 to 2012.

Zakat and Tax return for the year 2013 has been filed and the Company has received restricted certificate from the DZIT.

## 7 Share capital

The authorised, issued and paid up share capital of the Company is Saudi Riyals 200 million, consisting of 20 million shares of Saudi Riyals 10 each.

The Board of Directors in their meeting held on June 27, 2012 (corresponding to 7 Sha'ban 1433H) proposed to increase the share capital by Saudi Riyals 250 million. On April 23, 2014 (corresponding to 23 Jumada II 1435H), the Company has received an approval from SAMA for increasing its share capital by way of issuance of right shares to its existing shareholders. The Company is currently in the process of obtaining approval from the Capital Market Authority (CMA) subject to completion of certain regulatory requirements including submission of certain specified information and documents required by CMA.

## 8 Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The fair values of the Company's financial assets and liabilities are not materially different from their carrying values at the reporting date.

The Company's financial assets consist of cash and cash equivalents, premium and insurance balances receivables, short-term deposits, long-term deposits, investments, accrued income and financial liabilities consisting of payables and accrued expenses.

### Determination of fair value and fair value 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 identical assets or liabilities (i.e. without modification or repacking).

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

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

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

The table below presents the financial assets measured at fair value as at June 30, 2014 and December 31, 2013 based on the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
June 30, 2014 (unaudited)				
Available-for-sale investments:				
Insurance operations	88,323	-	-	88,323
Shareholders' operations	83,772	-	-	83,772
Held-to-maturity investments:				
Insurance operations	75,000	-	-	75,000
Shareholders' operations	60,000	-	-	60,000
December 31, 2013 (Audited)				
Available-for-sale investments:				
Insurance operations	86,942	-	-	86,942
Shareholders' operations	74,314	-	-	74,314
Held-to-maturity investments:				
Insurance operations	75,000	-	-	75,000
Shareholders' operations	60,000	-	-	60,000

For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the six-month period ended June 30, 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

## 9 Earnings per share

Basic and diluted earnings per share for three-month and six-month periods ended June 30, 2014 and 2013 has been computed by dividing the shareholders' net income for the periods by the weighted average number of ordinary shares outstanding during such periods.

## 10 Contingencies

### Contingent consideration payable to the Seller

As stated in Note 1, the Company acquired the insurance portfolio from the Seller at a consideration based on SAMA's instructions. Settlement of such consideration can only be made upon fulfilling certain conditions dictated by SAMA which include, among others, the following:

- Maintenance of required solvency margin and minimum share capital;
- Restriction on repayment upto a maximum of 50% of the profit earned in the current year;
- Restriction on settlement in the year of loss or out of retained earnings; and
- Limitation on duration within which payment of consideration can be made.

Considering the above conditions, financial performance and the Company's future business plans, management believes that the Company will not be required to pay the consideration. Accordingly, the consideration of Saudi Riyals 106.57 million is disclosed as a contingent liability. Management will however, reassess the conditions for settlement of the consideration at each balance sheet date during the period in which payment can be made and will recognize a liability, if required.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

#### Guarantee

At June 30, 2014, the Company was contingently liable for a counter guarantee amounting to Saudi Riyals 1.8 million issued to Yousuf bin Ahmed Kanoo Company LLC (Kanoo), a related party, against a bank guarantee submitted by Kanoo with the Ministry of Foreign Affairs (MOFA) on behalf of the Company.

#### 11 Segment reporting

Insurance operations for the three-month period ended June 30, 2014 and 2013 (Unaudited)

General and medical										
2014	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	8,792	27,405	14,732	14,899	13,366	747	100,204	180,145	4,179	184,324
Less: reinsurance premiums ceded	(1,522)	(264)	(12,731)	(7,842)	(5,999)	184	(242)	(28,416)	(102)	(28,518)
Net premiums written	7,270	27,141	2,001	7,057	7,367	931	99,962	151,729	4,077	155,806
Changes in unearned premiums	(2,372)	65,262	(803)	(391)	(3,768)	(251)	(22,565)	35,112	(592)	34,520
Net premiums earned	4,898	92,403	1,198	6,666	3,599	680	77,397	186,841	3,485	190,326
Reinsurance commissions	205	-	1,648	1,536	166	-	175	3,730	1,475	5,205
Total Revenue	5,103	92,403	2,846	8,202	3,765	680	77,572	190,571	4,960	195,531
Gross claims paid	711	68,576	1,813	1,253	3,500	50	63,043	138,946	1,676	140,622
Less: reinsurers' share	(3)	-	(838)	(374)	(631)	-	(1,097)	(2,943)	-	(2,943)
Net claims paid	708	68,576	975	879	2,869	50	61,946	136,003	1,676	137,679
Changes in outstanding claims	489	14,119	1,382	595	644	(16)	4,054	21,267	795	22,062
Net claims incurred	1,197	82,695	2,357	1,474	3,513	34	66,000	157,270	2,471	159,741
Policy acquisition costs	659	2,053	2,002	946	442	2	4,589	10,693	270	10,963
Operating and administrative salaries	278	6,328	1,203	883	525	211	5,371	14,799	277	15,076
Other general and administrative expenses	125	2,886	551	403	241	98	2,448	6,752	118	6,870
Total costs and expenses	2,259	93,962	6,113	3,706	4,721	345	78,408	189,514	3,136	192,650
Surplus from insurance operations										2,881
Commission Income										1,943
Net surplus from Insurance operations										4,824
Shareholders' appropriation of surplus from insurance operations										(4,341)
Net result from insurance operations' after appropriation of surplus										483



**AXA CO-OPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**11 Segment reporting (continued)**

General and medical										
2013	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	7,046	15,950	9,019	11,492	8,247	(572)	61,088	112,270	3,375	115,645
Less: reinsurance premiums ceded	(1,222)	1,811	(5,218)	(5,246)	(3,904)	(132)	(81)	(13,992)	164	(13,828)
Net premiums written	5,824	17,761	3,801	6,246	4,343	(704)	61,007	98,278	3,539	101,817
Changes in unearned premiums	226	60,189	(345)	(687)	(1,422)	(444)	1,405	58,922	1,802	60,724
Net premiums earned	6,050	77,950	3,456	5,559	2,921	(1,148)	62,412	157,200	5,341	162,541
Reinsurance commissions	250	-	1,538	1,139	262	-	142	3,331	354	3,685
Total revenue	6,300	77,950	4,994	6,698	3,183	(1,148)	62,554	160,531	5,695	166,226
Gross claims paid	856	42,701	3,355	1,804	2,187	(272)	51,686	102,317	2,590	104,907
Less: reinsurers' share	(2)	-	(2,784)	(541)	(1,093)	-	(791)	(5,211)	(157)	(5,368)
Net claims paid	854	42,701	571	1,263	1,094	(272)	50,895	97,106	2,433	99,539
Changes in outstanding claims	1,516	19,884	5,344	65	191	201	6,615	33,816	952	34,768
Net claims incurred	2,370	62,585	5,915	1,328	1,285	(71)	57,510	130,922	3,385	134,307
Policy acquisition costs	672	1,270	1,353	1,082	810	(74)	3,304	8,417	380	8,797
Operating and administrative salaries	335	2,509	305	1,683	650	160	7,721	13,363	52	13,415
Other general and administrative expenses	100	912	891	182	70	48	1,746	3,949	428	4,377
Total costs and expenses	3,477	67,276	8,464	4,275	2,815	63	70,281	156,651	4,245	160,896
Surplus from insurance operations										5,330
Commission income										1,459
Net surplus from insurance operations										6,789
Shareholders' appropriation of surplus from insurance operations										(6,110)
Net results from insurance operations' after appropriation of surplus										679

**AXA CO-OPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS**

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**11 Segment reporting (continued)**

Insurance operations for the six-month period ended June 30, 2014 and 2013 (Unaudited)

General and medical										
2014	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	17,081	205,456	27,866	26,237	21,440	1,949	179,926	479,955	17,871	497,826
Less: reinsurance ceded	(2,718)	(502)	(19,086)	(13,015)	(10,108)	(161)	(4,726)	(50,316)	(5,398)	(55,714)
Net premiums written	14,363	204,954	8,780	13,222	11,332	1,788	175,200	429,639	12,473	442,112
Changes in unearned premiums	(5,146)	(26,197)	(4,390)	(167)	(6,365)	(679)	(24,607)	(67,551)	(5,812)	(73,363)
Net premiums earned	9,217	178,757	4,390	13,055	4,967	1,109	150,593	362,088	6,661	368,749
Reinsurance commissions	390	-	3,073	2,933	375	-	1,260	8,031	1,462	9,493
Total revenue	9,607	178,757	7,463	15,988	5,342	1,109	151,853	370,119	8,123	378,242
Gross claims paid	1,911	151,247	38,978	3,973	4,648	558	109,276	310,591	4,112	314,703
Less: reinsurers' share	(3)	-	(33,921)	(1,111)	(795)	-	(2,104)	(37,934)	(100)	(38,034)
Net claims paid	1,908	151,247	5,057	2,862	3,853	558	107,172	272,657	4,012	276,669
Changes in outstanding claims	848	6,978	1,642	2,256	1,260	(497)	20,057	32,544	599	33,143
Net claims incurred	2,756	158,225	6,699	5,118	5,113	61	127,229	305,201	4,611	309,812
Policy acquisition costs	1,180	3,483	4,293	1,784	994	48	9,618	21,400	283	21,683
Operating and administrative salaries	649	11,984	2,158	1,684	813	255	10,233	27,776	607	28,383
Other general and administrative expenses	304	5,606	1,010	788	380	119	4,787	12,994	282	13,276
Total costs and expenses	4,889	179,298	14,160	9,374	7,300	483	151,867	367,371	5,783	373,154
Surplus from insurance operations										5,088
Commission income										3,518
Net surplus from insurance operations										8,606
Shareholders' appropriation of surplus from insurance operations										(7,745)
Net results from insurance operations' after appropriation of surplus										861

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

11 Segment reporting (continued)

General and medical										
2013	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	11,714	166,556	26,991	20,799	14,704	1,634	131,106	373,504	12,486	385,990
Less: Reinsurance ceded	(2,257)	(364)	(17,033)	(9,591)	(7,883)	(177)	(3,645)	(40,950)	(1,993)	(42,943)
Net premiums written	9,457	166,192	9,958	11,208	6,821	1,457	127,461	332,554	10,493	343,047
Changes in unearned premiums	(893)	(17,869)	(3,545)	535	(1,415)	(412)	(5,652)	(29,251)	(3,329)	(32,580)
Net premiums earned	8,564	148,323	6,413	11,743	5,406	1,045	121,809	303,303	7,164	310,467
Reinsurance commissions	514	-	3,130	2,429	527	-	280	6,880	354	7,234
Total revenues	9,078	148,323	9,543	14,172	5,933	1,045	122,089	310,183	7,518	317,701
Gross claims paid	1,161	57,488	75,143	3,779	3,450	53	104,961	246,035	5,684	251,719
Less: Reinsurers' share	(2)	-	(52,688)	(1,104)	(1,617)	-	(2,300)	(57,711)	(2,404)	(60,115)
Net claims paid	1,159	57,488	22,455	2,675	1,833	53	102,661	188,324	3,280	191,604
Changes in outstanding claims	3,358	67,986	(15,151)	(634)	(507)	(33)	8,120	63,139	3,213	66,352
Net claims incurred	4,517	125,474	7,304	2,041	1,326	20	110,781	251,463	6,493	257,956
Policy acquisition costs	996	2,552	2,693	1,670	1,404	101	6,129	15,545	1,641	17,186
Operating and administrative salaries	658	4,925	599	3,303	1,276	314	15,154	26,229	102	26,331
Other general and administrative expenses	182	1,658	1,619	331	127	87	3,172	7,176	778	7,954
Total costs and expenses	6,353	134,609	12,215	7,345	4,133	522	135,236	300,413	9,014	309,427
Surplus from insurance operations										8,274
Commission income										2,183
Net surplus from insurance operations										10,457
Shareholders' appropriation of surplus from insurance operations										(9,411)
Net results from insurance operations' after appropriation of surplus										1,046

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**11 Segment reporting (continued)**

Insurance operations' financial position as at June 30, 2014 (Unaudited) and December 31, 2013 (Audited)

General and medical										
2014	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of unearned premiums	2,343	21	8,925	3,507	6,335	54	2,170	23,355	3,508	26,863
Reinsurers' share of outstanding claims	669	(236)	37,519	9,929	3,780	(210)	2,065	53,516	460	53,976
Deferred policy acquisition costs	1,274	3,577	1,913	425	1,595	87	8,964	17,835	1,836	19,671
Unallocated assets										625,615
Total insurance operations' assets										726,125
Insurance operations' liabilities										
Unearned premiums	13,230	49,868	19,145	6,943	19,939	1,081	160,316	270,522	13,356	283,878
Outstanding claims	6,934	123,506	59,785	13,730	22,330	35	106,361	332,681	4,416	337,097
Deferred reinsurance commission	319	-	1,293	1,031	591	(24)	358	3,568	(163)	3,405
Unallocated liabilities										98,259
Total insurance operations' liabilities										722,639

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2014

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**11 Segment reporting (continued)**

General and medical										
2013	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of outstanding claims	244	(236)	50,983	7,456	2,792	(210)	1,775	62,804	-	62,804
Reinsurers' share of unearned premiums	2,734	15	18,289	2,734	2,887	-	-	26,659	529	27,188
Deferred policy acquisition costs	658	1,801	3,132	378	729	22	9,987	16,707	-	16,707
Unallocated assets										537,139
Total insurance operations' assets										643,838
Insurance operations' liabilities										
Unearned premiums	8,477	23,664	25,391	6,003	8,854	348	133,538	206,275	4,565	210,840
Outstanding claims	5,663	116,516	71,607	12,358	20,082	529	81,224	307,979	4,803	312,782
Reinsurance share of deferred acquisition costs	363	-	2,510	773	234	-	909	4,789	308	5,097
Unallocated liabilities										114,532
Total insurance operations' liabilities and accumulated surplus										643,251

**12 Date of approval**

These interim condensed financial statements were approved by the Company's Board of Directors on July 20, 2014.

AXA COOPERATIVE INSURANCE COMPANY  
(A Saudi joint stock company)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013  
AND INDEPENDENT AUDITORS' REPORT



AL-GHANEM

AL-GHANEM  
CERTIFIED PUBLIC ACCOUNTANTS  
Kuala Lumpur, Malaysia

## INDEPENDENT AUDITORS' REPORT

To the shareholders of  
AXA Cooperative Insurance Company  
(a Saudi joint stock company)

### Scope of audit

We have audited the accompanying statement of financial position of AXA Cooperative Insurance Company (a Saudi joint stock company) (the "Company") as at December 31, 2013 and the related statements of insurance operations and accumulated surplus, shareholders' income, shareholders' comprehensive income, changes in shareholders' equity, insurance operations cash flows and shareholders' cash flows for the year then ended, and the notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards (IFRS) and the provisions of Article 123 of the Regulations for Companies and presented to us together with all 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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with IFRS; and
- Comply, in all material respects, 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

We draw attention to Note 2 to the accompanying financial statements. These financial statements are prepared in accordance with IFRS and not in accordance with the generally accepted accounting principles in the Kingdom of Saudi Arabia.

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February 24, 2014

**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi joint stock company)

**STATEMENT OF FINANCIAL POSITION**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Note	As at December 31,	
		2013	2012
Insurance operations' assets			
Cash and cash equivalents	4	171,605	74,118
Short-term deposits		26,541	61,142
Premiums and insurance balances receivable		148,812	124,521
Less: Provision for doubtful debts		(18,230)	(18,230)
Premiums and insurance balances receivable - net	5, 13	130,582	106,291
Receivable from related parties	13	8,392	22,096
Reinsurers' share of unearned premiums	8	27,188	24,025
Reinsurers' share of outstanding claims	7, 8	62,804	92,714
Deferred policy acquisition costs	8	16,707	14,891
Other assets		7,610	3,763
Available-for-sale investments	6	86,942	54,514
Long-term deposit		7,500	7,500
Held-to-maturity investments	6	75,000	-
Due from shareholders		14,823	73,894
Furniture, fixtures and equipment	10	8,144	8,867
Total insurance operations' assets		643,838	543,815
Shareholders' assets			
Cash and cash equivalents	4	891	325
Short-term deposits		-	138,819
Other assets		1,208	3,087
Available-for-sale investments	6	74,314	63,085
Long-term deposits		56,250	36,250
Held-to-maturity investments	6	60,000	-
Statutory deposit	9	20,000	20,000
Total shareholders' assets		212,663	261,566
Total assets		856,501	805,381

The accompanying notes from 1 to 25 form an integral part of these financial statements.



**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi joint stock company)

**STATEMENT OF FINANCIAL POSITION - (Continued)**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Notes	As at December 31,	
		2013	2012
Insurance operations' liabilities and accumulated surplus			
Reinsurers' balances payable	13	39,165	36,548
Unearned premiums	8	210,840	180,584
Outstanding claims		154,587	171,792
Claims incurred but not reported and other reserve		158,195	44,046
	8	312,782	215,838
Advance premiums		7,517	3,656
Deferred reinsurance commission	8	5,097	5,263
Accrued and other liabilities	11	51,355	35,518
Payable to a related party		-	49,730
Employee termination benefits	12	16,495	15,875
Total insurance operations' liabilities		643,251	543,012
Accumulated surplus from insurance operations		1,658	557
Fair value reserve on available-for-sale investments		(1,071)	246
Total insurance operations accumulated surplus		587	803
Total insurance operations' liabilities and accumulated surplus		643,838	543,815
Shareholders' liabilities and equity			
Shareholders' liabilities			
Accrued zakat and income tax	15	5,445	5,942
Accrued and other liabilities	11	1,020	1,378
Due to insurance operations		14,823	73,894
Total shareholders' liabilities		21,288	81,214
Shareholders' equity			
Share capital	16	200,000	200,000
Fair value reserve		2,378	4,297
Accumulated deficit		(11,003)	(23,945)
Total shareholders' equity		191,375	180,352
Total shareholders' liabilities and equity		212,663	261,566
Total insurance operations' liabilities and accumulated surplus and shareholders' liabilities and equity		856,501	805,381
Contingencies	22		

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi joint stock company)

**STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2013	2012
Revenues			
Gross premiums written	8, 13	775,596	460,486
Less: Reinsurance premiums ceded	8, 13	(104,451)	(96,367)
Net premiums written		671,145	364,119
Changes in unearned premiums		(27,093)	(5,313)
Net premiums earned	8	644,052	358,806
Reinsurance commissions	8, 13	13,873	12,880
Commission income		4,805	1,620
Total revenues		662,730	373,306
Costs and expenses			
Gross claims paid	8	509,346	347,363
Less: Reinsurers' share	8	(97,775)	(72,974)
Net claims paid	8, 13	411,571	274,389
Changes in outstanding claims		126,854	(6,710)
Net claims incurred	8	538,425	267,679
Policy acquisition costs	8	34,729	33,195
General and administrative expenses	19	78,565	66,860
Total costs and expenses		651,719	367,734
Net surplus from insurance operations		11,011	5,572
Shareholders' appropriation of surplus		(9,910)	(5,015)
Net result from insurance operations			
after appropriation of surplus	14	1,101	557
Accumulated surplus, beginning of the year		557	-
Accumulated surplus, end of the year	14	1,658	557

The accompanying notes from 1 to 25 form an integral part of these financial statements

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF SHAREHOLDERS' INCOME

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2013	2012
Net surplus transferred from insurance operations	14	9,910	5,015
Commission income	18	6,596	6,665
General and administrative expenses	19	(1,759)	(1,378)
Shareholders' net income for the year		14,747	10,302
Weighted average number of outstanding shares	16	20 million	20 million
Basic and diluted earnings per share (Saudi Riyals)	21	0.740	0.515

The accompanying notes from 1 to 25 form an integral part of these financial statements.

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2013	2012
Shareholders' net income for the year		14,747	10,302
Provision for zakat and income tax	15	(1,805)	(4,617)
Net income for the year		12,942	5,685
Unrealized (loss) / gain on available-for-sale investments	6	(1,919)	3,903
Total comprehensive income for the year		11,023	9,588

The accompanying notes from 1 to 25 form an integral part of these financial statements.

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Share capital	Fair value reserve	Accumulated deficit	Total
Balance at January 1, 2012	200,000	394	(29,630)	170,764
Net income for the year	-	-	5,685	5,685
Changes in fair value reserve on available-for-sale investments	-	3,903	-	3,903
Balance at December 31, 2012	200,000	4,297	(23,945)	180,352
Balance at January 1, 2013	200,000	4,297	(23,945)	180,352
Net income for the year	-	-	12,942	12,942
Changes in fair value reserve on available-for-sale investments	-	(1,919)	-	(1,919)
Balance at December 31, 2013	200,000	2,378	(11,003)	191,375

The accompanying notes from 1 to 25 form an integral part of these financial statements.

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2013	2012
Cash flow from operating activities			
Net results from insurance operations		1,101	557
Adjustments to reconcile net results from insurance operations to net cash from operating activities:			
Shareholders' appropriation of surplus from insurance operations	14	9,910	5,015
Depreciation	10	3,388	1,962
		14,399	7,534
Changes in operating assets and liabilities:			
Premium and insurance balances receivable - net		(24,291)	4,178
Reinsurers' share of unearned premiums		(3,163)	(2,254)
Reinsurers' share of outstanding claims		29,910	(6,072)
Deferred policy acquisition costs		(1,816)	(3,052)
Other assets		(3,847)	(2,017)
Receivable from related parties		13,704	(520)
Reinsurers' balances payable		2,617	33,118
Unearned premiums		30,256	7,567
Advance premiums		3,861	3,656
Outstanding claims		(17,205)	(10,587)
Claims incurred but not reported and other reserve		114,149	9,949
Deferred reinsurance commission		(166)	2,143
Accrued and other liabilities		15,837	7,549
Payable to a related party		(49,730)	49,730
Employee termination benefits		620	1,629
Due from shareholders		49,161	(24,118)
Net cash provided by operating activities		174,296	78,433
Cash flow from investing activities			
Purchase of furniture, fixtures and equipment		(2,665)	(5,782)
Short-term deposits		34,601	(61,142)
Purchase of available-for-sale investments	6	(34,651)	(25,007)
Proceeds from sale of available-for-sale investments	6	906	4,749
Long-term deposit		-	(7,500)
Purchase of held-to-maturity investments	6	(75,000)	-
Net cash used in investing activities		(76,809)	(94,682)
Net increase in cash and cash equivalents		97,487	(16,249)
Cash and cash equivalents, beginning of the year		74,118	90,367
Cash and cash equivalents, end of the year		171,605	74,118
Supplemental cash flow information			
Non-cash investing activities			
Unrealized (loss) / gain on available-for-sale investments	6	(1,317)	729
Short-term deposits transferred from shareholders' operations against due from shareholders' operations		59,541	-
Available-for-sale investments transferred to a related party		-	7,351

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**AXA COOPERATIVE INSURANCE COMPANY**  
(A Saudi joint stock company)  
**STATEMENT OF SHAREHOLDERS' CASH FLOWS**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Notes	Year ended December 31,	
		2013	2012
Cash flow from operating activities			
Shareholders' net income for the year		14,747	10,302
Adjustments to reconcile net income to net cash provided by operating activities:			
Appropriation of surplus from insurance operations	14	(9,910)	(5,015)
		4,837	5,287
Changes in operating assets and liabilities:			
Other assets		1,879	(1,674)
Zakat and income tax paid		(2,302)	971
Accrued and other liabilities		(358)	(2,660)
Due to insurance operations		(49,161)	24,118
Net cash (used in) provided by operating activities		(45,105)	26,042
Cash flow from investing activities			
Short-term deposits		138,819	(73,113)
Purchase of available-for-sale investments	6	(20,059)	(61,329)
Proceeds from sale of available-for-sale investments	6	6,911	15,095
Long-term deposits		(20,000)	(36,250)
Purchase of held-to-maturity investments	6	(60,000)	-
Net cash provided by (used in) investing activities		45,671	(155,597)
Net change in cash and cash equivalents		566	(129,555)
Cash and cash equivalents, beginning of the year		325	129,880
Cash and cash equivalents, end of the year		891	325
Supplemental cash flow information			
Non-cash operating activity -			
Zakat and income tax charged to shareholders'			
comprehensive income	15	(1,805)	(4,617)
Non-cash investing activity:			
Unrealized (loss) / gain on available-for-sale investments	6	(1,919)	3,903

The accompanying notes from 1 to 25 form an integral part of these financial statements.

## AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

### a. General information

AXA Cooperative Insurance Company (the "Company") is a Saudi joint stock company established in the Kingdom of Saudi Arabia by the Royal Decree No. M/36 dated 27 Jumada II 1429H (July 1, 2008) (date of inception). The Company was incorporated vide Ministerial Order No Q/192, dated 10 Jumada II 1430H, (June 3, 2009) (date of incorporation). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010271203 issued in Riyadh on 20 Rajab 1430H (July 13, 2009). The Company's registered address is P.O. Box 753, Riyadh 11421, Kingdom of Saudi Arabia.

The principal activities of the Company are to engage in cooperative insurance operations and all related activities including reinsurance activities under the Law on Supervision of Cooperative Insurance (the "Law") and the Company's by-laws and other regulations promulgated in the Kingdom of Saudi Arabia. The Company obtained licence from the Saudi Arabian Monetary Agency ("SAMA") to practice general and medical insurance and reinsurance business in the Kingdom of Saudi Arabia vide licence No. TMN/25/2010, dated 11 Safar 1431H (corresponding to January 26, 2010). The Company has commenced insurance operations on 4 Rabi' I 1431H (corresponding to February 18, 2010) after obtaining full product approval for certain products and temporary approval for the remaining products. Currently, the Company is in the process of obtaining full product approval for the remaining products from the regulator. Management believes that such approvals will be obtained in due course.

### b. Portfolio transfer

The shareholders' of the AXA Insurance (Saudi Arabia) B.S.C. (c) (the 'Seller'), at the time of formation of the Company, had principally agreed to transfer certain of the Seller's assets and liabilities and the insurance portfolio (the "Transfer") in Saudi Arabia to the Company with effect from January 1, 2009, subject to approval and at a value to be determined by SAMA.

On 15 Dhul-Qadah 1433H (corresponding to October 1, 2012), SAMA approved the transfer, with effect from January 1, 2009, at a maximum consideration of Saudi Riyals 106.57 million. Consequent to SAMA's approval, the Company has formally entered into a purchase agreement with the shareholders' of the Seller to effect the transfer. Also, the shareholders of the Company have approved the portfolio transfer at their Extra Ordinary General Assembly Meeting held on December 10, 2012. The effects of the transfer have been reflected in the financial statements for the period from June 3, 2009 to December 31, 2010 and the year ended December 31, 2011. Also see note 22.

## 2. Summary of significant accounting policies

Significant accounting policies applied in the preparation of these financial statements are set out below:

### 2.1 Basis of preparation

The Company has prepared the accompanying financial statements under the historical cost convention on the accrual basis of accounting, except for available-for-sale investments, which have been measured at fair value in the statement of financial position of insurance operations and shareholders' comprehensive operations, and in conformity with the International Financial Reporting Standards (IFRS). Accordingly, these financial statements are not intended to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, i.e. in accordance with the standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations and presents the financial statements accordingly. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and board of directors of the Company.



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FOR THE YEAR ENDED DECEMBER 31, 2013

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As per the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

Transfer to shareholders' operations	90%
Transfer to insurance operations'	10%
	100%

#### a) New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The accounting policies used in the preparation of these financial statements are consistently applied for all years presented, except for the adoption of certain amendments and revisions to existing standards as mentioned below, which are effective for periods beginning on or after January 1, 2013 but had no significant financial impact on the financial statements of the Company:

- Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income, effective July 1, 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- Amendment to IAS 19, 'Employee benefits', effective January 1, 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting, effective January 1, 2013. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.
- Amendment to IFRS 1, 'First time adoption', on government loans, effective January 1, 2013. This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.
- Amendment to IFRSs 10, 11 and 12 on transition guidance, effective January 1, 2013. These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.
- IFRS 11, 'Joint arrangements', effective January 1, 2013. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.
- IFRS 12, 'Disclosures of interests in other entities', effective January 1, 2013. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 13, 'Fair value measurement', effective January 1, 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

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FOR THE YEAR ENDED DECEMBER 31, 2013

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- IAS 27 (revised 2011), 'Separate financial statements', effective January 1, 2013. IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IAS 28 (revised 2011), 'Associates and joint ventures', effective January 1, 2013. IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

#### a) New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company (continued)

- Annual improvements 2011, effective January 1, 2013. These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to:
  - IFRS 1, 'First time adoption'
  - IAS 1, 'Financial statement presentation'
  - IAS 16, 'Property, plant and equipment'
  - IAS 32, 'Financial instruments; Presentation'
  - IAS 34, 'Interim financial reporting'

#### b) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

The Company's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the period commencing on or after January 1, 2014:

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting, effective January 1, 2014. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position.
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities, effective January 1, 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures, effective January 1, 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Amendment to IAS 39 'Novation of derivatives', effective January 1, 2014. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.
- IFRS 9, 'Financial instruments', effective January 1, 2014. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.
- IFRIC 21, 'Levies', effective January 1, 2014. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

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#### 2.2 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions 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. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

#### 2.3 Segment reporting

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 assets do not include cash and cash equivalents, short-term deposits, available-for-sale investments, held-to-maturity investments, receivable from related parties, premiums and insurance balances receivable, other assets, due from shareholders' and furniture, fixtures and equipment; and
- Segment liabilities do not include reinsurers' balances payable, advance premiums, payable to a related party, accrued and other liabilities and employee termination benefits.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Accident and liability;
- Motor;
- Property;
- Marine;
- Engineering;
- Health; and
- Protection

#### 2.4 Foreign currency translations

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the date of statement of financial position. All differences are taken to the statements of insurance operations or to the statement of shareholders' income. Foreign exchange differences are not significant and have not been disclosed separately.

#### 2.5 Financial assets

##### 2.5.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, available-for-sale and held-to-maturity investments.

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### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

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#### a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short-term or that it has designated as available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

#### b) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices; these are designated as such at inception.

#### c) Held-to-maturity investments

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 recognized in the statement of shareholders' income when the investment is derecognized or impaired.

### 2.5.2 Recognition and measurement

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Loans and receivable are carried at amortized costs using effective interest method. Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive income and financial position for insurance operations.

Financial assets are derecognised when the rights to receive cash flows from the available-for-sale investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statements of the insurance operations or shareholders' comprehensive income as 'gains and losses from available-for-sale investments'. Commission on available-for-sale investments calculated using the effective interest method is recognised in the income statement as part of other income.

### 2.5.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established. Both are included in the commission income line.

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FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

#### 2.5.4 Impairment of assets

##### (a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of insurance operations.

##### (b) Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of insurance operations / shareholders' income. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of insurance operations / shareholders' income.

#### 2.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with less than three months maturity from the date of acquisition.

#### 2.7 Short-term and long-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of more than three months and less than one year from the date of acquisition. Long term deposits represent time deposits with maturity periods of more than one year.

#### 2.8 Insurance receivables

Receivable from policy holders are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method (if the insurance receivable is due after one year), less impairment, if any.

#### 2.9 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.

## AXA COOPERATIVE INSURANCE COMPANY

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#### 2.10 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts is recognized as "Deferred policy acquisition costs". The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts.

#### 2.11 Claims

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

The Company generally estimates its claims based on previous experience. In addition, a provision based on management's judgement is maintained for the cost of settling claims incurred but not reported at the date of statement of financial position. Any difference between the provisions at the date of statement of financial position and settlements for the following period is included in the statement of insurance operations for that period.

#### 2.12 Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables, if any, that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

At each reporting date, the Company assesses whether there is any indication that any reinsurance assets may be impaired. Where an indicator of impairment exists, the Company makes an estimate of the recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount.

#### 2.13 Liability adequacy test

At each date of the statement of financial position 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 is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an additional risk provision is created.

#### 2.14 Revenue recognition

##### (a) Recognition of premium and commission revenue

Gross premiums and commissions are recognized with the commencement of the insurance risks. The portion of premiums and commission that will be earned in the future is reported as unearned premiums and commissions, respectively, and are deferred on a basis consistent with the term of the related policy coverage.

Premiums earned on reinsurance assumed, if any, are recognised as revenue in the same manner as if the reinsurance premiums were considered to be gross premiums.

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#### (b) Commission income

Commission income from short-term deposits is recognized on a time proportion basis using the effective commission rate method.

#### (c) Dividend income

Dividend income is recognized when the right to receive a dividend is established.

#### 2.15 Furniture, fixtures and equipment

Furniture, fixtures and equipment are carried at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the income statement, using the straight-line method, to allocate costs of the related assets to their residual values over the estimated useful lives as follows:

	Number of years
Furniture and fixtures	5
Equipment	3 – 4

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

The carrying values of furniture, fixtures 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, being the higher of their fair values less costs to sell and their value in use.

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

#### 2.16 Accrued and other liabilities

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

#### 2.17 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method. Liabilities are recognized for amounts to be paid and services rendered, whether or not billed to the Company.

#### 2.18 Employee termination benefits

Employee termination benefits required by Saudi Labour and Workman Law are accrued by the Company and charged to the income statement. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the financial position date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labour law of Saudi Arabia.

#### 2.19 De-recognition of financial instruments

The de-recognition 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.

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FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

#### 2.20 Off-setting

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

#### 2.4 Zakat and income taxes

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

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

#### 2.22 Surplus from insurance operations

In accordance with the requirements of the Implementing Regulations for Co-operative Insurance (the Regulations) issued by SAMA, 90% of the net surplus from insurance operations is transferred to the statement of shareholders' income, while 10% of the net surplus is distributable to policyholders. Such surplus distributable to policyholders is disclosed under "Insurance operations' accumulated surplus".

#### 2.23 Seasonality of operations

There are no seasonal changes that affect insurance operations.

### 3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### The ultimate liability arise from claims under insurance contracts

Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under insurance policies. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported "IBNR" at the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions, if any, 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.



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#### Impairment of premiums and insurance balances receivable

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's past experience.

#### Impairment of available-for-sale investments

The Company treats available-for-sale 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 investments and the future cash flows and the discount factors for unquoted investments.

#### 4. Cash and cash equivalents

	2013	2012
Insurance operations:		
Cash at bank and in hand	41,316	74,118
Time deposits	130,289	-
	171,605	74,118
Shareholders' operations:		
Cash at bank and in hand	604	325
Time deposits	287	-
	891	325

Time deposits are placed with local and foreign banks with an original maturity of less than three months from the date of acquisition and earn commission income at a rate of 0.08% to 2.7% (2012: 0.80% to 3.5%) per annum.

#### 5. Premiums and insurance balances receivable

	2013	2012
Receivable from policy holders (Note 13)	58,847	44,906
Receivable from insurance intermediaries	61,922	58,657
Receivable from reinsurers (Note 13)	28,043	20,958
	148,812	124,521
Provision for doubtful debts (Note 13)	(18,230)	(18,230)
Total	130,582	106,291

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Movement in provision for doubtful debts is as follows:

	2013	2012
Balance, beginning of the year	18,230	19,180
Reversals during the year	-	(950)
Balance, end of the year	18,230	18,230

Ageing of receivables from insurance and reinsurance contracts is as follows:

	Total	Neither past due nor impaired	Past due but not impaired		
			91 to 180 days	181 to 360 days	More than 360 days
December 31, 2013	130,582	100,654	25,052	4,876	-
December 31, 2012	106,291	81,149	20,041	5,101	-

Receivables comprise a large number of customers, intermediaries and insurance companies mainly within the Kingdom of Saudi Arabia and reinsurance companies in the Kingdom of Saudi Arabia, GCC and Europe. Premiums and reinsurance balances receivable include Saudi Riyal 23,669 (December 31, 2012: Saudi Riyal 18,316) due in foreign currencies, mainly US dollars. 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 8% of the premiums receivable as at December 31, 2013 (2012: 6%). In addition, the five largest customers account for 22% of the premiums receivable as at December 31, 2013 (2012: 19%).

Unimpaired premiums and insurance balances receivables are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over these receivables and the vast majority is, therefore, unsecured.

## 6. Investments

### Available-for-sale investments

Available-for-sale investments include the following:

2013	Insurance operations	Shareholders' operations
Quoted bonds	75,489	55,982
Quoted equity	11,453	18,332
	86,942	74,314
2012	Insurance operations	Shareholders' operations
Quoted bonds	46,817	55,479
Quoted equity	7,697	7,606
	54,514	63,085

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Movement in available-for-sale investments is as follows:

2013	Insurance operations	Shareholders' operations
Balance, January 1, 2013	54,514	63,085
Purchases	34,651	20,059
Disposals	(906)	(6,911)
Unrealized loss	(1,317)	(1,919)
Balance, December 31, 2013	86,942	74,314

2012	Insurance operations	Shareholders' operations
Balance, January 1, 2012	40,878	12,948
Purchases	25,007	61,329
Disposals	(4,749)	(15,095)
Transfer to a related party	(7,351)	-
Unrealized gain	729	3,903
Balance, December 31, 2012	54,514	63,085

Available-for-sale investments at December 31, 2013 include 1,923,078 shares (2012: 1,923,078) in Najam for Insurance Services, and are held by the Company at Nil value.

Held-to-maturity investments

Insurance operations:

Type of security	Issuer	Maturity period	Profit margin	Book value net of amortization	
				2013	2012
Sukuks	Saudi government	20 years	3.21%	60,000	-
Sukuks	Saudi company	10 years	3.47%	15,000	-
				75,000	-

Shareholders' operations:

Type of security	Issuer	Maturity period	Profit margin	Book value net of amortization	
				2013	2012
Sukuks	Saudi government	20 years	3.21%	60,000	-

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**7. Reinsurers' share of outstanding claims**

All amounts due from reinsurers are expected to be received within 12 months from the statement of financial position date.

**8. Movement in deferred policy acquisition costs, deferred reinsurance commission, unearned premiums and outstanding claims**

**a. Deferred policy acquisition costs**

	2013	2012
Balance, January 1	14,891	11,839
Incurred during the year	36,545	36,247
Amortized during the year	(34,729)	(33,195)
Balance, December 31	16,707	14,891

**b. Deferred reinsurance commission**

	2013	2012
Balance, January 1	5,263	3,120
Commission received during the year	13,707	15,023
Commission earned during the year	(13,873)	(12,880)
Balance, December 31	5,097	5,263

**8. Movement in deferred policy acquisition costs, deferred reinsurance commission, unearned premiums and outstanding claims (continued)**

**c. Unearned premiums**

	2013			2012		
	Gross	Reinsurers' Share	Net	Gross	Reinsurers' Share	Net
Unearned premiums	210,840	(27,188)	183,652	180,584	(24,025)	156,559

The movement in the unearned premiums, and the related reinsurers' share, are as follows:

	2013			2012		
	Gross	Reinsurers' Share	Net	Gross	Reinsurers' Share	Net
At January 1	180,584	(24,025)	156,559	173,017	(21,771)	151,246
Premiums written	775,596	(104,451)	671,145	460,486	(96,367)	364,119
Premiums earned	(745,340)	101,288	(644,052)	(452,919)	94,113	(358,806)
At December 31	210,840	(27,188)	183,652	180,584	(24,025)	156,559

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d. Outstanding claims

	2013			2012		
	Gross	Reinsurers' Share	Net	Gross	Reinsurers' Share	Net
At January 1						
Claims outstanding	171,792	(88,440)	83,352	182,379	(86,642)	95,737
Claims incurred but not reported	44,046	(4,274)	39,772	34,097	-	34,097
	215,838	(92,714)	123,124	216,476	(86,642)	129,834
Claims paid during the year	(509,346)	97,775	(411,571)	(347,363)	72,974	(274,389)
Claims incurred during the year	606,290	(67,865)	538,425	346,725	(79,046)	267,679
At December 31	312,782	(62,804)	249,978	215,838	(92,714)	123,124
At December 31						
Claims outstanding	154,587	(60,413)	94,174	171,792	(88,440)	83,352
Claims incurred but not reported	158,195	(2,391)	155,804	44,046	(4,274)	39,772
Total claims	312,782	(62,804)	249,978	215,838	(92,714)	123,124

9. Statutory deposit

In accordance with the Implementing Regulations for Insurance Companies, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA.

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**10. Furniture, fixtures and equipment**

2013	Furniture and fixtures	Equipment	Total
Cost			
January 1, 2013	5,490	20,518	26,008
Additions	1,106	1,559	2,665
December 31, 2013	6,596	22,077	28,673
Accumulated depreciation			
January 1, 2013	(4,790)	(12,351)	(17,141)
Charge during the year	(859)	(2,529)	(3,388)
December 31, 2013	(5,649)	(14,880)	(20,529)
Net book value			
December 31, 2013	947	7,197	8,144

2012	Furniture and fixtures	Equipment	Total
Cost			
January 1, 2012	5,379	14,847	20,226
Additions	111	5,671	5,782
December 31, 2012	5,490	20,518	26,008
Accumulated depreciation			
January 1, 2012	(4,572)	(10,607)	(15,179)
Charge during the year	(218)	(1,744)	(1,962)
December 31, 2012	(4,790)	(12,351)	(17,141)
Net book value			
December 31, 2012	700	8,167	8,867

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**11. Accrued and other liabilities**

	2013	2012
Insurance operations:		
Accrued salaries and other	11,814	7,030
Commission payable	8,616	8,252
Regulatory fee	3,913	3,237
Unclaimed cheques	12,951	8,149
Payable to vendors	7,148	3,329
Other	6,913	5,521
	51,355	35,518
Shareholders' operations:		
Directors' fees	1,020	1,312
Other	-	66
	1,020	1,378

**12. Employee termination benefits**

	2013	2012
Balance, January 1	15,875	14,246
Employee termination benefits paid	(1,530)	(313)
Charge for the year	2,150	1,942
Balance, December 31	16,495	15,875

**13. Related party transactions and balances**

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

Transactions with related parties included in the income statement are as follows:

**a) Related party transactions**

	2013	2013
Gross premiums written	23,323	22,523
Net claims paid	8,945	12,884
Reinsurance ceded	52,648	58,849
Reinsurance recoveries	29,653	74,887
Reinsurance commissions	5,622	5,622
Expenses charged by related parties/ associates	2,071	1,291

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b) Compensation of key management personnel

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

	2013	2012
Key management personnel	5,681	5,239
Directors	1,127	1,312
	6,808	6,551

The transactions with related parties are carried out at commercial terms and conditions and compensation to key management personnel is on employment terms.

c) Related party balances

i) Premiums and reinsurance balances receivable

	2013	2012
Receivable from policy holders	1,954	1,470
Receivable from reinsurers	2,511	3,873
	4,465	5,343
Provision for doubtful debts	(972)	(815)
Total	3,493	4,528

c) Related party balances (continued)

ii) Receivable from related parties

Receivable from related parties at December 31, 2013 and December 31, 2012 represents amount receivable from the Seller and AXA Insurance (Gulf) B.S.c.

iii) Reinsurers' balances payable

Reinsurers' balances payable mainly include balances payable to AXA Cessions Paris.

14. Insurance operations' accumulated surplus

In accordance with Implementing Regulations for Co-operative Insurance (the "Regulations") issued by SAMA, 90% of the insurance operations' surplus for each year is required to be transferred to the shareholders' income.

15. Zakat and income tax matters

(i) Provision for zakat and income tax

Provision for zakat has been made at 2.5% of the higher of approximate zakat base adjusted net income / loss attributable to the Saudi shareholders of the Company.

Income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company.



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Movements in provision for zakat and income tax as at December 31, 2013 and 2012 are as follows:

2013	Zakat	Income tax	Total
Balance, January 1	5,004	938	5,942
Payments	(1,115)	(1,187)	(2,302)
Provision for the year	132	1,673	1,805
Balance, December 31	4,021	1,424	5,445

2012	Zakat	Income tax	Total
Balance, January 1	3,319	666	3,985
Payments	(2,660)	-	(2,660)
Provision for the year	4,345	272	4,617
Balance, December 31	5,004	938	5,942

There are no significant deferred tax assets / liabilities as at December 31, 2013 and 2012.

(ii) Status of zakat and income tax certificate

The Company has revised the provision for zakat and income tax to reflect the effect of the Transfer and has submitted the revised returns for the period / years ended December 31, 2009, 2010 and 2011 after taking into account the effect of the Transfer.

## 16. Share capital

	2013	2012
Authorized		
20,000,000 shares of Saudi Riyals 10 each	200,000	200,000
Allotted, issued and fully paid		
20,000,000 shares of Saudi Riyals 10 each	200,000	200,000

## 17. Statutory Reserve

In accordance with the law, the Company is required to transfer not less than 20% of its annual net income to a legal reserve until such reserve amounts to 100% of the paid up share capital of the Company. No such transfer has been made during the year due to accumulated deficit as at December 31, 2013 and 2012.

## 18. Commission income

Commission income represents income earned from bonds, time deposits, short-term deposits and long-term deposits and realized gain on investments.

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**19. General and administrative expenses**

	2013	2012
Insurance operations:		
Staff costs	55,771	47,605
Legal and professional fees	5,911	2,866
Information technology	3,877	1,618
Withholding tax	3,210	4,856
Business travel	1,464	1,339
Printing and stationary	753	470
Provision for doubtful debts	-	(950)
Other	7,579	9,056
	78,565	66,860
Shareholders' operations:		
Directors' fees and other expenses	1,127	1,312
Other	632	66
	1,759	1,378

**20. Risk management**

20.1 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 of Directors of the Company. The Company is exposed to insurance, reinsurance, regulatory framework, credit, liquidity, foreign currency, commission rate, and market risks.

**Risk management structure**

**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.

**Audit Committee and Internal Audit Department**

The Internal Audit Department performs risk assessments with senior management annually. The Internal Audit Department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit Findings and recommendations are reported directly to the Audit Committee.

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#### Risk Management Committee

The Audit Committee of the Company has constituted a risk management committee which oversees the risk management function of the Company and report to Audit Committee on periodic basis. This Committee operates under framework established by the Board of Directors.

#### 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 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:

#### 20.2 Insurance risk management

The principal risk the Company faces under insurance contracts is that the actual claim payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

#### 20.3 Accident, liability and motor

The accident category includes personal accident, money insurance, business all risk insurance and business travel insurance. Liability insurance includes general third-party liability, product liability and workmen's compensation/employer's liability protection arising out of acts of negligence during their business operations.

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

For accident, liability and motor policies the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has well developed risk acceptance procedures based on critical underwriting factors such as driver's age, driving experience and nature of vehicle to control the quality of risks that it accepts. It also has risk management procedures in place to control the costs of claims.

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

Significant risks underwritten by the Company under this class are physically inspected by qualified risk engineers to make sure adequate fire protection and security is in place. Also, the Company tracks for the potential of risk accumulation.

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#### 20.5 Marine

Marine insurance solutions are mainly designed to compensate policyholders from accidents at sea, on land and in the air resulting in the total or partial loss to goods and/or merchandise (cargo insurance).

The underwriting strategy for the marine class of business is to ensure that coverage is provided based on the quality of vessels used and shipping routes followed. Vessel details are validated through international agencies while making the underwriting decisions.

#### 20.6 Engineering

Engineering covers two principal types as summarized below:

- (i) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs; and
- (ii) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery.

The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Significant risks underwritten by the Company under this class are physically inspected to make sure adequate fire protection, security and project management is in place.

#### 20.7 Health and protection

Health insurance is designed to cover the medical expenses incurred as a result of a disease or an illness or an injury. The policy seeks to provide the policyholder and their employees with access to good medical facilities and the latest treatments and technologies, subject to the terms of the relevant policy and the policyholders' personal circumstances.

Protection insurance covers the risks of death or disability following accident or illnesses and compensates the member or dependents in event of loss.

The main risk the Company faces on health and protection insurance is an increase of medical costs which can be more than expected or increase in claims due to exceptional events like outbreak of pandemic diseases. The underwriting strategy includes management of exposures and concentrations within acceptable risk appetite and risk tolerance levels and optimization of reinsurance strategies through a combination of reinsurance cession with approved and well-rated reinsurers and retrocession arrangements. The Company's centralized claims management platform controls and manages its medical insurance claims.

#### 20.8 Reinsurance risk

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

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To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company only deals with reinsurers approved by the Board of Directors of the Company. The criteria may be summarized as follows:

- Minimum acceptable credit rating by agencies that is not lower than prescribed in the Regulations;
- Reputation of particular reinsurance companies; and
- Existing or past business relationships.

Furthermore, the financial strengths and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company before placement of reinsurance.

#### 20.9 Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like political violence, environmental and economical, atmospheric disturbances, natural disasters, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

The Company monitors concentration of insurance risks primarily by class of business. The table below sets out the concentration of the outstanding claims and unearned premiums (in percentage terms) by class of business at balance sheet date:

	2013				2012			
	Gross outstanding claims	Net outstanding claims	Gross unearned premiums	Net unearned premiums	Gross outstanding claims	Net outstanding claims	Gross unearned premiums	Net unearned premiums
Accident and Liability	2%	2%	4%	3%	1%	1%	3%	3%
Motor	37%	47%	11%	13%	18%	28%	9%	10%
Property	23%	8%	12%	4%	42%	21%	11%	4%
Marine	4%	2%	3%	2%	8%	11%	3%	2%
Engineering	6%	7%	4%	3%	7%	1%	6%	5%
Other general insurance	-	-	-	-	-	-	3%	2%
Health	26%	32%	63%	73%	22%	37%	62%	71%
Protection	2%	2%	3%	2%	2%	1%	3%	3%
	100%	100%	100%	100%	100%	100%	100%	100%

The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

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20.10 Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The impact on the shareholders' income before zakat and income tax and shareholders' equity of the changes in the claim liabilities net of reinsurance is analysed below. The sensitivity to changes in claim liabilities net of reinsurance is determined separately for each class of business while keeping all other assumptions constant.

	Shareholders' net income		Shareholders' equity	
	2013	2012	2013	2012
Impact of change in claim liabilities by +10				
Accident and Liability	(542)	91	(485)	81
Motor	(11,675)	(3,453)	(10,455)	(3,092)
Property	(2,062)	(2,764)	(1,847)	(2,475)
Marine	(490)	(1,320)	(439)	(1,182)
Engineering	(1,729)	(97)	(1,548)	(87)
Other general insurance	(74)	(6)	(66)	(5)
Health	(7,945)	(4,614)	(7,115)	(4,131)
Protection	(480)	(150)	(430)	(134)
	(24,997)	(12,313)	(22,385)	(11,025)

	Shareholders' net income		Shareholders' equity	
	2013	2012	2013	2012
Impact of change in claim liabilities by -10				
Accident and Liability	542	(91)	485	(81)
Motor	11,675	3,453	10,455	3,092
Property	2,062	2,764	1,847	2,475
Marine	490	1,320	439	1,182
Engineering	1,729	97	1,548	87
Other general insurance	74	6	66	5
Health	7,945	4,614	7,115	4,131
Protection	480	150	430	134
	24,997	12,313	22,385	11,025

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#### 20.11 Claims development

The following reflects the cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each financial position date, together with the cumulative payments to date. The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims.

The Company maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Accident year	2009	2010	2011	2012	2013	Total
At end of reporting year	367,502	284,502	346,807	340,536	485,490	-
One year later	408,071	308,263	350,942	357,461	-	-
Two years later	407,774	315,189	349,900	-	-	-
Three years later	408,075	315,776	-	-	-	-
Four years later	409,205	-	-	-	-	-
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	409,205	315,776	349,900	357,461	485,490	1,917,832
Cumulative payment to date	(405,886)	(310,512)	(347,122)	(341,789)	(359,732)	(1,765,041)
Liability recognized till date	3,319	5,264	2,778	15,672	125,758	152,791
Reserve with respect to 2008						1,796
Claim incurred but not reported						158,195
Total reserve						312,782

#### 20.12 Regulatory framework risk

The operations of the Company are subject to regulatory requirements in 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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. In management's opinion, the Company has substantially complied with such regulatory requirements.

#### 20.13 Financial risk

The Company's principal financial assets and liabilities are cash and cash equivalents, available-for-sale investment, statutory deposit, premium and insurance balances receivable, receivable from a related party and accrued and other liabilities.

The main risks arising from the Company's financial instruments are commission rate risk, credit risk, liquidity risk and market price risks. The audit committee appointed by the Board of Directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

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20.14 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.

The Company only enters into insurance and reinsurance contracts with recognised and credit worthy 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 on-going basis in order to reduce the Company's exposure to bad debts. The Company limits its credit risk with regard to time deposits by dealing with reputed banks only.

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. There are no significant concentrations of credit risk within the Company.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets at December 31, 2013 is Saudi Riyals 787 million (December 31, 2012: Saudi Riyals 682 million).

The table below shows the components of the statement of financial position of the Company at December 31, 2013 and 2012 exposed to credit risk:



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20.14 Credit risk (continued)

	2013	2012
Insurance operations' assets		
Cash and cash equivalents	171,605	74,118
Short-term deposits	26,541	61,142
Premiums and insurance balances receivable - net	130,582	106,291
Receivable from related parties	8,392	22,096
Reinsurers' share of outstanding claims	62,804	92,714
Other assets	4,545	1,685
Available-for-sale investments	86,942	54,514
Held-to-maturity investments	75,000	-
Long-term deposit	7,500	7,500
	573,911	420,060
Shareholders' assets		
Cash and cash equivalents	891	325
Short-term deposits	-	138,819
Other assets	1,208	3,087
Available-for-sale investments	74,314	63,085
Long-term deposits	56,250	36,250
Held-to-maturity investments	60,000	-
Statutory deposit	20,000	20,000
	212,663	261,566
Total	786,574	681,626

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non-investment grade (satisfactory) or past due but not impaired:

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

Insurance operations' financial assets as at December 31, 2013

	Investment grade	Non-Investment grade		Total
		Satisfactory	Past due but not impaired	
	171,605	-	-	171,605
Short-term deposits	26,541	-	-	26,541
Premiums and reinsurance balance receivable – net	-	100,654	29,928	130,582
Receivable from related parties	-	8,392	-	8,392
Reinsurers' share of outstanding claims	-	62,804	-	62,804
Other assets	-	4,545	-	4,545
Available-for-sale investments	86,942	-	-	86,942
Held-to-maturity investments	75,000	-	-	75,000
Long-term deposit	7,500	-	-	7,500
	367,588	176,395	29,928	573,911

Insurance operations' financial assets as at December 31, 2012

	Investment grade	Non-Investment grade		Total
		Satisfactory	Past due but not impaired	
Cash and cash equivalents	74,118	-	-	74,118
Short-term deposits	61,142	-	-	61,142
Premiums and reinsurance balance receivable – net	-	81,149	25,142	106,291
Receivable from related parties	-	22,096	-	22,096
Reinsurers' share of outstanding claims	-	92,714	-	92,714
Other assets	-	1,685	-	1,685
Available-for-sale investments	54,514	-	-	54,514
Long-term deposit	7,500	-	-	7,500
	197,274	197,644	25,142	420,060

AXA COOPERATIVE INSURANCE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

Shareholders' financial assets as at December 31, 2013

	Investment grade	Non-investment grade		Total
		Satisfactory	Past due but not impaired	
Cash and cash equivalents	891	-	-	891
Short-term deposits	-	-	-	-
Other assets	-	1,208	-	1,208
Available-for-sale investments	74,314	-	-	74,314
Held-to-maturity investments	60,000	-	-	60,000
Long-term deposits	56,250	-	-	56,250
Statutory deposit	20,000	-	-	20,000
	211,455	1,208	-	212,663

Shareholders' financial assets as at December 31, 2012

	Investment grade	Non-investment grade		Total
		Satisfactory	Past due but not impaired	
Cash and cash equivalents	325	-	-	325
Short-term deposits	138,819	-	-	138,819
Other assets	-	3,087	-	3,087
Available-for-sale investments	63,085	-	-	63,085
Long-term deposits	36,250	-	-	36,250
Statutory deposit	20,000	-	-	20,000
	258,479	3,087	-	261,566

20.15 Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with insurance contracts. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

Substantially all the financial liabilities of the Company are due within one year of the date of the statement of financial position.

The table below summarizes the maturities of the Company's undiscounted contractual obligations at December 31, 2013 and 2012. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

AXA COOPERATIVE INSURANCE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

	Less than 12 months		More than 12 months		Total	
	2013	2012	2013	2012	2013	2012
Insurance operations' liabilities						
Reinsurers' balances payable	39,165	36,548	-	-	39,165	36,548
Outstanding claims	312,782	215,838	-	-	312,782	215,838
Accrued and other liabilities	51,355	35,518	-	-	51,355	35,518
Payable to a related party	-	49,730	-	-	-	49,730
Employee termination benefits	-	-	16,495	15,875	16,495	15,875
	403,302	337,634	16,495	15,875	419,797	353,509
Shareholders' liabilities						
Accrued and other liabilities	1,020	1,378	-	-	1,020	1,378
	404,322	339,012	16,495	15,875	420,817	354,887

#### 20.16 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's financial instruments are not exposed to market risk. Market risk is limited by investing in companies with good credit rating. In addition the key factors that affect market are monitored, including operational and financial performance of the Company.

##### 20.16.1 Currency risk

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against Saudi Riyals. Management believes that currency risk to the Company is not significant.

##### 20.16.2 Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its time deposits, short-term deposit, long-term deposits, available-for-sale and held-to-maturity investments. The Company limits commission rate risk by monitoring changes in commission rates. The Company does not have any interest bearing liabilities.

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

Effective commission rates of the Company's investments and their maturities as at December 31, 2013 and 2012 are as follows:

2013	Less than 1 year	Commission bearing 1 to 5 years	More than 5 years	Effective rate of commission	Non-commission bearing	Total
Insurance operations						
Cash and cash equivalents	171,605	-	-	1.30%	-	171,605
Short term deposits	26,541	-	-	1.30%	-	26,541
Available-for-sale investments	86,942	-	-	3.88%	-	86,942
Held-to-maturity investments	-	-	75,000	3.34%	-	75,000
Long-term deposit	-	7,500	-	1.82%	-	7,500
December 31, 2013	285,088	7,500	75,000		-	367,588
Shareholders' operations						
Cash and cash equivalents	891	-	-	1.30%	-	891
Short-term deposits	-	-	-	1.30%	-	-
Available-for-sale investments	74,314	-	-	3.88%	-	74,314
Held-to-maturity investments	-	-	60,000	3.21%	-	60,000
Long-term deposits	-	56,250	-	2.40%	-	56,250
Statutory deposit	20,000	-	-	0.79%	-	20,000
December 31, 2013	95,205	56,250	60,000		-	211,455

**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

2012	Less than 1 year	Commission bearing 1 to 5 years	More than 5 years	Effective rate of commission	Non-commission bearing	Total
Insurance operations						
Cash and cash equivalents	74,118	-	-	0.98%	-	74,118
Short term deposits	61,142	-	-	1.5%	-	61,142
Available-for-sale Investments	54,514	-	-	2.5%	-	54,514
Long-term deposit	-	7,500	-	2.0%	-	7,500
December 31, 2012	189,774	7,500	-	-	-	197,274
Shareholders' operations						
Cash and cash equivalents	325	-	-	0.98%	-	325
Short-term deposits	138,819	-	-	1.5%	-	138,819
Available-for-sale Investments	63,085	-	-	2.6%	-	63,085
Long-term deposits	-	36,250	-	-	-	36,250
Statutory deposit	20,000	-	-	0.74%	-	20,000
December 31, 2012	222,229	36,250	-	-	-	258,479

There is no significant difference between contractual re-pricing and maturity dates.

The following table demonstrates the sensitivity of statements of shareholders' comprehensive operations and shareholders' equity to reasonably possible change in commission rates of the Company's deposits, with all other variables held constant:

Currency	Change in variable	Impact on net income	
		2013	2012
Saudi Riyals	+50 basis points	2,895	1,963
Saudi Riyals	- 50 basis points	(2,895)	(1,963)

### 20.16.3 Price risk

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

The Company has an unquoted equity investment carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired and then the income statement will be impacted.

## AXA COOPERATIVE INSURANCE COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

#### 20.17 Capital risk management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements as set out in the Law. The Company's current paid-up share capital is in accordance with Article 3 of the Law;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

As per Article 66 of the Regulations, the Company shall maintain solvency margin equivalent to the highest of the following three methods:

- Minimum capital requirement of Saudi Riyals 200 million
- Premium solvency margin
- Claims solvency margin

The Company's solvency margin at December 31, 2013 is 75% (2012: 64%) of the required margin of solvency.

#### 20.18 Fair value of financial assets and 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. The fair values of the Company's financial instruments are not materially different from their carrying values.

The Company's financial assets consist of cash and cash equivalents, premium and insurance balances receivables, investments, accrued income and financial liabilities consisting of payables and accrued expenses.

Determination of fair value and fair value 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 identical assets or liabilities (i.e. without modification or repacking).

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

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

## AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

The table below presents the financial instruments at their fair values as at December 31, 2013 and 2012 based on the fair value hierarchy:

2013	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Insurance operations	86,942	-	-	86,942
Shareholders' operations	74,314	-	-	74,314
Held-to-maturity investments:				
Insurance operations	75,000	-	-	75,000
Shareholders' operations	60,000	-	-	60,000
2012	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Insurance operations	54,514	-	-	54,514
Shareholders' operations	63,085	-	-	63,085

## 21. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 has been computed by dividing the shareholders' net income for such years by the weighted average number of shares outstanding during such year.

## 22. Contingencies

### Contingent consideration payable to the Seller

As stated in Note 1, the Company acquired the insurance portfolio from the Seller at a consideration based on SAMA's instructions. Settlement of such consideration can only be made upon fulfilling certain conditions dictated by SAMA which include, among others, the following:

- Maintenance of required solvency margin and minimum share capital;
- Restriction on repayment upto a maximum of 50% of the profit earned in the current year;
- Restriction on settlement in the year of loss or out of retained earnings; and
- Limitation on duration within which payment of consideration can be made.

Considering the above conditions, financial performance and the Company's future business plans, management believes that the Company will not be required to repay the consideration. Accordingly, the consideration of Saudi Riyals 106.57 million is disclosed as a contingent liability. Management will however, reassess the conditions for settlement of the consideration at each balance sheet date during the period in which payment can be made and will recognize a liability, if required.

### Guarantee

At December 31, 2013 the Company was contingently liable for a counter guarantee amounting to Saudi Riyals 1.8 million issued to Yusuf bin Ahmed Kanoo Company LLC (Kanoo), a related party, against a bank guarantee submitted by Kanoo with the Ministry of Foreign Affairs (MOFA) on behalf of the Company.



**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**23. Segment reporting**

Insurance operations for the year ended December 31, 2013:

General and medical										
2013	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	22,350	317,588	66,222	40,914	25,879	2,278	282,629	757,860	17,736	775,596
Less: reinsurance premiums ceded	(6,584)	(747)	(51,662)	(21,554)	(16,304)	(232)	(3,810)	(100,893)	(3,558)	(104,451)
Net premiums written	15,766	316,841	14,560	19,360	9,575	2,046	278,819	656,967	14,178	671,145
Changes in unearned premiums	1,709	(7,519)	(1,154)	254	1,967	91	(22,161)	(26,813)	(280)	(27,093)
Net premiums earned	17,475	309,322	13,406	19,614	11,542	2,137	256,658	630,154	13,898	644,052
Reinsurance commissions	913	-	6,376	4,619	1,007	-	586	13,501	372	13,873
Total revenue	18,388	309,322	19,782	24,233	12,549	2,137	257,244	643,655	14,270	657,925
Gross claims paid	2,953	189,298	82,851	21,922	4,281	119	194,679	496,103	13,243	509,346
Less: reinsurers' share	(104)	(16)	(73,664)	(13,389)	(1,618)	-	(3,870)	(92,661)	(5,114)	(97,775)
Net claims paid	2,849	189,282	9,187	8,533	2,663	119	190,809	403,442	8,129	411,571
Changes in outstanding claims	1,983	82,393	3,163	(1,460)	5,566	451	31,754	123,850	3,004	126,854
Net claims incurred	4,832	271,675	12,350	7,073	8,229	570	222,563	527,292	11,133	538,425
Policy acquisition costs	2,087	4,189	5,808	3,258	3,024	206	13,792	32,364	2,365	34,729
Operating and administrative salaries	1,766	21,688	4,298	2,871	2,006	88	18,217	50,934	1,197	52,131
Other general and administrative expenses	896	11,000	2,180	1,456	1,017	44	9,240	25,833	601	26,434
Total costs and expenses	9,581	308,552	24,636	14,658	14,276	908	263,812	636,423	15,296	651,719
Surplus from insurance operations										6,206
Commission Income										4,805
Net surplus from Insurance operations										11,011
Shareholders' appropriation of surplus from insurance operations										(9,910)
Net result from insurance operations' after appropriation of surplus										1,101

**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**23. Segment reporting (continued)**

Insurance operations for the year ended December 31, 2012:

General and medical										
2012	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	23,452	57,131	56,776	37,386	27,458	3,669	239,490	445,362	15,124	460,486
Less: reinsurance ceded	(6,702)	(930)	(46,289)	(16,983)	(15,673)	(719)	(5,184)	(92,480)	(3,887)	(96,367)
Net premiums written	16,750	56,201	10,487	20,403	11,785	2,950	234,306	352,882	11,237	364,119
Changes in unearned premiums	(754)	(3,892)	329	27	(10)	655	(1,611)	(5,256)	(57)	(5,313)
Net premiums earned	15,996	52,309	10,816	20,430	11,775	3,605	232,695	347,626	11,180	358,806
Reinsurance commissions	672	17	7,261	3,791	888	17	234	12,880	-	12,880
Total revenue	16,668	52,326	18,077	24,221	12,663	3,622	232,929	360,506	11,180	371,686
Gross claims paid	1,125	41,184	65,304	8,602	10,589	1,189	212,186	340,179	7,184	347,363
Less: reinsurers' share	(115)	(4,801)	(56,207)	(4,502)	(1,315)	(96)	(5,133)	(72,169)	(805)	(72,974)
Net claims paid	1,010	36,383	9,097	4,100	9,274	1,093	207,053	268,010	6,379	274,389
Changes in outstanding claims	(637)	(7,223)	4,934	380	3,031	(2,091)	(2,383)	(3,989)	(2,721)	(6,710)
Net claims incurred	373	29,160	14,031	4,480	12,305	(998)	204,670	264,021	3,658	267,679
Policy acquisition costs	1,924	4,905	5,582	2,848	2,650	519	13,380	31,808	1,387	33,195
Operating and administrative salaries	2,725	6,582	5,827	3,490	2,957	312	20,423	42,316	1,409	43,725
Other general and administrative expenses	1,592	4,085	3,654	2,127	1,809	179	8,773	22,219	916	23,135
Total costs and expenses	6,614	44,732	29,094	12,945	19,721	12	247,246	360,364	7,370	367,734
Surplus from insurance operations										3,952
Commission income										1,620
Net surplus from insurance operations										5,572
Insurance operations' surplus transferred to shareholders' operations										(5,015)
Net results from insurance operation after appropriation of surplus										557

AXA COOPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**23. Segment reporting (continued)**

Insurance operations' financial position as of December 31, 2013:

General and medical										
2013	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of outstanding claims	244	(236)	50,983	7,456	2,792	(210)	1,775	62,804	-	62,804
Reinsurers' share of unearned premiums	2,734	15	18,289	2,734	2,887	-	-	26,659	529	27,188
Deferred policy acquisition costs	658	1,801	3,132	378	729	22	9,987	16,707	-	16,707
Unallocated assets										537,139
Total insurance operations' assets										643,838
Insurance operations' liabilities										
Unearned premiums	8,477	23,664	25,391	6,003	8,854	348	133,538	206,275	4,565	210,840
Outstanding claims	5,663	116,516	71,607	12,358	20,082	529	81,224	307,979	4,803	312,782
Deferred reinsurance commission	363	-	2,510	773	234	-	909	4,789	308	5,097
Unallocated liabilities										114,532
Total insurance operations' liabilities										643,251

**AXA COOPERATIVE INSURANCE COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

(All amounts expressed in thousand Saudi Riyals unless otherwise stated)

**23. Segment reporting (continued)**

Insurance operations' financial position as of December 31, 2012:

General and medical										
2012	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of outstanding claims	3,602	3,730	63,993	4,879	14,376	(538)	1,150	91,192	1,522	92,714
Reinsurers' share of unearned premiums	1,940	22	14,669	2,621	3,724	864	-	23,840	185	24,025
Deferred policy acquisition costs	831	1,650	1,329	818	992	(126)	9,039	14,533	358	14,891
Unallocated assets										408,529
Total insurance operations' assets										540,159
Insurance operations' liabilities										
Unearned premiums	5,878	16,152	20,591	6,100	11,685	4,587	111,657	176,650	3,934	180,584
Outstanding claims	2,694	38,263	91,631	18,079	15,345	(479)	47,286	212,819	3,019	215,838
Deferred reinsurance commission	472	-	1,772	747	660	140	909	4,700	563	5,263
Unallocated liabilities										137,671
Total insurance operations' liabilities and accumulated surplus										539,356

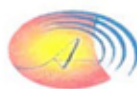
**24. Comparative figures**

Certain of the comparative year amounts have been reclassified to conform to the presentation in the current year.

**25. Date of approval**

These financial statements were approved by the Company's Board of Directors on February 24, 2014.

AXA CO-OPERATIVE INSURANCE COMPANY  
(A Saudi joint stock company)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
AND INDEPENDENT AUDITORS' REPORT



AL-GHANEM

A Certified Public Accountant

A Member Firm of  
INTEGRAL INTERNATIONAL  
Your Global Advantage

## INDEPENDENT AUDITORS' REPORT

To the shareholders of  
AXA Cooperative Insurance Company  
(a Saudi joint stock company)

### Scope of audit

We have audited the accompanying statement of financial position of AXA Cooperative Insurance Company (a Saudi joint stock company) (the "Company") as at December 31, 2012 and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive operations, changes in shareholders' equity, insurance operations cash flows and shareholders' operations cash flows for the year then ended, and the notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards (IFRS) and the provisions of Article 123 of the Regulations for Companies and presented to us together with all information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with IFRS; and
- 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

We draw attention to Note 2 to the accompanying financial statements. These financial statements are prepared in accordance with IFRS and not in accordance with the generally accepted accounting principles in the Kingdom of Saudi Arabia.

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Nader  
Nader Abdullah Al-Ghanem  
License Number 270

February 23, 2013

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF FINANCIAL POSITION

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2012	2011
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	74,118	90,367
Short-term deposits		61,142	-
Premiums and insurance balances receivable		120,865	129,649
Less: Provision for doubtful debts		(18,230)	(19,180)
Premiums and insurance balances receivable - net	5	102,635	110,469
Available-for-sale investments	6	54,514	40,878
Reinsurers' share of outstanding claims	7, 8	92,714	86,642
Reinsurers' share of unearned premiums	8	24,025	21,771
Deferred policy acquisition costs	8	14,891	11,839
Other assets		3,763	1,746
Receivable from a related party	13	22,096	14,225
Due from shareholders' operations		73,894	54,791
Long-term deposit		7,500	-
Furniture, fixtures and equipment	10	8,867	5,047
TOTAL INSURANCE OPERATIONS' ASSETS		540,159	437,775
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	325	129,880
Short-term deposits		175,069	65,706
Available-for-sale investments	6	63,085	12,948
Statutory deposit	9	20,000	20,000
Other assets		3,087	1,413
TOTAL SHAREHOLDERS' ASSETS		261,566	229,947
TOTAL ASSETS		801,725	667,722
			(Continued)

The accompanying notes from 1 to 25 form an integral part of these financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF FINANCIAL POSITION - (Continued)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2012	2011
INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED SURPLUS			
Reinsurers' balances payable		36,548	3,430
Unearned premiums	8	180,584	173,017
Outstanding claims		171,792	182,379
Claims incurred but not reported and other reserve		44,046	34,097
	8	215,838	216,476
Deferred reinsurance commission	8	5,263	3,120
Accrued and other liabilities	11	35,518	27,969
Payable to a related party	13	49,730	-
Employee termination benefits	12	15,875	14,246
Total insurance operations' liabilities		539,356	438,258
Accumulated surplus from insurance operations		557	-
Fair value reserve on available-for-sale investments		246	(483)
TOTAL INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED SURPLUS		540,159	437,775
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued zakat and income tax	15	5,942	3,985
Accrued and other liabilities	11	1,378	407
Due to insurance operations		73,894	54,791
Total shareholders' liabilities		81,214	59,183
Shareholders' equity			
Share capital	16	200,000	200,000
Fair value reserve		4,297	394
Accumulated deficit		(23,945)	(29,630)
Total shareholders' equity		180,352	170,764
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		261,566	229,947
TOTAL INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY		801,725	667,722
CONTINGENCIES	22		

The accompanying notes from 1 to 25 form an integral part of these financial statements.



AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
REVENUES			
Gross premiums written	13	460,486	427,790
Less: Reinsurance ceded	13	(96,367)	(73,862)
Net premiums written		364,119	353,928
Changes in unearned premiums		(5,313)	8,146
Net premiums earned	8	358,806	362,074
Reinsurance commissions	8, 13	12,880	9,951
Commission income		1,620	1,055
Total revenues		373,306	373,080
COSTS AND EXPENSES			
Gross claims paid	8	347,363	298,432
Less: Reinsurers' share	8	(72,974)	(20,305)
Net claims paid	13	274,389	278,127
Changes in outstanding claims		(6,710)	(4,444)
Net claims incurred	8	267,679	273,683
Policy acquisition costs	8	33,195	40,779
General and administrative expenses	19	66,860	72,859
Total costs and expenses		367,734	387,321
Surplus (deficit) from insurance operations		5,572	(14,241)
Shareholders' (appropriation) absorption of surplus (deficit) from insurance operations	14	(5,015)	14,241
Net results from insurance operations' after appropriation (absorption) of (surplus) deficit		557	-
Accumulated surplus, beginning of year		-	-
Accumulated surplus, end of year	14	557	-

The accompanying notes from 1 to 25 form an integral part of these financial statements

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF SHAREHOLDERS' OPERATIONS

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
Surplus (deficit) transferred from insurance operations	14	5,015	(14,241)
Commission income	18	6,665	1,978
General and administrative expenses	19	(1,312)	(438)
Withholding taxes		(66)	(2)
Shareholders' income (loss) for the year		10,302	(12,703)
Weighted average number of outstanding shares	16	20 million	20 million
Basic and diluted earnings (loss) per share (Saudi Riyals)	21	0.515	(0.635)

The accompanying notes from 1 to 25 form an integral part of these financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
Shareholders' income (loss) for the year		10,302	(12,703)
Zakat and income taxes	15	(4,617)	(3,341)
Shareholders' net income (loss) for the year		5,685	(16,044)
Unrealized fair value changes on available-for-sale investments	6	3,903	394
Total comprehensive income (loss) for the year		9,588	(15,650)

The accompanying notes from 1 to 25 form an integral part of these financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Share capital	Fair value reserve on investments	Accumulated deficit	Total
Balance at January 1, 2012	200,000	394	(29,630)	170,764
Net income for the year	-	-	5,685	5,685
Changes in fair value reserve on available-for-sale investments	-	3,903	-	3,903
Balance at December 31, 2012	200,000	4,297	(23,945)	180,352
Balance at January 1, 2011	200,000	-	(13,586)	186,414
Net loss for the year	-	-	(16,044)	(16,044)
Changes in fair value reserve on available-for-sale investments	-	394	-	394
Balance at December 31, 2011	200,000	394	(29,630)	170,764

The accompanying notes from 1 to 25 form an integral part of these financial statements.

**AXA CO-OPERATIVE INSURANCE COMPANY**

(A Saudi joint stock company)

**STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS**

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
Cash flow from operating activities			
Net results from insurance operations		557	-
Adjustments to reconcile net results from insurance operations to net cash from operating activities:			
Shareholders' appropriation (absorption) of (surplus) deficit from insurance operations	14	5,015	(14,241)
Depreciation	10	1,962	1,880
		7,534	(12,361)
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable - net		7,834	26,257
Reinsurers' share of outstanding claims		(6,072)	(64,011)
Reinsurers' share of unearned premiums		(2,254)	(1,224)
Deferred policy acquisition costs		(3,052)	6,165
Other assets		(2,017)	1,092
Receivable from related party		(520)	(14,225)
Reinsurers' balances payable		33,118	(16,567)
Unearned premiums		7,567	(6,922)
Outstanding claims		(10,587)	61,270
Claims incurred but not reported and other reserve		9,949	(1,703)
Deferred reinsurance commission		2,143	(128)
Accrued and other liabilities		7,549	(5,243)
Payable to a related party		49,730	(3,038)
Employee termination benefits		1,629	573
Due from shareholders' operations		(24,118)	(27,654)
Net cash provided by (used in) operating activities		78,433	(57,719)
Cash flow from investing activities			
Purchase of furniture, fixtures and equipment	10	(5,782)	(2,769)
Short-term deposits		(61,142)	-
Available-for-sale investments		(20,258)	(41,361)
Long-term deposit		(7,500)	-
Net cash used in investing activities		(94,682)	(44,130)
Net decrease in cash and cash equivalents		(16,249)	(101,849)
Cash and cash equivalents, beginning of the year		90,367	192,216
Cash and cash equivalents, end of the year	4	74,118	90,367
Supplemental cash flow information			
Non-cash investing activities			
Unrealized loss on available-for-sale investments	6	246	(483)
Available-for-sale investments transferred from shareholders' operations against due from shareholders' operations	6	-	35,323
Available-for-sale investments transferred to a related party	6	7,351	-

The accompanying notes from 1 to 25 form an integral part of these financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF SHAREHOLDERS' OPERATIONS CASH FLOWS

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31,	
		2012	2011
Cash flow from operating activities			
Shareholders' net income (loss) for the year		10,302	(12,703)
Adjustment to reconcile net loss to net cash provided by operating activities:			
Appropriation (absorption) of deficit from insurance operations	14	(5,015)	14,241
		5,287	1,538
Changes in operating assets and liabilities:			
Other assets		(1,674)	(1,100)
Accrued and other liabilities		971	(1,552)
Zakat and income tax paid		(2,660)	(3,804)
Due to insurance operations		24,118	27,654
Net cash provided by operating activities		26,042	22,736
Cash flow from investing activities			
Short-term deposits		(109,363)	6,949
Available-for-sale investments		(46,234)	(5,554)
Net cash (used in) provided by investing activities		(155,597)	1,395
Net increase in cash and cash equivalents		(129,555)	24,131
Cash and cash equivalents, beginning of the year		129,880	105,749
Cash and cash equivalents, end of the year	4	325	129,880
Supplemental cash flow information			
Non-cash operating activity -			
Zakat and income tax charged to shareholders' comprehensive operations	15	(4,617)	(3,341)
Non-cash investing activities -			
Unrealized gains on available-for-sale investments	6	3,903	394
Available-for-sale investments transferred to insurance operations against due to insurance operations	6	-	35,323

The accompanying notes from 1 to 25 form an integral part of these financial statements.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

#### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

##### a. General information

AXA Co-operative Insurance Company (the "Company") is a Saudi joint stock company established in the Kingdom of Saudi Arabia by the Royal Decree No. M/36 dated 27 Jumada II 1429H (July 1, 2008) (date of inception). The Company was incorporated vide Ministerial Order No Q/192, dated 10 Jumada II 1430H, (June 3, 2009) (date of incorporation). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010271203 issued in Riyadh on 20 Rajab 1430H (July 13, 2009). The Company's registered address is P.O. Box 753, Riyadh 11421, Kingdom of Saudi Arabia.

The principal activities of the Company are to engage in cooperative insurance operations and all related activities including reinsurance activities under the Law on Supervision of Co-operative Insurance (the "Law") and the Company's bye-law and other regulations promulgated in the Kingdom of Saudi Arabia. The Company obtained licence from the Saudi Arabian Monetary Agency ("SAMA") to practice general and medical insurance and reinsurance business in the Kingdom of Saudi Arabia vide licence No. TMN/25/2010, dated 11 Safar 1431H (corresponding to January 26, 2010). The Company has commenced insurance operations on 4 Rabi' I 1431H (corresponding to February 18, 2010) after obtaining full product approval for certain products and temporary approval for the remaining products. Currently, the Company is in the process of obtaining full product approval for the remaining products from the regulator. Management believes that such approvals will be obtained in due course.

##### b. Portfolio transfer

The shareholders' of the AXA Insurance (Saudi Arabia) B.S.C. (c) (the 'Seller'), at the time of formation of the Company, had principally agreed to transfer certain assets and liabilities as at January 1, 2009 and the insurance portfolio in the Kingdom of Saudi Arabia to the Company at a value to be determined by SAMA.

On 15 Dhul-Qadah 1433H (corresponding to October 1, 2012), SAMA approved the portfolio transfer, with effect from January 1, 2009, at a consideration of Saudi Riyals 106.57 million. Consequent to SAMA's approval, the Company has formally entered into a purchase agreement with the shareholders' of the Seller to effect the transfer. Also, the shareholders of the Company have approved the portfolio transfer at their Extra Ordinary General Assembly Meeting held on December 10, 2012.

Consequently, the Company acquired the insurance portfolio and the net assets of the Seller with effect from January 1, 2009. The accompanying financial statements for year ended December 31, 2012 include the effects of the portfolio transfer. Also, management has withdrawn previously issued financial statements for the year ended December 31, 2011 and reissued those after taking into account the effects of the portfolio transfer. Accordingly, the 2011 comparative financial information presented in the accompanying financial statements is from the reissued 2011 financial statements after taking into account the effects of portfolio transfer.

AXA CO-OPERATIVE INSURANCE COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

As per the valuation approved by SAMA, the value of assets and liabilities acquired through portfolio transfer from the Seller, as at January 1, 2009 are as follows:

INSURANCE OPERATIONS	January 1, 2009
Assets	
Cash and cash equivalents	117,772
Premiums and insurance balances receivable - net	178,694
Available-for-sale investments	2,116
Reinsurers' share of outstanding claims	34,938
Reinsurers' share of unearned premiums	22,098
Deferred policy acquisition costs	11,647
Other assets	2,214
Furniture, fixtures and equipment	4,973
Total assets	374,452
Liabilities	
Reinsurers' balances payable	29,699
Unearned premiums	151,067
Outstanding claims	164,776
Deferred reinsurance commission	3,383
Accrued and other liabilities	16,697
Employee termination benefits	8,830
Total liabilities	374,452

## 2. Summary of significant accounting policies

Significant accounting policies applied in the preparation of these financial statements are set out below.

### 2.1 Basis of preparation

The Company has prepared the accompanying financial statements under the historical cost convention on the accrual basis of accounting, as modified for the revaluation of available-for-sale investments at their fair values in the statement of financial position of insurance operations and shareholders' comprehensive operations, and in conformity with the International Financial Reporting Standards (IFRS). Accordingly, these financial statements are not intended to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, i.e. in accordance with the standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and board of directors of the Company.



## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

As per the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

Transfer to shareholders' operations	90%
Transfer to insurance operations'	10%
	100%

## 2.2 New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company

The accounting policies used in the preparation of these financial statements are consistently applied for all years presented, except for the adoption of certain amendments and revisions to existing standards as mentioned below, which had no significant financial impact on the financial statements of the Company.

Standard	Description
IAS 12	Amendments to Income taxes - Deferred taxes: Recovery of underlying assets
IFRS 7	Financial instruments: Disclosures (Transfers of Financial Assets)
IAS 34	Interim Financial Reporting

### 2.2.1 Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

The Company's management decided not to choose the early adoption of the following new and amended standards and interpretations issued which will become effective for the periods commencing on or after January 1, 2013:

Standard	Description
Amendments to IAS 1	Presentation of Financial Statements
Amendments to IAS 19	Employee Benefits
Amendments to IAS 27	Separate Financial Statements
Amendments to IAS 28	Investments in Associates and Joint Ventures
IFRS 9	Financial Instruments classification and measurement
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 32 and IFRS 7	Offsetting of Financial Assets and Financial Liabilities

The application of the above standards, interpretations and amendments are not expected to have material impact on the financial statements as and when they become effective.

## 2.3 Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions 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. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

#### 2.4 Segment reporting

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 assets do not include premiums and insurance balances receivable, furniture, fixtures and equipment, other assets and due from shareholders' operations; and
- Segment liabilities do not include reinsurers' balances payable, accrued and other liabilities.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Accident and liability;
- Motor;
- Property;
- Marine;
- Engineering;
- Health; and
- Protection

#### 2.5 Foreign currency translations

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the date of statement of financial position. All differences are taken to the statements of insurance operations or to the statement of shareholders' operations. Foreign exchange differences are not significant and have not been disclosed separately.

#### 2.6 Financial assets

##### 2.6.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale.

##### a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short-term or that it has designated as available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

##### b) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices; these are designated as such at inception.

##### 2.6.2 Recognition and measurement

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Loans and receivable are carried at amortized costs using effective interest method. Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive operations and financial position for insurance operations.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

Financial assets are derecognised when the rights to receive cash flows from the available-for-sale investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statements of the insurance operations or shareholders' comprehensive operations as 'gains and losses from available-for-sale investments'. Commission on available-for-sale investments calculated using the effective interest method is recognised in the income statement as part of other income.

#### 2.6.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established. Both are included in the commission income line.

#### 2.6.4 Impairment of assets

##### (a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of insurance operations.

##### (b) Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of insurance / shareholders' operations. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of insurance / shareholders' operations.

#### 2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with less than three months maturity from the date of acquisition.

#### 2.8 Short-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of less than one year and more than three months from the date of acquisition.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

#### 2.9 Insurance receivables

Receivable from policy holders are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method (if the insurance receivable is due after one year), less impairment, if any.

#### 2.10 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.

#### 2.11 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts is recognized as "Deferred policy acquisition costs". The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts.

#### 2.12 Claims

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

The Company generally estimates its claims based on previous experience. In addition, a provision based on management's judgement is maintained for the cost of settling claims incurred but not reported at the date of statement of financial position. Any difference between the provisions at the date of statement of financial position and settlements for the following period is included in the statement of insurance operations for that period.

#### 2.13 Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables, if any, that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

At each reporting date, the Company assesses whether there is any indication that any reinsurance assets may be impaired. Where an indicator of impairment exists, the Company makes an estimate of the recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount.

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### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

#### 2.14 Liability adequacy test

At each date of the statement of financial position 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 is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an additional risk provision is created.

#### 2.15 Revenue recognition

##### (a) Recognition of premium and commission revenue

Gross premiums and commissions are recognized with the commencement of the insurance risks. The portion of premiums and commission that will be earned in the future is reported as unearned premiums and commissions, respectively, and are deferred on a basis consistent with the term of the related policy coverage.

Premiums earned on reinsurance assumed, if any, are recognised as revenue in the same manner as if the reinsurance premiums were considered to be gross premiums.

##### (b) Commission income

Commission income from short-term deposits is recognized on a time proportion basis using the effective commission rate method.

##### (c) Dividend income

Dividend income is recognized when the right to receive a dividend is established.

#### 2.16 Furniture, fixtures and equipment

Furniture, fixtures and equipments are carried at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the income statement, using the straight-line method, to allocate costs of the related assets to their residual values over the estimated useful lives.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

The carrying values of furniture, fixtures 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, being the higher of their fair values less costs to sell and their value in use.

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

#### 2.17 Accrued and other liabilities

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

#### 2.18 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method. Liabilities are recognized for amounts to be paid and services rendered, whether or not billed to the Company.

## AXA CO-OPERATIVE INSURANCE COMPANY

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### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

#### 2.19 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. 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. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

#### 2.20 De-recognition of financial instruments

The de-recognition 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.

#### 2.21 Off-setting

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

#### 2.22 Zakat and income taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of shareholders' comprehensive operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

#### 2.23 Surplus from insurance operations

In accordance with the requirements of the Implementing Regulations for Co-operative Insurance (the Regulations) issued by SAMA, 90% of the net surplus from insurance operations is transferred to the statement of shareholders' operations, while 10% of the net surplus is distributable to policyholders. Such surplus distributable to policyholders is disclosed under "Insurance operations' accumulated surplus".

### 3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### The ultimate liability arise from claims under insurance contracts

Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under insurance policies. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported "IBNR" at the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

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Claims requiring court or arbitration decisions, if any, 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 of premiums and insurance balances receivable

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's past experience.

#### Impairment of available-for-sale investments

The Company treats available-for-sale 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 investments and the future cash flows and the discount factors for unquoted investments.

#### 4. Cash and cash equivalents

	2012	2011
Insurance operations:		
Cash at bank and in hand	74,118	90,367
Shareholders' operations:		
Cash at bank and in hand	325	22,750
Time deposits	-	107,130
	325	129,880

Time deposits are placed with local and foreign banks with an original maturity of more than three months from the date of acquisition and earn commission income at a rate of 0.80% to 3.5% (2011: 0.50% to 2.5%) per annum.

#### 5. Premiums and insurance balances receivable

	2012	2011
Receivable from policy holders	44,606	46,202
Receivable from insurance intermediaries	55,301	77,725
Receivable from reinsurers	20,958	5,722
	120,865	129,649
Provision for doubtful debts	(18,230)	(19,180)
Total	102,635	110,469

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Movement in provision for doubtful debts is as follows:

	2012	2011
Balance, beginning of the year	19,180	12,986
(Reversal) / charge for the year	(950)	6,194
Balance, end of the year	18,230	19,180

Receivables comprise a large number of customers, intermediaries and insurance companies mainly within the Kingdom of Saudi Arabia.

Ageing of receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired		
			91 to 180 days	181 to 360 days	More than 365 days
December 31, 2012	102,635	77,493	20,041	5,101	-
December 31, 2011	110,469	54,770	36,342	14,677	4,680

## 6. Available-for-sale investments

As at and for the year ended December 31, 2012

	Insurance operations	Shareholders' operations
Balance, January 1, 2012	40,878	12,948
Purchases, net	20,258	46,234
Transfer to a related party	(7,351)	-
Unrealized gain	729	3,903
Balance, December 31, 2012	54,514	63,085

Available-for-sale investments at December 31, 2012 includes, 1,923,078 shares (2011: 1,923,078) in Najam for Insurance Services, a limited liability Company are held by the Company at Nil value.

As at and for the year ended December 31, 2011

	Insurance operations	Shareholders' operations
Balance, January 1, 2011	-	7,000
Purchases / transfers from a related party	6,038	40,877
Transfer from shareholders' operations to		
insurance operations	35,323	(35,323)
Unrealized (loss) / gain	(483)	394
Balance, December 31, 2011	40,878	12,948

These represent investment in publically traded sukuk bonds and certain other publicly traded equity securities issued by various Saudi Arabian companies.



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**7. Reinsurers' share of outstanding claims**

All amounts due from reinsurers are expected to be received within 12 months from the statement of financial position date.

**8. Movement in deferred policy acquisition costs, deferred reinsurance commission, unearned premiums and outstanding claims**

**a. Deferred policy acquisition costs**

	2012	2011
Balance, beginning of the year	11,839	18,004
Incurred during the year	36,247	34,614
Amortized during the year	(33,195)	(40,779)
Balance, end of the year	14,891	11,839

**b. Deferred reinsurance commission**

	2012	2011
Balance, beginning of the year	3,120	3,248
Commission received during the year	15,023	9,823
Commission earned during the year	(12,880)	(9,951)
Balance, end of the year	5,263	3,120

**c. Unearned premiums**

	2012	2011
Balance, beginning of the year	173,017	179,939
Net premiums written during the year	364,119	353,928
Net premiums earned during the year	(358,806)	(362,074)
Changes in unearned premiums	178,330	171,793
Less: Opening reinsurers share of unearned premium	(21,771)	(20,547)
Add: Closing reinsurers' share of unearned premiums	24,025	21,771
Balance, end of the year	180,584	173,017

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d. Outstanding claims

Year ended December 31, 2012	Gross	Due from Reinsurers	Net
Balance, beginning of the year	182,379	(86,642)	95,737
Incurred but not reported	34,097	-	34,097
Claims paid during the year	(347,363)	72,974	(274,389)
Claims incurred during the year	346,725	(79,046)	267,679
Balance, end of the year	215,838	(92,714)	123,124
Outstanding claims, end of the year	171,792	(88,440)	83,352
Incurred but not reported	44,046	(4,274)	39,772
Balance, end of the year	215,838	(92,714)	123,124

Year ended December 31, 2011	Gross	Due from insurers	Net
Balance, beginning of the year	121,109	(22,631)	98,478
Incurred but not reported	35,800	-	35,800
Claims paid during the year	(298,432)	20,305	(278,127)
Claims incurred during the year	357,999	(84,316)	273,683
Balance, end of the year	216,476	(86,642)	129,834
Outstanding claims at the end of the year	182,379	(86,642)	95,737
Incurred but not reported	34,097	-	34,097
Balance, end of the year	216,476	(86,642)	129,834

9. Statutory deposit

In accordance with the Implementing Regulations for Insurance Companies, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA.

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**10. Furniture, fixtures and equipment**

2012	Furniture and fixtures	Equipment	Total
Cost			
January 1, 2012	5,379	14,847	20,226
Additions	111	5,671	5,782
December 31, 2012	5,490	20,518	26,008
Accumulated depreciation			
January 1, 2012	(4,572)	(10,607)	(15,179)
Charge during the year	(218)	(1,744)	(1,962)
December 31, 2012	(4,790)	(12,351)	(17,141)
Net book value			
December 31, 2012	700	8,167	8,867

2011	Furniture and fixtures	Equipment	Total
Cost			
January 1, 2011	4,211	13,246	17,457
Additions	1,168	1,601	2,769
December 31, 2011	5,379	14,847	20,226
Accumulated depreciation			
January 1, 2011	(3,692)	(9,607)	(13,299)
Charge during the year	(880)	(1,000)	(1,880)
December 31, 2011	(4,572)	(10,607)	(15,179)
Net book value			
December 31, 2011	807	4,240	5,047

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**11. Accrued and other liabilities**

	2012	2011
Insurance operations:		
Accrued salaries and other	7,030	2,718
Commission payable	8,252	5,967
Regulatory fee	3,237	2,302
Unclaimed cheques	8,149	13,447
Payable to vendors	3,329	-
Other	5,521	3,535
	35,518	27,969
Shareholders' operations:		
Directors' fees	1,312	438
Other	66	(31)
	1,378	407

**12. Employee termination benefits**

	2012	2011
Balance at the beginning of the year	14,246	13,673
Employee termination benefits paid	(313)	(2,708)
Charge for the year	1,942	3,281
Balance, end of the year	15,875	14,246

**13. Related party transactions and balances**

a) Related party transactions

	Year ended December 31, 2012	Year ended December 31, 2011
Gross premiums written	22,523	11,920
Net claims paid	12,884	4,525
Reinsurance ceded	58,849	37,649
Reinsurance recoveries	74,887	29,228
Reinsurance commissions	8,339	3,247
Expenses charged by related parties	1,291	1,467
Directors' remuneration	1,312	438
Key management personnel	5,239	4,164
Available-for-sale investments transferred to a related party	7,351	-

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b) Related party balances

Receivable from a related party at December 31, 2012 and 2011 represents amount receivable from the Seller.

Payable to a related party at December 31, 2012 represents amount payable to AXA Cessions Paris (2011: Nil)

**14. Insurance operations' accumulated surplus**

In accordance with Implementing Regulations for Co-operative Insurance (the Regulations) issued by SAMA Regulations, 90% of the insurance operations' surplus for each year is required to be transferred to the shareholders' comprehensive operations.

**15. Zakat and income tax matters**

(i) Provision for zakat and income tax

Provision for zakat has been made at 2.5% of approximate zakat base attributable to the Saudi shareholders of the Company. Income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

Movements in provision for zakat and income tax as at December 31, 2012 and 2011 are as follows:

2012	Zakat	Income tax	Total
Balance, beginning of the year	3,319	666	3,985
Payments	(2,660)	-	(2,660)
Provision for the year	4,345	272	4,617
Balance, end of the year	5,004	938	5,942

2011	Zakat	Income tax	Total
Balance, beginning of the year	3,782	666	4,448
Payments	(3,804)	-	(3,804)
Provision for the year	3,341	-	3,341
Balance, end of the year	3,319	666	3,985

There are no significant deferred tax assets / liabilities as at December 31, 2012 and 2011.

(ii) Status of zakat and income tax certificate

The Company had received a final zakat certificate for the year ended December 31, 2010. The Company has revised the provision for zakat and income tax to reflect the effect of operations transferred and is in the process of submitting the revised returns for the period / years ended December 31, 2009, 2010 and 2011 after taking into account the effect of portfolio transfer.

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### 16. Share capital

	2012	2011
Authorized		
20,000,000 shares of Saudi Riyals 10 each	200,000	200,000
Allotted, issued and fully paid		
20,000,000 shares of Saudi Riyals 10 each	200,000	200,000

### 17. Statutory Reserve

In accordance with the law, the Company is required to transfer not less than 20% of its annual net income to a legal reserve until such reserve amounts to 100% of the paid up share capital of the Company. No such transfer has been made during the year due to accumulated deficit as at December 31, 2012.

### 18. Commission income

Commission income represents income earned from time deposits and short-term deposits.

### 19. General and administrative expenses

	2012	2011
Insurance operations:		
Staff costs	47,605	41,233
Legal and professional fees	2,866	8,374
Business travel	1,339	1,343
Printing and stationary	470	691
Provision for doubtful debts	(950)	6,194
Information technology	1,618	2,576
Withholding tax	4,856	3,819
Other	9,056	8,629
	66,860	72,859
Shareholders' operations:		
Directors' fees and other expenses	1,312	438
	1,312	438

### 20. Risk management

#### 20.1 Risk governance

The Company 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 of Directors of the Company. The Company is exposed to credit, liquidity, market and operational risks.

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#### Risk management structure

##### 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.

##### Audit Committee and Internal Audit Department

The Internal Audit Department performs risk assessments with senior management annually. The Internal Audit Department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit Findings and recommendations are reported directly to the Audit Committee.

##### Risk Management Committee

The Audit Committee of the Company has constituted a risk management committee which oversees the risk management function of the Company and report to Audit Committee on periodic basis. This Committee operates under framework established by the Board of Directors.

##### 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 summarised below.

#### 20.2 Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claim payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

#### 20.3 Accident, liability and motor

##### Accident and liability

The accident category includes personal accident, money insurance, business all risk insurance and business travel insurance. Liability insurance includes general third-party liability, product liability and workmen's compensation/employer's liability protection arising out of acts of negligence during their business operations.

##### Motor

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

For accident, liability and motor policies the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has well developed risk acceptance procedures based on critical underwriting factors such as driver's age, driving experience and nature of vehicle to control the quality of risks that it accepts. It also has risk management procedures in place to control the costs of claims.

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#### 20.4 Property

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

Significant risks underwritten by the Company under this class are physically inspected by qualified risk engineers to make sure adequate fire protection and security is in place. Also, the Company tracks for the potential of risk accumulation.

#### 20.5 Marine

Marine insurance solutions are mainly designed to compensate policyholders from accidents at sea, on land and in the air resulting in the total or partial loss to goods and/or merchandise (cargo insurance).

The underwriting strategy for the marine class of business is to ensure that coverage is provided based on the quality of vessels used and shipping routes followed. Vessel details are validated through international agencies while making the underwriting decisions.

#### 20.6 Engineering

Engineering covers two principal types as summarized below:

- (i) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs; and
- (ii) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery.

The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Significant risks underwritten by the Company under this class are physically inspected to make sure adequate fire protection, security and project management is in place.

#### 20.7 Health and protection

Health insurance is designed to cover the medical expenses incurred as a result of a disease or an illness or an injury. The policy seeks to provide the policyholder and their employees with access to good medical facilities and the latest treatments and technologies, subject to the terms of the relevant policy and the policyholders' personal circumstances.

Protection insurance covers the risks of death or disability following accident or illnesses and compensates the member or dependents in event of loss.

The main risk the Company faces on health and protection insurance is an increase of medical costs which can be more than expected or increase in claims due to exceptional events like outbreak of pandemic diseases. The underwriting strategy includes management of exposures and concentrations within acceptable risk appetite and risk tolerance levels and optimization of reinsurance strategies through a combination of reinsurance cession with approved and well-rated reinsurers and retrocession arrangements. The Company's centralized claims management platform controls and manages its medical insurance claims.



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#### 20.8 Reinsurance risk

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company only deals with reinsurers approved by the Board of Directors of the Company. The criteria may be summarized as follows:

- a) Minimum acceptable credit rating by agencies that is not lower than BBB;
- b) Reputation of particular reinsurance companies; and
- c) Existing or past business relationships.

Furthermore, the financial strengths and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company before placement of reinsurance.

#### 20.9 Regulatory framework risk

The operations of the Company are subject to regulatory requirements in 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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

In management's opinion, the Company has complied with all such regulatory requirements.

#### 20.10 Financial risk

The Company's principal financial assets and liabilities are cash and cash equivalents, available-for-sale investment, statutory deposit, premium and insurance balances receivable, receivable from a related party and accrued and other liabilities.

The main risks arising from the Company's financial instruments are commission rate risk, credit risk, liquidity risk and market price risks. The audit committee appointed by the Board of Directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

##### Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its time deposits, short-term deposit and available-for-sale investment. The Company limits commission rate risk by monitoring changes in commission rates. The Company does not have any interest bearing liabilities.

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Effective commission rates of the Company's investments and their maturities as at December 31, 2012 and 2011 are as follows:

2012	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Effective rate of commission		
Insurance operations					
Cash and cash equivalents	74,118	-	0.98%	-	74,118
Short term deposit	61,142	-	1.5%	-	61,142
Available-for-sale investments	54,514	-	2.5%	-	54,514
Long-term deposit	-	7,500	2.0%	-	7,500
December 31, 2012	189,774	7,500		-	197,274
Shareholders' operations					
Cash and cash equivalents	325	-	0.98%	-	325
Short-term deposits	175,069	-	1.5%	-	175,069
Available-for-sale investments	63,085	-	2.6%	-	63,085
Statutory deposit	20,000	-	0.74%	-	20,000
December 31, 2012	258,479	-		-	258,479

2011	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Effective rate of commission		
Insurance operations					
Cash and cash equivalents	90,367	-	0.9%	-	90,367
Available-for-sale investments	40,878	-	-	-	40,878
December 31, 2011	131,245	-		-	131,245
Shareholders' operations					
Cash and cash equivalents	129,880	-	0.90%	-	129,880
Short-term deposits	65,706	-	1.00%	-	65,706
Available-for-sale Investments	12,948	-	-	-	12,948
Statutory deposit	20,000	-	0.81%	-	20,000
December 31, 2011	228,534	-		-	228,534

There is no significant difference between contractual re-pricing and maturity dates.

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The following table demonstrates the sensitivity of statements of shareholders' comprehensive operations and shareholders' equity to reasonably possible change in commission rates of the Company's deposits, with all other variables held constant:

Currency	Change in variable	Impact on net income	
		2012	2011
Saudi Riyals	+ 50 basis points	1,963	1,503
Saudi Riyals	- 50 basis points	(1,963)	(1,503)

20.11 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.

The Company only enters into insurance and reinsurance contracts with recognised and credit worthy 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 limits its credit risk with regard to time deposits by dealing with reputed banks only.

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.

There are no significant concentrations of credit risk within the Company.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk on its financial assets at December 31, 2012 is Saudi Riyals 680 million (December 31, 2011: 560 million).

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The table below shows the components of the statement of financial position of the Company at December 31, 2012 and 2011 exposed to credit risk:

	2012	2011
Insurance operations' assets		
Cash and cash equivalents	74,118	90,367
Short term deposit	61,142	-
Available-for-sale investments	54,514	40,878
Premiums and insurance balances receivable - net	102,635	110,469
Reinsurers' share of outstanding claims, net	92,714	86,642
Receivable from a related party	22,096	-
Long-term deposit	7,500	-
Other assets	3,763	1,746
	418,482	330,102
Shareholders' assets		
Cash and cash equivalents	325	129,880
Short-term deposits	175,069	65,706
Available-for-sale investments	63,085	12,948
Statutory deposit	20,000	20,000
Other assets	3,087	1,413
	261,566	229,947
Total	680,048	560,049

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non investment grade (satisfactory) or past due but not impaired.

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Insurance operations' financial assets as at December 31, 2012

	Investment grade	Non Investment grade		Total
		Satisfactory	Past due but not impaired	
Long-term deposit	7,500	-	-	7,500
Short-term deposits	61,142	-	-	61,142
Premiums and reinsurance balance receivable - net	-	76,031	26,604	102,635
Reinsurers' share of outstanding claims	-	92,714	-	92,714
Other assets	-	3,763	-	3,763
Available-for-sale investments	54,514	-	-	54,514
Cash and cash equivalents	74,118	-	-	74,118
	197,274	172,508	26,604	396,386

Insurance operations' financial assets as at December 31, 2011

	Investment grade	Non Investment grade		Total
		Satisfactory	Past due but not impaired	
Premiums and reinsurance balance receivable - net	-	54,770	55,699	110,469
Reinsurers' share of outstanding claims	-	86,642	-	86,642
Other assets	-	1,746	-	1,746
Available-for-sale investments	40,878	-	-	40,878
Cash and cash equivalents	90,367	-	-	90,367
	131,245	143,158	55,699	330,102

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

Shareholders' financial assets as at December 31, 2012

	Investment grade	Non investment grade		Total
		Satisfactory	Past due but not impaired	
Statutory deposit	20,000	-	-	20,000
Other assets	-	3,087	-	3,087
Short-deposits	175,069	-	-	175,069
Available-for-sale investments	63,085	-	-	63,085
Cash and cash equivalents	325	-	-	325
	258,479	3,087	-	261,566

Shareholders' financial assets as at December 31, 2011

	Investment grade	Non investment grade		Total
		Satisfactory	Past due but not impaired	
Statutory deposit	20,000	-	-	20,000
Other assets	-	1,413	-	1,413
Short-deposits	65,706	-	-	65,706
Available-for-sale investments	12,948	-	-	12,948
Cash and cash equivalents	129,880	-	-	129,880
	228,534	1,413	-	229,947

20.12 Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with insurance contracts. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

Significantly all the financial liabilities of the Company are due within one year of the date of the statement of financial position.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

The table below summarizes the maturities of the Company's undiscounted contractual obligations at December 31, 2012 and 2011. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

	Less than 12 months		More than 12 months		Total	
	2012	2011	2012	2011	2012	2011
Insurance operations' liabilities						
Reinsurers' balances payable	36,548	3,430	-	-	36,548	3,430
Outstanding claims	215,838	216,476	-	-	215,838	216,476
Employee termination benefits	-	-	15,875	14,246	15,875	14,246
Payable to a related party	49,730	-	-	-	49,730	-
Accrued expenses and other liabilities	35,518	27,969	-	-	35,518	27,969
	337,634	247,875	15,875	14,246	353,509	262,121
Shareholders' liabilities						
Accrued expenses and other liabilities	1,378	407	-	-	1,378	407
	339,012	248,282	15,875	14,246	354,887	262,528

#### 20.13 Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company's financial instruments are not exposed to market risk. Market risk is limited by investing in companies with good credit rating. In addition the key factors that affect market are monitored, including operational and financial performance of the Company.

#### 20.14 Currency risk

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against Saudi Riyals. Management believes that currency risk to the Company is not significant.

#### 20.15 Capital risk management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements as set out in the Law. The Company's current paid-up share capital is in accordance with Article 3 of the Law;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

## AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

As per Article 66 of the Regulations, the Company shall maintain solvency margin equivalent to the highest of the following three methods:

- Minimum capital requirement of Saudi Riyals 200 million
- Premium solvency margin
- Claims solvency margin

As an exception to the above, the Company shall comply with the minimum solvency margin calculated as per "Premium solvency margin" method for the first three years from the Company's registration. The Company is in compliance with the required margin of solvency as of December 31, 2012.

#### 20.16 Fair value of financial assets and 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. The fair values of the Company's financial instruments are not materially different from their carrying values.

The Company's financial assets consist of cash and cash equivalents, premium and insurance balances receivables, investments, accrued income and financial liabilities consisting of payables and accrued expenses.

#### Determination of fair value and fair value 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 identical assets or liabilities (i.e. without modification or repacking).

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

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

The table below presents the financial instruments at their fair values as at December 31, 2012 and 2011 based on the fair value hierarchy:

2012	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Insurance operations	54,514	-	-	54,514
Shareholders' operations	63,085	-	-	63,085
2011	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Insurance operations	40,878	-	-	40,878
Shareholders' operations	12,948	-	-	12,948

#### 21. Earnings (loss) per share

Basic and diluted earning (loss) per share for the year ended December 31, 2012 and 2011 has been computed by dividing the shareholders' net loss for such year by the weighted average number of shares outstanding during such year .



AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

## 22. Contingencies

### Contingent consideration payable to the Seller

As stated in Note 1, the Company acquired the insurance portfolio from the Seller at a consideration based on SAMA's instructions. Settlement of such consideration can only be made upon fulfilling certain conditions dictated by SAMA which include, among others, the following:

- Maintenance of required solvency margin and minimum share capital;
- Restriction on repayment upto a maximum of 50% of the profit earned in the current year;
- Restriction on settlement in the year of loss or out of retained earnings; and
- Limitation on duration within which payment of consideration can be made.

Considering the above conditions, restated financial performance and the Company's future business plans, management believes that the Company will not be required to repay the consideration. Accordingly, the consideration of Saudi Riyals 106.57 million is disclosed as a contingent liability. Management will however, reassess the conditions for settlement of the consideration at each balance sheet date during the period in which payment can be made and will recognize a liability, if required.

# AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

### 23. Segment reporting

Insurance operations for the year ended December 31, 2012:

2012	General and medical									
	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	23,452	57,131	56,776	37,386	27,458	3,669	239,490	445,362	15,124	460,486
Less: reinsurance ceded	(6,702)	(930)	(46,289)	(16,983)	(15,673)	(719)	(5,184)	(92,480)	(3,887)	(96,367)
Net premiums written	16,750	56,201	10,487	20,403	11,785	2,950	234,306	352,882	11,237	364,119
Changes in unearned premiums	(754)	(3,892)	329	27	(10)	655	(1,611)	(5,256)	(57)	(5,313)
Net premiums earned	15,996	52,309	10,816	20,430	11,775	3,605	232,695	347,626	11,180	358,806
Reinsurance commissions	672	17	7,261	3,791	888	17	234	12,880	-	12,880
Total revenue	16,668	52,326	18,077	24,221	12,663	3,622	232,929	360,506	11,180	371,686
Gross claims paid	1,125	41,184	65,304	8,602	10,589	1,189	212,186	340,179	7,184	347,363
Less: reinsurers' share	(115)	(4,801)	(56,207)	(4,502)	(1,315)	(96)	(5,133)	(72,169)	(805)	(72,974)
Net claims paid	1,010	36,383	9,097	4,100	9,274	1,093	207,053	268,010	6,379	274,389
Changes in outstanding claims	(637)	(7,223)	4,934	380	3,031	(2,091)	(2,383)	(3,989)	(2,721)	(6,710)
Net claims incurred	373	29,160	14,031	4,480	12,305	(998)	204,670	264,021	3,658	267,679
Policy acquisition costs	1,924	4,905	5,582	2,848	2,650	519	13,380	31,808	1,387	33,195
Operating and administrative salaries	2,725	6,582	5,827	3,490	2,957	312	20,423	42,316	1,409	43,725
Other general and administrative expenses	1,592	4,085	3,654	2,127	1,809	179	8,773	22,219	916	23,135
Total costs and expenses	6,614	44,732	29,094	12,945	19,721	12	247,246	360,364	7,370	367,734
Surplus from insurance operations										3,952
Commission income										1,620
Net surplus from insurance operations										5,572
Insurance operations' surplus transferred to shareholders' operations										(5,015)
Net results from insurance operation after appropriation of surplus										557

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

**23. Segment reporting (continued)**

Insurance operations for the year ended December 31, 2011:

2011	General and medical									
	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	19,650	48,340	52,529	35,940	23,105	3,271	230,182	413,017	14,773	427,790
Less: reinsurance ceded	(2,259)	(1,398)	(43,452)	(12,294)	(8,228)	(598)	(4,179)	(72,408)	(1,454)	(73,862)
Net premiums written	17,391	46,942	9,077	23,646	14,877	2,673	226,003	340,609	13,319	353,928
Changes in unearned premiums	(1,032)	339	(165)	(964)	(2,983)	3,031	12,816	11,042	(2,896)	8,146
Net premiums earned	16,359	47,281	8,912	22,682	11,894	5,704	238,819	351,651	10,423	362,074
Reinsurance commissions	290	6	5,848	1,966	832	22	728	9,692	259	9,951
Total Revenue	16,649	47,287	14,760	24,648	12,726	5,726	239,547	361,343	10,682	372,025
Gross claims paid	1,406	58,186	15,683	5,655	1,947	3,216	207,269	293,362	5,070	298,432
Less: reinsurers' share	-	(5)	(10,019)	(2,239)	(733)	(626)	(5,950)	(19,572)	(733)	(20,305)
Net claims paid	1,406	58,181	5,664	3,416	1,214	2,590	201,319	273,790	4,337	278,127
Changes in outstanding claims	(1,083)	(27,651)	4,640	313	785	325	16,117	(6,554)	2,110	(4,444)
Net claims incurred	323	30,530	10,304	3,729	1,999	2,915	217,436	267,236	6,447	273,683
Policy acquisition costs	1,543	4,563	5,239	3,064	2,733	(2,674)	19,718	34,186	6,593	40,779
Operating and administrative Salaries	1,368	5,310	939	2,552	1,385	1,268	23,935	36,757	5,867	42,624
Other general and administrative expenses	845	3,497	366	1,648	1,089	838	17,678	25,961	4,274	30,235
Total costs and expenses	4,079	43,900	16,848	10,993	7,206	2,347	278,767	364,140	23,181	387,321
Deficit from insurance operations										(15,296)
Commission income										1,055
Net deficit from insurance operations										(14,241)
Insurance operations' deficit transferred to shareholders' operations										14,241
Net results from insurance operations after absorption of deficit										-

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

**23. Segment reporting (continued)**

Insurance operations' financial position as of December 31, 2012:

General and medical										
2012	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of outstanding claims	3,602	3,730	63,993	4,879	14,376	(538)	1,150	91,192	1,522	92,714
Reinsurers' share of unearned premiums	1,940	22	14,669	2,621	3,724	864	-	23,840	185	24,025
Deferred policy acquisition costs	831	1,650	1,329	818	992	(126)	9,039	14,533	358	14,891
Unallocated assets										408,529
Total insurance operations' assets										540,159
Insurance operations' liabilities										
Unearned premiums	5,878	16,152	20,591	6,100	11,685	4,587	111,657	176,650	3,934	180,584
Outstanding claims	2,694	38,263	91,631	18,079	15,345	(479)	47,286	212,819	3,019	215,838
Deferred reinsurance commission	472	-	1,772	747	660	140	909	4,700	563	5,263
Unallocated liabilities										138,474
Total insurance operations' liabilities										540,159

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

**23. Segment reporting (continued)**

Insurance operations' financial position as of December 31, 2011:

General and medical										
2011	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of outstanding claims	3,499	284	61,969	5,990	13,478	-	368	85,588	1,054	86,642
Reinsurers' share of unearned premiums	205	92	15,320	1,353	3,682	747	80	21,479	292	21,771
Deferred policy acquisition costs	489	1,263	1,605	458	561	55	7,408	11,839	-	11,839
Unallocated assets										317,523
Total insurance operations' assets										437,775
Insurance operations' liabilities										
Unearned premiums	4,700	12,330	21,627	4,856	11,576	4,043	109,897	169,029	3,988	173,017
Outstanding claims	3,027	39,050	84,587	18,739	12,804	3,118	49,857	211,182	5,294	216,476
Deferred reinsurance commission	-	10	2,431	287	260	116	16	3,120	-	3,120
Unallocated liabilities										45,162
Total insurance operations' liabilities										437,775

**24. Comparative figures**

Certain of the comparative year amounts have been reclassified to conform to the presentation in the current year.

**25. Date of approval**

These financial statements were approved by the Company's Board of Directors on February 23, 2013.

A XA CO-OPERATIVE INSURANCE COMPANY  
(A Saudi joint stock company)  
REISSUED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011



**AL-GHANEM**

*Certified Public Accountants*

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**INTEGRATED INTERNATIONAL**

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## INDEPENDENT AUDITORS' REPORT

To the shareholders of  
AXA Co-operative Insurance Company

### Scope of audit

We have audited the accompanying reissued statement of financial position of AXA Co-operative Insurance Company (a Saudi joint stock company) (the "Company") as at December 31, 2011 and the related reissued statements of insurance operations' and accumulated surplus, shareholders' operations, shareholders' comprehensive operations, changes in shareholders' equity, insurance operations and shareholders' cash flows for the year then ended, and the notes which form an integral part of these reissued financial statements. These reissued financial statements are the responsibility of the Company's management and have been prepared by them in accordance with Article 123 of the Regulations for Companies and presented to us together with all information and explanations which we required. Our responsibility is to express an opinion on these reissued financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified opinion

In our opinion, such reissued financial statements taken as a whole:

- 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 (IFRS); and
- 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

- We draw attention to Note 1 to the accompanying reissued financial statements. The Company had previously issued its financial statements for the year ended December 31, 2011 ("previous set of financial statements") without including certain assets and liabilities and operational results, as the process to transfer the insurance portfolio of AXA Insurance (Saudi Arabia) B.S.C. (c) to the Company was subject to regulatory and shareholders' approval as of the date of issuance of previous set of financial statements. Our audit opinion on the previous set of financial statements, dated February 22, 2012, was issued with an emphasis of matter paragraph in this respect. During fourth quarter of 2012, the Company received the required approvals for portfolio transfer with effect from January 1, 2009. Therefore, management has withdrawn the previous set of financial statements and has reissued these financial statements for the year ended December 31, 2011 after taking into account the effects of the portfolio transfer; and
- We further draw attention to Note 2 to the accompanying reissued financial statements. These reissued financial statements are prepared in accordance with IFRS and not in accordance with the generally accepted accounting standards in Saudi Arabia.

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**Nader**  
Nader Abdullah Al-Ghanem  
License Number 270

January 5, 2013

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF FINANCIAL POSITION - REISSUED

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2011	2010
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	90,367	192,216
Premiums and insurance balances receivable		129,649	149,712
Less: Provision for doubtful debts		(19,180)	(12,986)
Premiums and insurance balances receivable - net	5	110,469	136,726
Available-for-sale investments	6	40,878	-
Reinsurers' share of outstanding claims	7, 8	86,642	22,631
Reinsurers' share of unearned premiums	8	21,771	20,547
Deferred policy acquisition costs	8	11,839	18,004
Other assets		1,746	2,838
Furniture, fixture and equipment	10	5,047	4,158
Receivable from a related party	13	14,225	-
Due from shareholders' operations		52,309	12,896
TOTAL INSURANCE OPERATIONS' ASSETS		435,293	410,016
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	129,880	105,749
Short-term deposits		65,706	72,655
Available-for-sale investments	6	12,948	7,000
Statutory deposit	9	20,000	20,000
Other assets		1,413	313
TOTAL SHAREHOLDERS' ASSETS		229,947	205,717
TOTAL ASSETS		665,240	615,733
			(Continued)

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements.



AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF FINANCIAL POSITION - REISSUED (Concluded)

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	As at December 31,	
		2011	2010
INSURANCE OPERATIONS' LIABILITIES AND DEFICIT			
Reinsurers' balances payable		3,430	19,997
Unearned premiums	8	173,017	179,939
Outstanding claims		182,379	121,109
Claims incurred but not reported and other reserve		34,097	35,800
	8	216,476	156,909
Deferred reinsurance commission	8	3,120	3,248
Accrued and other liabilities	11	25,487	33,212
Employee termination benefits	12	14,246	13,673
Payable to a related party	13	-	3,038
Total insurance operations' liabilities		435,776	410,016
Fair value reserve on available-for-sale investments	6	(483)	-
TOTAL INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED DEFICIT		435,293	410,016
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accrued zakat and income tax	15	3,985	4,448
Accrued and other liabilities	11	2,889	1,959
Due to insurance operations		52,309	12,896
Total shareholders' liabilities		59,183	19,303
Shareholders' equity			
Share capital	16	200,000	200,000
Accumulated deficit		(29,236)	(13,586)
Total shareholders' equity		170,764	186,414
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		229,947	205,717
TOTAL INSURANCE OPERATIONS' LIABILITIES AND ACCUMULATED DEFICIT AND SHAREHOLDERS' LIABILITIES AND EQUITY		665,240	615,733

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS - REISSUED

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
<b>REVENUES</b>			
Gross premiums written	13	427,790	952,228
Less: Reinsurance ceded	13	(73,862)	(123,544)
Net premiums written		353,928	828,684
Changes in unearned premiums	8	8,146	(30,423)
Net premiums earned	8	362,074	798,261
Reinsurance commissions	8, 13	9,951	17,024
Commission income		1,055	807
Total revenues		373,080	816,092
<b>COSTS AND EXPENSES</b>			
Gross claims paid	8, 13	298,432	732,552
Less: Reinsurers' share	8	(20,305)	(105,404)
Net claims paid		278,127	627,148
Changes in outstanding claims		(4,444)	4,440
Net claims incurred	8	273,683	631,588
Policy acquisition costs	8	40,779	78,477
General and administrative expenses	19	69,040	106,365
Total costs and expenses		383,502	816,430
Deficit from insurance operations		(10,422)	(338)
Shareholders' absorption of deficit from			
insurance operations	14	10,422	338
Net results from insurance operations' after			
absorption of deficit		-	-
Accumulated surplus, beginning of year / period		-	-
Accumulated surplus, end of year / period	14	-	-

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF SHAREHOLDERS' OPERATIONS - REISSUED

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Deficit transferred from insurance operations	14	(10,422)	(338)
Commission income	18	1,978	6,591
General and administrative expenses	19	(438)	(2,106)
Withholding taxes		(3,821)	(5,508)
Pre-incorporation expenses	21	-	(2,037)
Shareholders' net loss for the year / period		(12,703)	(3,398)
Weighted average number of outstanding shares	16	20 million	20 million
Basic and diluted loss per share (Saudi Riyals)	23	(0.635)	(0.170)

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS - REISSUED

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Shareholders' net loss for the year / period		(12,703)	(3,398)
Unrealized gain on available-for-sale investments	6	394	-
Zakat and income taxes	15	(3,341)	(4,650)
Total comprehensive loss for the year / period		(15,650)	(8,048)

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY - REISSUED

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Accumulated deficit	Total
Balance at January 1, 2011	16	200,000	(13,586)	186,414
Total comprehensive loss for the year		-	(15,650)	(15,650)
Balance at December 31, 2011		200,000	(29,236)	170,764
Balance at June 3, 2009		-	-	-
Share capital issued	16	200,000	-	200,000
Total comprehensive loss for the period		-	(8,048)	(8,048)
Initial Public Offering ("IPO") costs	20	-	(5,538)	(5,538)
Balance at December 31, 2010		200,000	(13,586)	186,414

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

(A Saudi joint stock company)

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS - REISSUED

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Cash flow from operating activities			
Net results from insurance operations		-	-
Adjustments to reconcile net results from insurance operations to net cash from operating activities:			
Shareholders' absorption of deficit from insurance operations	14	(10,422)	(338)
Depreciation	10	1,880	5,016
		(8,542)	4,678
Changes in operating assets and liabilities:			
Premiums and insurance balances receivable - net		26,257	41,968
Reinsurers' share of outstanding claims		(64,011)	12,307
Reinsurers' share of unearned premiums		(1,224)	1,551
Deferred policy acquisition costs		6,165	(6,357)
Other assets		1,092	(624)
Receivable from related party		(14,225)	-
Reinsurers' balances payable		(16,567)	(9,702)
Unearned premiums		(6,922)	28,872
Outstanding claims		61,270	(10,135)
Claims incurred but not reported and other reserve		(1,703)	2,268
Deferred reinsurance commission		(128)	(135)
Accrued and other liabilities		(7,725)	16,515
Employee termination benefits		573	4,843
Payable to a related party		(3,038)	5,154
Due from shareholders' operations		(28,991)	(12,558)
Net cash (used in) provided by operating activities		(57,719)	78,645
Cash flow from investing activities			
Purchase of furniture, fixtures and equipment	10	(2,769)	(4,201)
Available-for-sale investments		(41,361)	-
Cash and cash equivalents - portfolio transfer	1	-	117,772
Net cash (used in) provided by investing activities		(44,130)	113,571
Net change in cash and cash equivalents		(101,849)	192,216
Cash and cash equivalents, beginning of the year / period		192,216	-
Cash and cash equivalents, end of the year period	4	90,367	192,216
Supplemental cash flow information			
Non-cash investing activities -			
Available-for-sale investments transferred to a related party	13	-	(2,116)
Unrealized loss on available-for-sale investments	6	(483)	-
Available-for-sale investments transferred from shareholders' operations against due from shareholders' operations	6	35,323	-
Also see Note 1 for certain assets and liabilities acquired through portfolio transfer.			

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements.

AXA CO-OPERATIVE INSURANCE COMPANY

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STATEMENT OF SHAREHOLDERS' CASH FLOWS - REISSUED

(All amounts expressed in Saudi Riyals thousands unless otherwise stated)

	Note	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Cash flow from operating activities			
Shareholders' net loss for the year / period		(12,703)	(3,398)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:			
Absorption of deficit from insurance operations	14	10,422	338
		(2,281)	(3,060)
Changes in operating assets and liabilities:			
Other assets		(1,100)	(313)
Statutory deposit		-	(20,000)
Accrued and other liabilities		930	1,959
Zakat and income tax paid		(3,804)	(202)
Due to insurance operations		28,991	12,558
Net cash provided by (used in) operating activities		22,736	(9,058)
Cash flow from investing activities			
Short-term deposits		6,949	(72,655)
Available-for-sale investments		(5,554)	(7,000)
Net cash provided by (used in) investing activities		1,395	(79,655)
Cash flow from financing activities			
Share capital issued		-	200,000
IPO costs		-	(5,538)
Net cash provided by financing activities		-	194,462
Net increase in cash and cash equivalents		24,131	105,749
Cash and cash equivalents, beginning of the year / period		105,749	-
Cash and cash equivalents, end of the year / period	4	129,880	105,749
Supplemental cash flow information			
Non-cash operating activity -			
Zakat and income tax charged to shareholders' comprehensive operations	15	(3,341)	(4,650)
Non-cash investing activities -			
Unrealized loss on available-for-sale investments	6	394	-
Available-for-sale investments transferred to insurance operations against due to insurance operations	6	35,323	-

The accompanying notes from 1 to 26 form an integral part of these reissued financial statements.

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## **1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

### **General information**

AXA Co-operative Insurance Company (the "Company") is a Saudi joint stock company established in the Kingdom of Saudi Arabia by the Royal Decree No. M/36 dated 27 Jumada II 1429H (July 1, 2008) (date of inception). The Company was incorporated vide Ministerial Order No Q/192, dated 10 Jumada II 1430H, (June 3, 2009) (date of incorporation). The Company is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010271203 issued in Riyadh on 20 Rajab 1430H (July 13, 2009). The Company's registered address is P.O. Box 753, Riyadh 11421, Kingdom of Saudi Arabia.

The principal activities of the Company are to engage in cooperative insurance operations and all related activities including reinsurance activities under the Law of Supervision of Co-operative Insurance (the "Law") and the Company's bye-law and other regulations promulgated in the Kingdom of Saudi Arabia. The Company obtained licence from the Saudi Arabian Monetary Agency ("SAMA") to practice general and medical insurance and reinsurance business in the Kingdom of Saudi Arabia vide licence No. TMN/25/20101, dated 11 Safar 1431H (corresponding to January 26, 2010). The Company has commenced insurance operations on 4 Rabi' I 1431H (corresponding to February 18, 2010) after obtaining full product approval for certain products and temporary approval for the remaining products. Currently, the Company is in the process of obtaining full product approval for the remaining products from the regulators. Management believes that such approvals will be obtained in due course.

The Company had previously issued its financial statements for the year ended December 31, 2011 ("previous set of financial statements") without including certain assets and liabilities and operational results, as the process to transfer the insurance portfolio of AXA Insurance (Saudi Arabia) B.S.C. (c) (the "Seller") to the Company was subject to regulatory and shareholders' approval as of the date of issuance of previous set of financial statements. During fourth quarter of 2012, the Company received the required approvals for portfolio transfer with effect from January 1, 2009. Therefore, management has withdrawn the previous set of financial statements and has reissued these financial statements for the year ended December 31, 2011 after taking into account the effects of the portfolio transfer.

Also, management has withdrawn all previously issued financial statements since June 3, 2009 (date of ministerial resolution) through the date of approval of the portfolio transfer by the shareholders which are now being reissued after taking into account the effects of the portfolio transfer. Accordingly, the 2010 comparative financial information presented in accompanying financial statements has been restated after taking into account the effects of portfolio transfer.

### **Portfolio transfer**

The shareholders' of the Seller, at the time of formation of the Company, had principally agreed to transfer certain assets and liabilities as at January 1, 2009 and the insurance portfolio in the Kingdom of Saudi Arabia to the Company at a value to be determined by SAMA.

On 15 Dhul-Qadah 1433H (corresponding to October 1, 2012), SAMA approved the portfolio transfer, with effect from January 1, 2009, at a consideration of Saudi Riyals 106.57 million. Consequent to SAMA's approval, the Company has formally entered into a purchase agreement with the shareholders' of the Seller to effect the transfer. Also, the shareholders of the Company have approved the portfolio transfer at their Extra Ordinary General Assembly Meeting held on December 10, 2012.



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As per the valuation approved by SAMA, the value of assets and liabilities acquired through portfolio transfer from the Seller, as at January 1, 2009 are as follows:

INSURANCE OPERATIONS	January 1, 2009
<b>Assets</b>	
Cash and cash equivalents	117,772
Premiums and insurance balances receivable - net	178,694
Available-for-sale investments	2,116
Reinsurers' share of outstanding claims	34,938
Reinsurers' share of unearned premiums	22,098
Deferred policy acquisition costs	11,647
Other assets	2,214
Furniture, fixtures and equipment	4,973
<b>Total assets</b>	<b>374,452</b>
<b>Liabilities</b>	
Reinsurers' balances payable	29,699
Unearned premiums	151,067
Outstanding claims	164,776
Deferred reinsurance commission	3,383
Accrued and other liabilities	16,697
Employee termination benefits	8,830
<b>Total liabilities</b>	<b>374,452</b>

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The impact of such acquisition on the previously issued statements of financial position, insurance operations and shareholders' operations were as follows:

INSURANCE OPERATIONS	Amounts previously reported December 31, 2011	Reissued amounts December 31, 2011
Assets		
Cash and cash equivalents	84,698	90,367
Premiums and insurance balances receivable - net	107,615	110,469
Available-for-sale investments	34,840	40,878
Reinsurers' share of outstanding claims	71,380	86,642
Reinsurers' share of unearned premiums	21,771	21,771
Deferred policy acquisition costs	11,839	11,839
Other assets	-	1,746
Furniture, fixtures and equipment	-	5,047
Receivable from a related party	-	14,225
Due from shareholders' operation	38,513	52,309
Total assets	370,656	435,293
Liabilities and accumulated deficit		
Reinsurers' balances payable	10,808	3,430
Unearned premiums	173,023	173,017
Outstanding claims	160,870	216,476
Deferred reinsurance commission	3,120	3,120
Accrued and other liabilities	9,095	25,487
Employee termination benefits	14,078	14,246
Total liabilities transferred	370,994	435,776
Total insurance operations' deficit	(338)	(483)
Total liabilities and accumulated deficit	370,656	435,293

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SHAREHOLDERS' OPERATIONS	Amounts previously reported December 31, 2011	Reissued amounts December 31, 2011
Shareholders' assets		
Cash and cash equivalents	129,880	129,880
Short-term deposits	65,706	65,706
Available-for-sale investments	12,948	12,948
Statutory deposit	20,000	20,000
Other assets	1,413	1,413
	229,947	229,947
Total shareholders' assets		
Shareholders' liabilities		
Accrued zakat and income tax	2,803	3,985
Accrued and other liabilities	107	2,889
Payable to a related party	17,998	-
Due to insurance operations	38,513	52,309
Total shareholders' liabilities	59,421	59,183
Shareholders' equity		
Share capital	200,000	200,000
Accumulated deficit	(29,474)	(29,236)
Total shareholders' equity	170,526	170,764
Total shareholders' liabilities and equity	229,947	229,947

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**INSURANCE OPERATIONS**

	Amounts previously reported December 31, 2011	Reissued amounts December 31, 2011
<b>REVENUES</b>		
Gross premiums written	427,790	427,790
Less: Reinsurance ceded	(76,900)	(73,862)
Net premiums written	350,890	353,928
Changes in unearned premiums	9,781	8,146
Net premiums earned	360,671	362,074
Reinsurance commissions	9,784	9,951
Commission income	1,008	1,055
Total revenues	371,463	373,080
<b>COSTS AND EXPENSES</b>		
Gross claims paid	253,993	298,432
Less: Reinsurers' share	(16,366)	(20,305)
Net claims paid	237,627	278,127
Changes in outstanding claims	47,225	(4,444)
Net claims incurred	284,852	273,683
Policy acquisition costs	37,940	40,779
General and administrative expenses	68,857	69,040
Total costs and expenses	391,649	383,502
Deficit from insurance operations	(20,186)	(10,422)
Shareholders' absorption of deficit from insurance operations	20,186	10,422
Net results from insurance operations' after appropriation of surplus	-	-
Accumulated surplus, beginning of period	145	-
Accumulated surplus, end of period	145	-

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**SHAREHOLDERS' OPERATIONS**

	Amounts previously reported December 31, 2011	Reissued amounts December 31, 2011
Deficit transferred from insurance operations	(20,186)	(10,422)
Commission income	1,284	1,978
General and administrative expenses	(138)	(438)
Withholding taxes	(3,184)	(3,821)
Shareholders' net loss for the period	(22,224)	(12,703)

**2. Summary of significant accounting policies**

Significant accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied for all periods presented.

**2.1 Basis of preparation**

The Company has prepared the accompanying reissued financial statements under the historical cost convention on the accrual basis of accounting, as modified for the revaluation of available-for-sale investments at their fair values in the statement of financial position of insurance operations and shareholders' comprehensive operations, and in conformity with the International Financial Reporting Standards (IFRS). Accordingly, these financial statements are not intended to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia, i.e. in accordance with the standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

As required by the Law, the Company maintains separate accounts for insurance operations and shareholders' operations. The physical custody and title of all assets related to the insurance operations and shareholders' operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and board of directors of the Company.

As per the by-laws of the Company, surplus arising from the insurance operations is distributed as follows:

Transfer to shareholders' operations	90%
Transfer to insurance operations'	10%
	100%

**2.2 New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company**

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the financial statements.

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**2.2.1 Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company**

Interpretations, standards and amendments to standards:		Effective for annual periods beginning on or after
IAS 19	Employee benefits	January 1, 2013
IFRS 9	Financial instruments	January 1, 2013
IFRS 10	Consolidated financial statements	January 1, 2013
IFRS 11	Joint arrangements	January 1, 2013
IFRS 12	Disclosures of interest in other entities	January 1, 2013
IFRS 13	Fair value measurement	January 1, 2013
IAS 27	Separate financial statements (revised 2011)	January 1, 2013
IAS 28	Investments in associates and joint ventures (revised 2009)	January 1, 2013

The application of the above standards, interpretations and amendments are not expected to have material impact on the financial statements as and when they become effective.

**2.3 Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions 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. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and the Company's financial statements present fairly, in all material respects, the financial position and results of operations. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

**2.4 Segment reporting**

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 assets do not include premiums and insurance balances receivable, furniture, fixtures and equipment, other assets and due from shareholders' operations; and
- Segment liabilities do not include reinsurers' balances payable, accrued and other liabilities.

For management purposes, the Company is organized into business units based on their products and services and has the following reportable segments:

- Accident and liability;
- Motor;
- Property;
- Marine;
- Engineering;
- Health; and
- Protection

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## 2.5 Foreign currency translations

The Company's books of account are maintained in Saudi Riyals which is also the functional currency of the Company. Transactions denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at rates prevailing on the date of statement of financial position. All differences are taken to the statements of insurance operations or to the statement of shareholders' operations. Foreign exchange differences are not significant and have not been disclosed separately.

## 2.6 Financial assets

### 2.6.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale.

#### a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short-term or that it has designated as available-for-sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

#### b) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in commission rates, exchange rates or equity prices; these are designated as such at inception.

### 2.6.2 Recognition and measurement

Purchases and sale of available-for-sale investments are recognised on the trade-date, which is the date on which the Company commits to purchase or sell the investment. Available-for-sale investments are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Loans and receivable are carried at amortized costs using effective interest method. Changes in the fair value of available-for-sale investments are recognised in statements of shareholders' comprehensive operations and financial position for insurance operations.

Financial assets are derecognised when the rights to receive cash flows from the available-for-sale investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statements of the insurance operations or shareholders' comprehensive operations as 'gains and losses from available-for-sale investments'. Commission on available-for-sale investments calculated using the effective interest method is recognised in the income statement as part of other income.

### 2.6.3 Determination of fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants. Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established. Both are included in the commission income line.

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#### 2.6.4 Impairment of assets

##### (a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of insurance operations.

##### (b) Available-for-sale investments

The Company assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the statement of insurance / shareholders' operations. If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of insurance / shareholders' operations.

#### 2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with less than three months maturity from the date of acquisition.

#### 2.8 Short-term deposits

Short-term deposits comprise of time deposits with banks with maturity periods of less than one year and more than three months from the date of acquisition.

#### 2.9 Insurance receivables

Receivable from policy holders are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method (if the insurance receivable is due after one year), less impairment, if any.

#### 2.10 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.



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#### 2.11 Deferred policy acquisition costs

Commissions paid to intermediaries and other incremental direct costs incurred in relation to the acquisition and renewal of insurance contracts is recognized as "Deferred policy acquisition costs". The deferred policy acquisition costs are subsequently amortised over the terms of the insurance contracts.

#### 2.12 Claims

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

The Company generally estimates its claims based on previous experience. In addition, a provision based on management's judgement is maintained for the cost of settling claims incurred but not reported at the date of statement of financial position. Any difference between the provisions at the date of statement of financial position and settlements for the following period is included in the statement of insurance operations for that period.

#### 2.13 Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables, if any, that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

At each reporting date, the Company assesses whether there is any indication that any reinsurance assets may be impaired. Where an indicator of impairment exists, the Company makes an estimate of the recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount.

#### 2.14 Liability adequacy test

At each date of the statement of financial position 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 is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of insurance operations and an additional risk provision is created.

#### 2.15 Revenue recognition

##### (a) Recognition of premium and commission revenue

Gross premiums and commissions are recognized with the commencement of the insurance risks. The portion of premiums and commission that will be earned in the future is reported as unearned premiums and commissions, respectively, and are deferred on a basis consistent with the term of the related policy coverage.

Premiums earned on reinsurance assumed, if any, are recognised as revenue in the same manner as if the reinsurance premiums were considered to be gross premiums.

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(b) Commission income

Commission income from short-term deposits is recognized on a time proportion basis using the effective commission rate method.

(c) Dividend income

Dividend income is recognized when the right to receive a dividend is established.

2.16 Furniture, fixtures and equipment

Furniture, fixtures and equipments are carried at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the income statement, using the straight-line method, to allocate costs of the related assets to their residual values over the estimated useful lives.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

The carrying values of furniture, fixtures 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, being the higher of their fair values less costs to sell and their value in use.

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

2.17 Accrued and other liabilities

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

2.18 Payables

Payables are recognized initially at fair value and measured at amortized cost using effective interest rate method. Liabilities are recognized for amounts to be paid and services rendered, whether or not billed to the Company.

2.19 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the income statement. 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. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the labor law of Saudi Arabia.

2.20 De-recognition of financial instruments

The de-recognition 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.

2.21 Off-setting

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

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#### 2.22 Zakat and taxes

In accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"), the Company is subject to zakat attributable to the Saudi shareholders and to income tax attributable to the foreign shareholders. Provision for zakat and income tax is charged to the statement of shareholders' comprehensive operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties, including dividend payments to foreign shareholders, in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law. Withholding taxes paid on behalf of non-resident parties, which are not recoverable from such parties, are expensed.

#### 2.23 Pre-incorporation expenses

Pre-incorporation expenses are charged to the statement of shareholders' operations for the first financial period following the inception, unless such expenses have future benefits and in such a case, they will be amortised using a straight line basis over three to five years or their estimated periods of benefits, whichever is shorter.

#### 2.24 IPO costs

Expenses incurred in connection with the IPO of the Company are charged to shareholders' equity.

#### 2.25 Seasonality of operations

There are no seasonal changes that affect insurance operations.

#### 2.26 Surplus from insurance operations

In accordance with the requirements of the Implementing Regulations for Co-operative Insurance (the Regulations) issued by SAMA, 90% of the net surplus from insurance operations is transferred to the statement of shareholders' comprehensive income, while 10% of the net surplus is distributable to policyholders. Such surplus distributable to policyholders is disclosed under "Insurance operations' accumulated surplus".

### 3. Critical accounting estimates and judgments

The Company makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

The ultimate liability arise from claims under insurance contracts

Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under insurance policies. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported "IBNR" at the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions, if any, 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.

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**Impairment of premiums and insurance balances receivable**

An estimate of the uncollectible amount of premium receivable, if any, is made when collection of the full amount of the receivables as per the original terms of the insurance policy is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due and Company's past experience.

**Impairment of available-for-sale investments**

The Company treats available-for-sale 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 investments and the future cash flows and the discount factors for unquoted investments.

**4. Cash and cash equivalents**

	2011	2010
Insurance operations:		
Cash at bank and in hand	90,367	192,216
Shareholders' operations:		
Cash at bank and in hand	22,750	34
Time deposits	107,130	105,715
	129,880	105,749

Time deposits above represent time deposits with original maturities of less than three months.

The above balances under insurance operations include Saudi Riyals 5.7 million (December 31, 2010: Saudi Riyals 192.2 million) in current accounts held in the name of the Seller, for and on behalf of the Company and are in the process of being transferred to the Company.

**5. Premiums and insurance balances receivable**

	2011	2010
Receivable from policy holders	46,202	46,630
Receivable from insurance intermediaries	77,725	99,714
Receivable from reinsurers	5,722	3,368
	129,649	149,712
Provision for doubtful debts	(19,180)	(12,986)
Total	110,469	136,726

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Movement in provision for doubtful debts is as follows:

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Balance, beginning of the year / period	12,986	-
Portfolio transfer (Note 1)	-	18,057
Charge / (reversal) for the year / period	6,194	(5,071)
Balance, end of year / period	19,180	12,986

Receivables comprise a large number of customers, intermediaries and insurance companies mainly within the Kingdom of Saudi Arabia.

Ageing of receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired		
			91 to 180 days	181 to 360 days	More than 365 days
December 31, 2011	110,469	54,770	36,342	14,677	4,680
December 31, 2010	136,726	104,614	15,878	14,518	1,716

## 6. Available-for-sale investments

As at and for the year ended December 31, 2011

	Insurance operations	Shareholders' operations
Balance, January 1, 2011	-	7,000
Purchases / transfers from a related party	6,038	40,877
Transfer from shareholders' operations to insurance operations	35,323	(35,323)
Unrealized (loss) / gain	(483)	394
Balance, December 31, 2011	40,878	12,948

In addition to the above, 1,923,078 shares (7.692%) in Najam for Insurance Services (Najam), a Saudi Joint Stock Company were also transferred to the Company from the Seller at Nil value.

As at and for the year ended December 31, 2010

	Insurance operations	Shareholders' operations
Balance, June 3, 2009	-	-
Purchases / transfers from related party	-	7,000
Balance, December 31, 2010	-	7,000

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These represent investment in publically traded sukuk bonds and certain other publicly traded equity securities issued by various Saudi Arabian companies.

**7. Reinsurers' share of outstanding claims**

All amounts due from reinsurers are expected to be received within 12 months from the statement of financial position date.

**8. Movement in deferred policy acquisition costs, deferred reinsurance commission, unearned premiums and outstanding claims**

**a. Deferred policy acquisition costs**

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Balance, beginning of the year / period	18,004	-
Portfolio transfer (Note 1)	-	11,647
Incurred during the year / period	34,614	84,834
Amortized during the year / period	(40,779)	(78,477)
Balance, end of year / period	11,839	18,004

**b. Deferred reinsurance commission**

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Balance, beginning of the year / period	3,248	-
Portfolio transfer (Note 1)	-	3,383
Commission received during the year / period	9,823	16,889
Commission earned during the year / period	(9,951)	(17,024)
Balance, end of the year / period	3,120	3,248

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c. Unearned premiums

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Balance, beginning of the year / period	179,939	-
Portfolio transfer (Note 1)	-	151,067
Net premiums written during the period	353,928	828,684
Net premiums earned during the period	(362,074)	(798,261)
Changes in unearned premiums	171,793	181,490
Less: Reinsurers' share of unearned premiums - portfolio transfer (Note 1)	-	(22,098)
Less: Opening reinsurers share of unearned premium	(20,547)	-
Add: Closing reinsurers' share of unearned premiums	21,771	20,547
Balance, end of the year / period	173,017	179,939

d. Outstanding claims

Year ended December 31, 2011	Gross	Due from insurers	Net
Balance, beginning of year	121,109	(22,631)	98,478
Incurred but not reported	35,800	-	35,800
Claims paid during year	(298,432)	20,305	(278,127)
Claims incurred during year	357,999	(84,316)	273,683
Balance, end of the year	216,476	(86,642)	129,834
Outstanding claims, end of year	182,379	(86,642)	95,737
Incurred but not reported	34,097	-	34,097
Balance, end of the year	216,476	(86,642)	129,834

Period from June 3, 2009 to December 31, 2010	Gross	Due from insurers	Net
Balance, beginning of period	-	-	-
Outstanding claims - portfolio transfer (Note 1)	131,244	(34,938)	96,306
Incurred but not reported reserve - portfolio transfer (Note 1)	33,532	-	33,532
Claims paid during the period	(732,552)	105,404	(627,148)
Claims incurred during the period	724,685	(93,097)	631,588
Balance, end of the period	156,909	(22,631)	134,278

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Balance, beginning of period	Gross	Due from insurers	Net
Outstanding claims at the end of the period	121,109	(22,631)	98,478
Incurred but not reported	35,800	-	35,800
Balance, end of the period	156,909	(22,631)	134,278

## 9. Statutory deposit

In accordance with the Regulations for Companies, the Company is required to maintain a statutory deposit of not less than 10% of its paid-up capital. The statutory deposit is maintained with a Saudi Arabian bank and can be withdrawn only with the consent of SAMA.

## 10. Furniture, fixtures and equipment

2011	Furniture and fixtures	Equipment	Total
2011			
Cost			
January 1, 2011	3,567	5,607	9,174
Additions	1,168	1,601	2,769
December 31, 2011	4,735	7,208	11,943
Accumulated depreciation			
January 1, 2011	(3,049)	(1,967)	(5,016)
Charge during the year	(880)	(1,000)	(1,880)
December 31, 2011	(3,929)	(2,967)	(6,896)
Net book value			
December 31, 2011			5,047

2010	Furniture and fixtures	Equipment	Total
Cost			
Portfolio transfer (note 1)	2,441	2,532	4,973
Additions	1,126	3,075	4,201
December 31, 2010	3,567	5,607	9,174
Accumulated depreciation			
Charged during the period	(3,049)	(1,967)	(5,016)
December 31, 2010	(3,049)	(1,967)	(5,016)
Net book value			
December 31, 2010			4,158



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**11. Accrued and other liabilities**

	2011	2010
Insurance operations:		
Accrued salaries	2,718	4,020
Commission payable	5,967	10,455
Regulatory fee	2,302	2,568
Unclaimed cheques	13,447	6,245
Payable to vendors	-	3,765
Other	1,053	6,159
	25,487	33,212
Shareholders' operations:		
Directors' fees	555	845
Other	2,334	1,114
	2,889	1,959

**12. Employee termination benefits**

	2011	2010
Balance at the beginning of the year / period	13,673	-
Portfolio transfer (Note 1)	-	8,830
Employee termination benefits paid	(2,708)	(1,490)
Charge for the year / period	3,281	6,333
Balance, end of the year / period	14,246	13,673

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**13. Related party transactions and balances**

**a) Related party transactions**

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Gross premiums written	11,920	19,825
Net claims paid	1,604	4,620
Reinsurance ceded	37,649	31,020
Reinsurance commissions	5,952	536
Expenses charged by related parties	3,071	4,917
Directors' remuneration	1,310	446
Key management personnel	3,419	5,303
Available-for-sale investments transferred to a related party (also see note 1)	-	2,116

**b) Related party balances**

Receivable from / payable to a related party at December 31, 2011 and 2010 represents amount receivable from / payable to the Seller.

**14. Insurance operations' accumulated surplus**

In accordance with Implementing Regulations for Co-operative Insurance (the Regulations) issued by SAMA Regulations, 90% of the insurance operations' surplus for each year is required to be transferred to the shareholders' comprehensive operations. No such transfer for the year was made due to deficit from insurance operations.

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**15. Zakat and income tax matters**

(i) Provision for zakat and income tax

Provision for zakat has been made at 2.5% of approximate zakat base attributable to the Saudi shareholders of the Company. Income tax is payable at 20% of the adjusted net income attributable to the foreign shareholders of the Company.

Movements in provision for zakat and income tax as at December 31, 2011 and 2010 are as follows:

2011	Zakat	Income tax	Total
Balance, beginning of the year	3,782	666	4,448
Payments	(3,804)	-	(3,804)
Provision for the year	3,341	-	3,341
Balance, end of the year	3,319	666	3,985

2010			
Balance, beginning of the period	-	-	-
Payments	(202)	-	(202)
Provision for the period	3,984	666	4,650
Balance, end of the period	3,782	666	4,448

There are no significant deferred tax assets / liabilities as at December 31, 2011 and 2010.

(ii) Status of zakat and income tax certificate

The Company has received a final certificate for the period from June 3, 2009 (date of incorporation) to December 31, 2010. The Company has revised the provision for income tax to reflect the effect of operations transfer and is in the process of submitting a revised return.

**16. Share capital**

	2011	2010
Authorized		
20,000,000 shares of Saudi Riyals 10 each	200,000	200,000
Allotted, issued and fully paid		
20,000,000 shares of Saudi Riyals 10 each	200,000	200,000

**17. Statutory Reserve**

In accordance with the Regulations, the Company is required to transfer not less than 20% of its annual net income to a legal reserve until such reserve amounts to 100% of the paid up share capital of the Company. No such transfer has been made during the year due to net loss for the year.

**18. Commission income**

Commission income represents income earned from time deposits and short-term deposits.

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**19. General and administrative expenses**

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Insurance operations:		
Staff costs	41,233	85,081
Legal and professional fees	8,374	6,736
Business Travel	1,343	2,142
Printing and stationary	691	2,397
Provision for doubtful debts	6,194	(5,071)
Information technology	2,576	7,805
Other	8,629	7,275
	69,040	106,365
Shareholders' operations:		
Directors' fees and other expenses	438	437
Other	-	1,669
	438	2,106

**20. IPO costs**

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Consulting fees and verification charges	-	4,176
Lead manager, underwriter and receiving bank fees	-	1,150
Other	-	212
	-	5,538

**21. Pre-incorporation expenses**

	Year ended December 31, 2011	Period from June 3, 2009 to December 31, 2010
Consulting fees	-	636
Tadawul fees	-	509
Business promotion	-	684
Other	-	208
	-	2,037

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## 22. Risk management

### 22.1 Risk governance

The Company 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 of Directors of the Company. The Company is exposed to credit, liquidity, market and operational risks.

#### Risk management structure

##### 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.

##### Audit Committee and Internal Audit Department

The Internal Audit Department performs risk assessments with senior management annually. The Internal Audit Department examines both adequacy of procedures and the Company's compliance with the procedures through regular audits. Audit Findings and recommendations are reported directly to the Audit Committee.

##### Risk Management Committee

The Audit Committee of the Company has constituted a risk management committee which oversees the risk management function of the Company and report to Audit Committee on periodic basis. This Committee operates under framework established by the Board of Directors.

##### 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 summarised below.

### 22.2 Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claim payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, structured claims management, quarterly review of reserves as well as the use of reinsurance arrangements.

### 22.3 Accident, liability and motor

#### Accident and liability

The accident category includes personal accident, money insurance, business all risk insurance and business travel insurance. Liability insurance includes general third-party liability, product liability and workmen's compensation/employer's liability protection arising out of acts of negligence during their business operations.

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## Motor

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

For accident, liability and motor policies the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has well developed risk acceptance procedures based on critical underwriting factors such as driver's age, driving experience and nature of vehicle to control the quality of risks that it accepts. It also has risk management procedures in place to control the costs of claims.

### 22.4 Property

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

Significant risks underwritten by the Company under this class are physically inspected by qualified risk engineers to make sure adequate fire protection and security is in place. Also, the Company tracks for the potential of risk accumulation.

### 22.5 Marine

Marine insurance solutions are mainly designed to compensate policyholders from accidents at sea, on land and in the air resulting in the total or partial loss to goods and/or merchandise (cargo insurance).

The underwriting strategy for the marine class of business is to ensure that coverage is provided based on the quality of vessels used and shipping routes followed. Vessel details are validated through international agencies while making the underwriting decisions.

### 22.6 Engineering

Engineering covers two principal types as summarized below:

- (i) "Contractors all risk" insurance offering cover during erection or construction of buildings or civil engineering works such as houses, shops, blocks of flats, factory buildings, roads, buildings, roads, bridges, sewage works and reservoirs; and
- (ii) "Erection all risk" insurance offering cover during the erection or installation of plant and machinery such as power stations, oil refineries, chemical works, cement works, metallic structures or any factory with plant and machinery.

The Engineering line of business also includes machinery breakdown insurance and electronic equipment insurance.

Significant risks underwritten by the Company under this class are physically inspected to make sure adequate fire protection, security and project management is in place.

### 22.7 Health and protection

Health insurance is designed to cover the medical expenses incurred as a result of a disease or an illness or an injury. The policy seeks to provide the policyholder and their employees with access to good medical facilities and the latest treatments and technologies, subject to the terms of the relevant policy and the policyholders' personal circumstances.

Protection insurance covers the risks of death or disability following accident or illnesses and compensates the member or dependents in event of loss.

The main risk the Company faces on health and protection insurance is an increase of medical costs which can be more than expected or increase in claims due to exceptional events like outbreak of pandemic diseases. The underwriting strategy includes management of exposures and concentrations within acceptable risk appetite and risk tolerance levels and optimization of reinsurance strategies through a combination of reinsurance cession with approved and well-rated reinsurers and retrocession arrangements. The Company's centralized claims management platform controls and manages its medical insurance claims.

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#### 22.8 Reinsurance risk

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

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers. The Company only deals with reinsurers approved by the Board of Directors of the Company. The criteria may be summarized as follows:

- a) Minimum acceptable credit rating by agencies that is not lower than BBB;
- b) Reputation of particular reinsurance companies; and
- c) Existing or past business relationships.

Furthermore, the financial strengths and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company before placement of reinsurance.

#### 22.9 Regulatory framework risk

The operations of the Company are subject to regulatory requirements in 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 minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

In management's opinion, the Company has complied with all such regulatory requirements.

#### 22.10 Financial risk

The Company's principal financial assets and liabilities are cash and cash equivalents, available-for-sale investment, statutory deposit, premium and insurance balances receivable, receivable from a related party and accrued and other liabilities.

The main risks arising from the Company's financial instruments are commission rate risk, credit risk, liquidity risk and market price risks. The audit committee appointed by the Board of Directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

##### Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company is exposed to commission rate risk on its time deposits, short-term deposit and available-for-sale investment. The Company limits commission rate risk by monitoring changes in commission rates. The Company does not have any interest bearing liabilities.

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Effective commission rates of the Company's investments and their maturities as at December 31, 2011 and 2010 are as follows:

2011	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Effective rate of commission		
Insurance operations					
Cash and cash equivalents	90,367	-	0.9%	-	90,367
Available-for-sale investments	40,878	-	-	-	40,878
December 31, 2011	131,245	-		-	131,245
Shareholders' operations					
Cash and cash equivalents	129,880	-	0.90%	-	129,880
Short-term deposits	65,706	-	1.00%	-	65,706
Available-for-sale investments	12,948	-	-	-	12,948
Statutory deposit	20,000	-	0.81%	-	20,000
December 31, 2011	228,534	-		-	228,534

2010	Commission bearing			Non-commission bearing	Total
	Less than 1 year	1 to 5 years	Effective rate of commission		
Insurance operations					
Cash and cash equivalents	192,216	-	0.9%	-	192,216
December 31, 2010	192,216	-		-	192,216
Shareholders' operations					
Cash and cash equivalents	105,749	-	0.90%	-	105,749
Short-term deposits	72,655	-	0.90%	-	72,655
Available-for-sale investments	7,000	-	0.90%	-	7,000
Statutory deposit	20,000	-	0.81%	-	20,000
December 31, 2010	205,404	-		-	205,404

There is no significant difference between contractual re-pricing and maturity dates.

The following table demonstrates the sensitivity of statements of shareholders' comprehensive operations and shareholders' equity to reasonably possible change in commission rates of the Company's deposits, with all other variables held constant:

Currency	Change in variable	Impact on net income	
		2011	2010
Saudi Riyals	+ 50 basis points	1,503	1,953
Saudi Riyals	- 50 basis points	(1,503)	(1,953)



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**22.11 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.

The Company only enters into insurance and reinsurance contracts with recognised and credit worthy 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 limits its credit risk with regard to time deposits by dealing with reputed banks only.

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.

There are no significant concentrations of credit risk within the Company.

**Maximum exposure to credit risk**

The Company's maximum exposure to credit risk on its financial assets at December 31, 2011 is Saudi Riyals 560.1 million (December 31, 2010: 560.1 million).

The table below shows the components of the statement of financial position of the Company at December 31, 2011 and 2010 exposed to credit risk:

	2011	2010
Insurance operations' assets		
Cash and cash equivalents	90,367	192,216
Available-for-sale investments	40,878	-
Premiums and insurance balances receivable - net	110,469	136,726
Reinsurers' share of outstanding claims, net	86,642	22,631
Other assets	1,746	2,838
	330,102	354,411
Shareholders' assets		
Cash and cash equivalents	129,880	105,749
Short-term deposits	65,706	72,655
Available-for-sale investments	12,948	7,000
Statutory deposit	20,000	20,000
Other assets	1,413	313
	229,947	205,717
Total	560,049	560,128

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties. Investment grade is considered to be the highest possible rating. Assets falling outside the range of investment grade are classified as non investment grade (satisfactory) or past due but not impaired.

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**Insurance operations' financial assets as at 31 December 2011**

	Investment grade	Non Investment grade		Total
		Satisfactory	Past due but not impaired	
Premiums and reinsurance balance receivable - net	-	54,770	55,699	110,469
Reinsurers' share of outstanding claims	-	86,642	-	86,642
Other assets	-	1,746	-	1,746
Available-for-sale investments	40,878	-	-	40,878
Cash and cash equivalents	90,367	-	-	90,367
	131,245	143,158	55,699	330,102

**Insurance operations' financial assets as at 31 December 2010**

	Investment grade	Non investment grade		Total
		Satisfactory	Past due but not impaired	
Premiums and reinsurance balance receivable - net	-	104,614	32,112	136,726
Reinsurers' share of outstanding claims	-	22,631	-	22,631
Other assets	-	2,838	-	2,838
Cash and cash equivalents	192,216	-	-	192,216
	192,216	130,083	32,112	354,411

**Shareholders' financial assets as at 31 December 2011**

	Investment grade	Non investment grade		Total
		Satisfactory	Past due but not impaired	
Statutory deposit	20,000	-	-	20,000
Other assets	-	1,413	-	1,413
Short-deposits	65,706	-	-	65,706
Available-for-sale investments	12,948	-	-	12,948
Cash and cash equivalents	129,880	-	-	129,880
	228,534	1,413	-	229,947

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**Shareholders' financial assets as at 31 December 2010**

	Investment grade	Non investment grade		Total
		Satisfactory	Past due but not impaired	
Statutory deposit	20,000	-	-	20,000
Other assets	-	313	-	313
Short-deposits	72,655	-	-	72,655
Available-for-sale investments	7,000	-	-	7,000
Cash and cash equivalents	105,749	-	-	105,749
	205,404	313	-	205,717

**22.12 Liquidity risk**

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with insurance contracts. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Management monitors liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise. The Company has sufficient liquidity and, therefore, does not resort to borrowings in the normal course of business.

Significantly all the financial liabilities of the Company are due within one year of the date of the statement of financial position.

The table below summarizes the maturities of the Company's undiscounted contractual obligations at December 31, 2011 and 2010. As the Company does not have any commission bearing liabilities, the amounts in the table match the amounts in the statement of financial position:

	Less than 12 months		More than 12 months		Total	
	2011	2010	2011	2010	2011	2010
<b>Insurance operations' liabilities</b>						
Reinsurers' balances payable	3,430	19,997	-	-	3,430	19,997
Outstanding claims	216,476	156,909	-	-	216,476	156,909
Employee termination benefits	14,246	13,673	-	-	14,246	13,673
Payable to a related party	-	3,038	-	-	-	3,038
Accrued expenses and other liabilities	25,487	33,212	-	-	25,487	33,212
	259,639	226,829	-	-	259,639	226,829
<b>Shareholders' liabilities</b>						
Accrued expenses and other liabilities	2,889	1,959	-	-	2,889	1,959
	262,528	228,788	-	-	262,528	228,788

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22.13 Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company's financial instruments are not exposed to market risk. Market risk is limited by investing in companies with good credit rating. In addition the key factors that affect market are monitored, including operational and financial performance of the Company.

22.14 Currency risk

The Company's exposure to foreign currency risk is limited to United States Dollars which is pegged against Saudi Riyals. Management believes that currency risk to the Company is not significant.

22.15 Capital risk management

The Company's objectives when managing capital are:

- To comply with the insurance capital requirements as set out in the Law. The Company's current paid-up share capital is in accordance with Article 3 of the Law;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

As per Article 66 of the Regulations, the Company shall maintain solvency margin equivalent to the highest of the following three methods:

- Minimum capital requirement of Saudi Riyals 200 million
- Premium solvency margin
- Claims solvency margin

As an exception to the above, the Company shall comply with the minimum solvency margin calculated as per "Premium solvency margin" method for the first three years from the Company's registration. The Company is in compliance with the required margin of solvency as of December 31, 2011.

22.16 Fair value of financial assets and 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. The fair values of the Company's financial instruments are not materially different from their carrying values.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, receivables, investments, accrued income and financial liabilities consisting of payables and accrued expenses.

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

**Determination of fair value and fair value 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 identical assets or liabilities (i.e. without modification or repacking).

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

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

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The table below presents the financial instruments at their fair values as at December 31, 2011 and 2010 based on the fair value hierarchy:

2011	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Insurance operations	40,878	-	-	40,878
Shareholders' operations	12,948	-	-	12,948
2010	Level 1	Level 2	Level 3	Total
Available-for-sale investments:				
Shareholders' operations	7,000	-	-	7,000

### 23. Loss per share

Basic and diluted loss per share for the year / period ended December 31, 2011 and 2010 has been computed by dividing the shareholders' net loss for such year / period by the weighted average number of shares outstanding during such year / period.

### 24. Contingencies

Contingent consideration payable to the Seller

As stated in Note 1, the Company acquired the insurance portfolio from the Seller at a consideration based on SAMA's instructions. Settlement of such consideration can only be made upon fulfilling certain conditions dictated by SAMA which include, among others, the following:

- Maintenance of required solvency margin and minimum share capital;
- Restriction on repayment upto a maximum of 50% of the profit earned in the current year;
- Restriction on settlement in the year of loss or out of retained earnings; and
- Limitation on duration within which payment of consideration can be made.

Considering the above conditions, restated financial performance and the Company's future business plans, management believes that the Company will not be required to repay the consideration. Accordingly, the consideration of Saudi Riyals 106.57 million is disclosed as a contingent liability. Management will however, reassess the conditions for settlement of the consideration at each balance sheet date during the period in which payment can be made and will recognize a liability, if required.

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**25. Segment reporting**

Insurance operations for the period ended December 31, 2011:

2011	General and medical									Grand Total
	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	
Gross premiums written	19,650	48,340	52,529	35,940	23,105	3,271	230,182	413,017	14,773	427,790
Less: reinsurance ceded	(2,259)	(1,398)	(43,452)	(12,294)	(8,228)	(598)	(4,179)	(72,408)	(1,454)	(73,862)
Net premiums written	17,391	46,942	9,077	23,646	14,877	2,673	226,003	340,609	13,319	353,928
Changes in unearned premiums	(1,032)	339	(165)	(964)	(2,983)	3,031	12,816	11,042	(2,896)	8,146
Net premiums earned	16,359	47,281	8,912	22,682	11,894	5,704	238,819	351,651	10,423	362,074
Reinsurance commissions	290	6	5,848	1,966	832	22	728	9,692	259	9,951
Total revenue	16,649	47,287	14,760	24,648	12,726	5,726	239,547	361,343	10,682	372,025
Gross claims paid	1,406	58,186	15,683	5,655	1,947	3,216	207,269	293,362	5,070	298,432
Less: reinsurers' share	0	(5)	(10,019)	(2,239)	(733)	(626)	(5,950)	(19,572)	(733)	(20,305)
Net claims paid	1,406	58,181	5,664	3,416	1,214	2,590	201,319	273,790	4,337	278,127
Changes in outstanding claims	(1,083)	(27,651)	4,640	313	785	325	16,117	(6,554)	2,110	(4,444)
Net claims incurred	323	30,530	10,304	3,729	1,999	2,915	217,436	267,236	6,447	273,683
Policy acquisition costs	1,543	4,563	5,239	3,064	2,733	(2,674)	19,718	34,186	6,593	40,779
Operating and administrative salaries	1,368	5,310	939	2,552	1,385	1,268	23,935	36,757	4,476	41,233
Other general and administrative expenses	845	3,497	366	1,648	1,089	838	17,678	25,961	1,846	27,807
Total costs and expenses	4,079	43,900	16,848	10,993	7,206	2,347	278,767	364,140	19,362	383,502
Surplus from insurance operations										(11,477)
Commission income										1,055
Insurance operations' surplus transferred to shareholders' operations										10,422
Accumulated surplus, beginning of period										-
Accumulated surplus, end of period										-

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**25. Segment reporting (continued)**

Insurance operations for the period ended December 31, 2010:

General and medical										
2010	Accident and Liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Gross premiums written	14,574	112,190	52,099	30,233	15,215	6,243	219,001	449,555	12,432	461,987
Less: reinsurance ceded	(1,559)	(1,607)	(34,994)	(12,430)	(7,545)	(495)	(3,568)	(62,198)	(873)	(63,071)
Net premiums written	13,015	110,583	17,105	17,803	7,670	5,748	215,433	387,357	11,559	398,916
Changes in unearned premiums	(729)	(2,618)	(833)	(301)	899	436	(7,454)	(10,600)	(168)	(10,768)
Net premiums earned	12,286	107,965	16,272	17,502	8,569	6,184	207,979	376,757	11,391	388,148
Reinsurance commissions	212	20	5,600	1,869	692	43	79	8,515	-	8,515
Total Revenue	12,498	107,985	21,872	19,371	9,261	6,227	208,058	385,272	11,391	396,663
Gross claims paid	2,179	110,779	56,820	32,617	2,279	1,535	188,937	395,146	11,120	406,266
Less: reinsurers' share	(40)	(412)	(46,678)	(26,917)	(614)	(19)	(1,167)	(75,847)	(3,862)	(79,709)
Net claims paid	2,139	110,367	10,142	5,700	1,665	1,516	187,770	319,299	7,258	326,557
Changes in outstanding claims	473	(4,879)	(4,666)	(7,864)	(771)	942	(19,202)	(35,967)	(465)	(36,432)
Net claims incurred	2,612	105,488	5,476	(2,164)	894	2,458	168,568	283,332	6,793	290,125
Policy acquisition costs	1,545	6,104	5,387	2,934	1,797	2,940	17,950	38,657	1,699	40,356
Operating and administrative Salaries	1,168	10,262	1,547	1,664	814	588	21,384	37,427	1,082	38,509
Other general and administrative expenses	636	5,591	843	906	444	320	10,771	19,511	591	20,102
Total costs and expenses	5,961	127,445	13,253	3,340	3,949	6,306	218,673	378,927	10,165	389,092
Surplus from insurance operations										7,571
Commission income										462
Insurance operations' surplus transferred to shareholders' income										(8,033)
Accumulated surplus, beginning of the period										-
Accumulated surplus, end of period										-

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**25. Segment reporting (continued)**

Insurance operations' financial position as of December 31, 2011:

General and medical										
2011	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of outstanding claims	3,499	284	61,969	5,990	13,478	-	368	85,588	1,054	86,642
Reinsurers' share of unearned premiums	205	92	15,320	1,353	3,682	747	80	21,479	292	21,771
Deferred policy acquisition costs	489	1,263	1,605	458	561	55	7,408	11,839	-	11,839
Unallocated assets										315,041
Total insurance operations' assets										435,293
Insurance operations' liabilities										
Unearned premiums	4,700	12,330	21,627	4,856	11,576	4,043	109,897	169,029	3,988	173,017
Outstanding claims	3,027	39,050	84,587	18,739	12,804	3,118	49,857	211,182	5,294	216,476
Deferred reinsurance commission	-	10	2,431	287	260	116	16	3,120	-	3,120
Unallocated liabilities										43,163
Total insurance operations' liabilities										435,776



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**25. Segment reporting (continued)**

Insurance operations' financial position as of December 31, 2010:

General and medical										
2010	Accident and liability	Motor	Property	Marine	Engineering	Other general insurance	Health	Total	Protection	Grand Total
Insurance operations' assets										
Reinsurers' share of outstanding claims	3,472	1,064	1,222	5,254	10,081	217	551	21,861	770	22,631
Reinsurers' share of unearned premiums	345	91	13,042	1,349	2,335	231	2,883	20,276	271	20,547
Deferred policy acquisition costs	613	1,329	2,351	392	746	135	11,832	17,398	606	18,004
Unallocated assets										348,834
Total insurance operations' assets										410,016
Insurance operations' liabilities										
Unearned premiums	4,118	12,667	19,184	3,889	6,958	3,152	125,288	175,256	4,683	179,939
Outstanding claims	3,694	66,685	14,573	17,615	17,216	345	32,867	152,995	3,914	156,909
Deferred reinsurance commission	81	-	2,665	295	191	16	-	3,248	-	3,248
Unallocated liabilities										69,920
Total insurance operations' liabilities										410,016

**26. Date of approval**

These reissued financial statements were approved by the Company's Board of Directors on, 2013.

