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**SAUDI REINSURANCE COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

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

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Saudi Reinsurance Company (A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND AUDITORS' REPORT

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For The Year Ended 31 December 2011

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**AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF SAUDI REINSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**SCOPE OF AUDIT:**

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

**UNQUALIFIED OPINION:**


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

- Present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
- 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 A MATTER:**

The management has prepared these financial statements in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia as presented in note (2).

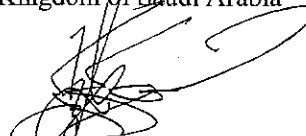
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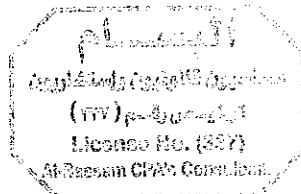
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Ibrahim A. Al Bassam  
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28 Rabi Al-Awwal 1433 H  
20 February 2012

**Saudi Reinsurance Company (A Saudi Joint Stock Company)**

**STATEMENT OF FINANCIAL POSITION**

**As At 31 December 2011**

	Notes	31 December 2011 SR	31 December 2010 SR
<b><u>INSURANCE OPERATIONS' ASSETS</u></b>			
Cash and cash equivalents	6	8,293,673	3,935,529
Investments held at fair value through income statement	14	44,644,961	-
Premiums receivable	7	19,126,852	10,641,763
Accrued insurance premiums		53,148,018	28,750,649
Retroceded share of unearned premiums	8	24,836,358	34,253,299
Retroceded share of outstanding claims	9	86,634,442	39,410,609
Deferred acquisition costs	10	19,842,071	14,352,440
Deferred excess of loss premiums		10,316,395	1,105,136
Prepaid expenses and other assets	11	238,160	329,975
Due from shareholders' operations		14,017,816	26,734,061
Property and equipment, net	12	2,332,994	2,345,905
<b>TOTAL REINSURANCE OPERATIONS' ASSETS</b>		<b>283,431,740</b>	<b>161,859,366</b>
<b><u>SHAREHOLDERS' ASSETS</u></b>			
Cash and cash equivalents	6	140,053,940	1,168,051
Time deposits	13	258,438,845	403,925,060
Accrued special commission income from time deposits		1,900,346	5,697,284
Accrued special commission income from bonds		2,987,001	2,996,077
Investments held at fair value through income statement	14	256,000,702	307,400,220
Held to maturity investments	15	209,791,799	211,322,003
Statutory deposit	25	100,000,000	100,000,000
Other assets		3,036,627	1,757,379
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>972,209,260</b>	<b>1,034,266,074</b>
<b>TOTAL ASSETS</b>		<b>1,255,641,000</b>	<b>1,196,125,440</b>
<b><u>REINSURANCE OPERATIONS' LIABILITIES</u></b>			
Retrocession balances payable		24,722,282	15,362,298
Accrued retroceded premiums		14,196,773	16,024,650
Gross unearned premiums	8	81,351,095	54,120,481
Gross outstanding claims	9	146,505,565	57,170,229
Unearned commission income	16	6,926,491	10,409,218
Accrued expenses and other liabilities	17	8,790,916	7,825,791
Employees' end of service benefits		938,618	946,699
<b>TOTAL REINSURANCE OPERATIONS' LIABILITIES</b>		<b>283,431,740</b>	<b>161,859,366</b>
<b><u>SHAREHOLDERS' LIABILITIES AND EQUITY</u></b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Provision for zakat and income tax	18	25,163,344	21,359,836
Due to reinsurance operations		14,017,816	26,734,061
Other liabilities		3,036,627	1,757,379
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>42,217,787</b>	<b>49,851,276</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	1,000,000,000	1,000,000,000
Statutory reserve	20	6,070,924	6,070,924
Accumulated deficit		(76,079,451)	(21,656,126)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>929,991,473</b>	<b>984,414,798</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>972,209,260</b>	<b>1,034,266,074</b>
<b>TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>1,255,641,000</b>	<b>1,196,125,440</b>

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

**Saudi Reinsurance Company (A Saudi Joint Stock Company)**

**STATEMENT OF REINSURANCE OPERATIONS**

For The Year Ended 31 December 2011

	Notes	2011 SR	2010 SR
Gross premiums written	8	159,609,384	107,475,185
Retroceded premiums	8	(55,085,541)	(66,982,564)
Excess of loss expenses		(12,990,125)	(1,622,671)
<b>Net premiums written</b>		<b>91,533,718</b>	<b>38,869,950</b>
Change in net unearned premiums	8	(36,647,555)	(11,387,977)
<b>Net premiums earned</b>		<b>54,886,163</b>	<b>27,481,973</b>
Net claims paid	27	(16,340,515)	(8,221,921)
Change in net outstanding claims	9	(42,111,503)	(10,963,958)
Gross acquisition costs	10	(34,107,510)	(20,784,687)
Commissions on retroceded business	16	19,590,997	15,822,756
Supervision and inspection fees		(952,650)	(429,006)
<b>Net underwriting results</b>		<b>(19,035,018)</b>	<b>2,905,157</b>
Unrealized gains on investments held at fair value through income statement	14	303,091	-
General and administrative expenses	21	(36,268,270)	(24,250,978)
Board of directors' remunerations and expenses	22	(284,350)	(589,635)
<b>Net deficit from reinsurance operations</b>	<b>26</b>	<b>(55,284,547)</b>	<b>(21,935,456)</b>
Net deficit transferred to the statement of shareholders' operations		55,284,547	21,935,456
<b>Net result for the year</b>		<b>-</b>	<b>-</b>

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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' OPERATIONS

For The Year Ended 31 December 2011

	Notes	2011 SR	2010 SR
Special commission income from time deposits		8,625,201	12,165,258
Special commission income from bonds		9,245,476	8,190,186
Realized gains on investments held at fair value through income statement	14	3,468,229	1,654,717
Unrealized gains on investments held at fair value through income statement	14	552,211	2,915,876
Foreign exchange translation losses		(614,010)	(2,907,372)
Other expenses		(298,439)	(26,932)
Net deficit transferred from reinsurance operations		(55,284,547)	(21,935,456)
<b>Net (loss) / income for the year</b>		<b>(34,305,879)</b>	<b>56,277</b>
<b>Basic and diluted (loss) / earnings per share for the year</b>	24	<b>(0.343)</b>	<b>0.001</b>
<b>Weighted average number of issued shares during the year</b>		<b>100,000,000</b>	<b>100,000,000</b>

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

Saudi Reinsurance Company (A Saudi Joint Stock Company)  
**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS**  
For The Year Ended 31 December 2011

	2011	2010
Note	SR	SR
Net (loss) / income for the year	(34,305,879)	56,277
Other comprehensive expenses:		
Zakat and income tax	18 (20,117,446)	(21,274,079)
Total comprehensive loss for the year	<u>(54,423,325)</u>	<u>(21,217,802)</u>



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

**Saudi Reinsurance Company (A Saudi Joint Stock Company)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For The Year Ended 31 December 2011**

	Notes	GCC Founding Shareholders and General Public				Non - GCC Founding Shareholders				Total			
		Share capital	Statutory reserve	Accumulated deficit	SR	Share capital	Statutory reserve	Retained earnings / (Accumulated deficit)	SR	Share capital	Statutory reserve	Accumulated deficit	SR
Balance as at 1 January 2010	19	941,000,000	5,712,740	(1,510,904)		59,000,000	358,184	1,072,590		1,000,000,000	6,070,924	(438,324)	1,005,632,600
Net income for the year		-	-	52,957		-	3,320			-	-	56,277	56,277
Zakat and income tax	18	-	-	(21,273,415)		-	(654)			-	-	(21,274,079)	(21,274,079)
Balance as at 31 December 2010		941,000,000	5,712,740	(22,731,362)		59,000,000	358,184	1,075,236		1,000,000,000	6,070,924	(21,656,126)	984,414,798
Balance as at 1 January 2011	19	941,000,000	5,712,740	(22,731,362)		59,000,000	358,184	1,075,236		1,000,000,000	6,070,924	(21,656,126)	984,414,798
Net loss for the year		-	-	(32,281,832)		-	(2,024,047)			-	-	(34,305,879)	(34,305,879)
Zakat and income tax	18	-	-	(20,117,446)		-	-			-	-	(20,117,446)	(20,117,446)
Balance as at 31 December 2011		941,000,000	5,712,740	(75,130,640)		59,000,000	358,184	(948,811)		1,000,000,000	6,070,924	(76,079,451)	929,991,473

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



**Saudi Reinsurance Company (A Saudi Joint Stock Company)**  
**STATEMENT OF REINSURANCE OPERATIONS' CASH FLOWS**  
**For The Year Ended 31 December 2011**

	Note	2011 SR	2010 SR
<b>OPERATING ACTIVITIES</b>			
Net result for the year		-	-
Adjustments for:			
Employees' end of service benefits		602,179	363,072
Depreciation		836,093	1,010,071
Unrealized gains on investments held at fair value through income statement		(303,091)	-
Gains from disposal of property and equipment		(146,695)	-
Net deficit transferred to the statement of shareholders' operations		(55,284,547)	(21,935,456)
Operating deficit before changes in operating assets and liabilities		(54,296,061)	(20,562,313)
<b>Changes in operating assets and liabilities:</b>			
Premiums receivable		(8,485,089)	2,470,531
Accrued insurance premiums		(24,397,369)	(16,494,279)
Retroceded share of unearned premiums		9,416,941	(14,285,130)
Retroceded share of outstanding claims		(47,223,833)	(24,150,608)
Deferred acquisition costs		(5,489,631)	(6,865,661)
Deferred excess of loss premiums		(9,211,259)	(398,897)
Prepaid expenses and other assets		91,815	262,195
Due from shareholders' operations		41,258,922	6,957,529
Retrocession balances payable		9,359,984	(1,881,107)
Accrued retroceded premiums		(1,827,877)	7,983,006
Gross unearned premiums		27,230,614	25,673,107
Gross outstanding claims		89,335,336	35,114,561
Unearned commission income		(3,482,727)	4,280,642
Accrued expenses and other liabilities		965,125	3,326,605
Employees' end of service benefits paid		(610,260)	(26,322)
Net cash from operating activities		22,634,631	1,403,864
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(826,487)	(185,045)
Proceeds from disposal of property and equipment		150,000	-
Investments held at fair value through income statement		(17,600,000)	-
Net cash used in investing activities		(18,276,487)	(185,045)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>			
		4,358,144	1,218,819
Cash and cash equivalents at the beginning of the year		3,935,529	2,716,710
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>6</b>	<b>8,293,673</b>	<b>3,935,529</b>
<b>Non - cash transactions:</b>			
Transfer of investments held at fair value through income statement from shareholders' operations		26,741,870	-

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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For The Year Ended 31 December 2011

	Note	2011 SR	2010 SR
<b>OPERATING ACTIVITIES</b>			
Net (loss) / income for the year		(34,305,879)	56,277
Adjustments for:			
Realized gains on investments held at fair value through income statement		(3,468,229)	(1,654,717)
Unrealized gains on investments held at fair value through income statement		(552,211)	(2,915,876)
Net deficit transferred to the statement of shareholders' operations		55,284,547	21,935,456
Operating deficit before changes in operating assets and liabilities		16,958,228	17,421,140
<b>Changes in operating assets and liabilities:</b>			
Due to reinsurance operations		(41,258,922)	(6,957,529)
Other assets		(1,279,248)	(1,076,545)
Other liabilities		1,279,248	1,076,545
Zakat and income tax paid		(16,313,938)	(24,116,243)
<b>Net cash used in operating activities</b>		<b>(40,614,632)</b>	<b>(13,652,632)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from investments held at fair value through income statement		470,851,315	794,003,090
Accrued special commission income from time deposits		3,796,938	160,339
Accrued special commission income from bonds		9,076	(1,810,870)
Investments held at fair value through income statement		(442,173,227)	(523,200,000)
Time deposits, net		145,486,215	(160,661,455)
Held to maturity investments		1,530,204	(95,615,725)
<b>Net cash from investing activities</b>		<b>179,500,521</b>	<b>12,875,379</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>138,885,889</b>	<b>(777,253)</b>
Cash and cash equivalents at the beginning of the year		1,168,051	1,945,304
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	6	<b>140,053,940</b>	<b>1,168,051</b>
<b>Non - cash transactions:</b>			
Transfer of investments held at fair value through income-statement to reinsurance operations		(26,741,870)	-

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2011

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Reinsurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 1010250125 dated 12 Jumad Al-Awal 1429H (corresponding to 17 May 2008). The address of the Company's registered office is at P.O. Box 300259, Riyadh 11372, 6<sup>th</sup> Floor, Bahrain Towers, King Fahd Road, Riyadh, Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative reinsurance and related activities inside and outside the Kingdom of Saudi Arabia.

### 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

#### Basis of measurement

The financial statements have been prepared on the historical cost basis, modified to include the measurement at fair value of investments held at fair value through income statement.

#### Functional and presentational currency

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

### 3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements as of and for the year ended December 31, 2010, except for the adoption of amendments and revisions to existing standards as mentioned below which had no significant financial impact on the financial statements of the Company.

- a) IAS 24 Related Party Disclosures:  
The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.
- b) IFRS 7 Financial Instruments: Disclosures:  
The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.
- c) IAS 1 Presentation of Financial Statements:  
IAS 1 is amended to clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in shareholders' equity or in the notes.

Other amendments resulting in improvements to the following standards also did not have any material impact on the accounting policies, financial position and performance of the Company:

- IFRS 7 – Financial Instruments, Disclosures;
- IAS 1 – Presentation of Financial Statements;
- IAS 32 – Financial Instruments: Presentation.

The Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect from future dates.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **Basis of presentation**

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

#### **Reinsurance**

The Company uses retrocession agreements to increase its aggregate underwriting capacity, and to reduce its exposure to catastrophic losses on risks assumed. The ceding of risk to retrocessionaires does not relieve the Company from its direct obligations to its ceding companies.

An impairment review of amounts recoverable under retrocession agreements is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the retrocessionaire can be measured reliably. The impairment loss is recorded in the statement of reinsurance operations.

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

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

#### **Cash and cash equivalents**

Cash and cash equivalents comprise of cash on hand and at banks and time deposits with a maturity of three months or less at the date of original acquisition.

#### **Deferred acquisition costs (DAC)**

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are expensed when incurred.

Subsequent to initial recognition, deferred costs are amortized using the same basis for unearned premiums. Amortization is recorded in the statement of reinsurance operations.

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

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

#### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation less any impairment in value.

Depreciation is charged to the statement of reinsurance operations on a straight line basis over the estimated useful lives of the assets as follows:

Computers and equipment	3-5 Years
Furniture and fixtures	5 Years
Motor vehicles	4 Years
Leasehold improvements	10 Years

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of reinsurance operations or the statement of shareholders' operations.

Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of reinsurance operations or the statement of shareholders' operations;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective special commission rate.

#### Written Premiums

Gross premiums written comprise of total premiums in relation to contracts incepting during the financial year irrespective of whether they relate in whole or in part to a later accounting period. It includes an estimate of pipeline premiums, being those premiums written but not reported to the company at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums.

#### Premiums earned and commission income

Premiums and commission income are taken into income over the periods to which they relate to cover the reinsurance risk. Unearned premiums and commission income represent the portion of premiums written and commission income relating to the unexpired period of coverage and is deferred based on the following methods:

- For proportional reinsurance treaties under consideration of the underlying exposure in relation to the line of business as follows:

<u>Line of business</u>	<u>Years</u>
Engineering	4
Marine	1.5
Others	2

- Actual number of days for facultative reinsurance and non proportional reinsurance treaties and portfolio transferred from insurance companies.

The change in the provision for unearned premiums and commission income is taken to the statement of reinsurance operations in order to recognize revenue over the period to cover the reinsurance risks.

#### Claims

Claims, comprising amounts payable to ceding companies under reinsurance contracts and related loss adjustment expenses, net of recoveries and are charged to income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the balance sheet date whether reported or not. Provisions for reported claims not paid as at the balance sheet date are made on the basis of individual case estimates. In addition, a provision based on Management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date.

Any difference between the provisions at the statement of financial position date and settlements and provisions for the subsequent year is included in the underwriting account for that year.

#### Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the reinsurance contracts liabilities net of related deferred acquisition costs. In performing these tests, Management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of reinsurance operations initially by writing off related deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Premiums receivable

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

#### Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

#### Special commission income from time deposits

Special commission income from time deposits is recognized on an effective yield basis taking account of the principal outstanding and the applicable special commission rate.

#### Investments held at fair value through income statement

Investments held at fair value through income statement are investments designated at fair value through income statement at inception. For investments designated as fair value through income statement, the following criteria must be met:

- This designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on a different basis, or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, such assets and liabilities are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are measured at fair value.

Fair value adjustments and realised gains and losses are recognized in the statement of reinsurance operations and the statement of shareholders' operations.

#### Held to maturity investments

Investments with fixed or determinable payments whereby the Company has the positive intention and ability to hold till maturity are measured, after acquisition, at amortized cost less impairment in its value. The amortized cost is computed taken into consideration the discount or the premium at the acquisition date. Income or loss resulting from these investments is recognized in the statement of shareholders' operations upon derecognizing these investments or impairment in its value.

#### Employees' end of service benefits

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

#### Leases

Operating lease payments are recognized as expenses in the statement of reinsurance operations on a straight-line basis over the lease contract.

#### Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the respective statements of reinsurance operations or shareholders' operations.

#### Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian Zakat and Tax Regulations. As per the Company's by-laws, Zakat and income tax charge is distributed to the shareholders. Accordingly income tax is charged to Non-GCC founding shareholders' equity account while the Zakat is charged to the GCC founding shareholders and general public equity account.

#### Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) as a result of past events, and it is more likely that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Offsetting financial assets and liabilities

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

#### Segmental reporting

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

- Engineering, provides coverage for builder's risks, construction, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance.
- Fire, provides coverage against fire and any other insurance included under this class of insurance.
- Marine, provides coverage for goods in transit and the vehicles of transportation on main ways, and any other insurance included under this class of insurance.
- Motor, provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Life, provides coverage for Individual or group of individuals against death, disability and chronic diseases.
- Health, provides coverage medical costs, medicines, and all other medical services and supplies.

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

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

### 5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

#### The ultimate liability arising from claims made under reinsurance contracts

The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that are needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the statement of financial position date, for which the insured event has occurred prior to the statement of financial position date. The primary technique adopted by Management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

#### Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

#### Deferred acquisition costs

Certain acquisition costs related to the incoming reinsurance contracts are recorded as deferred acquisition costs (DAC) and are amortized in the statement of reinsurance operations over the related period of the contracts.

#### Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, time deposits, statutory deposit, investments held at fair value through income statement, held to maturity investments, premiums receivables, accrued insurance premiums, other assets and its financial liabilities consist of retrocession balances payable, accrued retroceded premiums, and other liabilities.

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

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

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

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

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

As at 31 December 2011, all financial instruments which are fair valued are Level 1 instruments.

### 6. CASH AND CASH EQUIVALENTS

	31 December 2011		31 December 2010	
	Reinsurance Operations SR	Shareholders' Operations SR	Reinsurance Operations SR	Shareholders' Operations SR
Cash on hand	-	-	-	6,252
Cash at banks	8,293,673	53,940	3,935,529	1,161,799
Time deposits	-	140,000,000	-	-
	<u>8,293,673</u>	<u>140,053,940</u>	<u>3,935,529</u>	<u>1,168,051</u>

Time deposits represent deposits with banks with maturity period of three months or less from the date of original acquisition. Such deposits earn special commission at a rate of 2.17% per annum (31 December 2010: Nil).

Cash at banks and time deposits are placed with counterparties that have good credit ratings.

The carrying amounts disclosed above reasonably approximate the fair value at the statement of financial position date.



# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 7. PREMIUMS RECEIVABLE

	2011 SR	2010 SR
Premiums receivable	20,518,200	10,743,115
Less: Provision for doubtful debts	(1,391,348)	(101,352)
	<u>19,126,852</u>	<u>10,641,763</u>

As at December 31, the ageing of gross premiums receivable is as follows:

	Neither past due nor impaired SR	Past due but not impaired			Past due and impaired SR	Total SR
		Less than 90 days SR	91 to 180 days SR	Above 180 days SR		
2011	9,830,059	4,721,522	4,623,612	1,343,007	-	20,518,200
2010	8,472,434	1,652,163	-	-	618,518	10,743,115

### 8. UNEARNED PREMIUMS

	31 DECEMBER 2011		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the year	54,120,481	(34,253,299)	19,867,182
Premiums written during the year	159,609,384	(55,085,541)	104,523,843
Premiums earned	(132,378,770)	64,502,482	(67,876,288)
Change in unearned premiums	27,230,614	9,416,941	36,647,555
	<u>81,351,095</u>	<u>(24,836,358)</u>	<u>56,514,737</u>
	31 DECEMBER 2010		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the year	28,447,374	(19,968,169)	8,479,205
Premiums written during the year	107,475,185	(66,982,564)	40,492,621
Premiums earned	(81,802,078)	52,697,434	(29,104,644)
Change in unearned premiums	25,673,107	(14,285,130)	11,387,977
	<u>54,120,481</u>	<u>(34,253,299)</u>	<u>19,867,182</u>

**Saudi Reinsurance Company (A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For The Year Ended 31 December 2011

**9. OUTSTANDING CLAIMS**

	31 DECEMBER 2011		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the year	57,170,229	(39,410,609)	17,759,620
Outstanding claims provided during the year	73,411,191	(42,839,043)	30,572,148
Claims incurred but not reported provided during the year	15,924,145	(4,384,790)	11,539,355
Change in outstanding claims	89,335,336	(47,223,833)	42,111,503
	146,505,565	(86,634,442)	59,871,123

	31 DECEMBER 2010		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the year	22,055,663	(15,260,001)	6,795,662
Outstanding claims provided during the year	28,623,648	(20,691,873)	7,931,775
Claims incurred but not reported provided during the year	6,490,918	(3,458,735)	3,032,183
Change in outstanding claims	35,114,566	(24,150,608)	10,963,958
	57,170,229	(39,410,609)	17,759,620

**10. DEFERRED ACQUISITION COSTS**

	2011 SR	2010 SR
Opening balance for the year	14,352,440	7,486,779
Incurred during the year	39,597,141	27,650,348
Amortized during the year	(34,107,510)	(20,784,687)
	19,842,071	14,352,440

**11. PREPAYMENTS AND OTHER ASSETS**

	2011 SR	2010 SR
Prepaid rent	112,501	162,252
Advance payments	47,500	10,000
Advances to employees	16,652	52,922
Prepaid insurance	2,833	-
Others	58,674	104,801
	238,160	329,975

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 12. PROPERTY AND EQUIPMENT, NET

	Computers and Equipment SR	Furniture and Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Work in Progress SR	Total SR
<b>Cost:</b>						
As at 31 December 2009	2,122,320	109,756	493,000	2,192,523	-	4,917,599
Additions during the year	155,122	-	-	-	29,923	185,045
<b>As at 31 December 2010</b>	<b>2,277,442</b>	<b>109,756</b>	<b>493,000</b>	<b>2,192,523</b>	<b>29,923</b>	<b>5,102,644</b>
Additions during the year	116,539	-	488,400	-	221,548	826,487
Disposals during the year	(20,573)	-	(330,000)	-	-	(350,573)
<b>As at 31 December 2011</b>	<b>2,373,408</b>	<b>109,756</b>	<b>651,400</b>	<b>2,192,523</b>	<b>251,471</b>	<b>5,578,558</b>
<b>Accumulated depreciation:</b>						
As at 31 December 2009	875,837	38,085	386,559	446,187	-	1,746,668
Charged for the year	676,189	21,947	92,687	219,248	-	1,010,071
<b>As at 31 December 2010</b>	<b>1,552,026</b>	<b>60,032</b>	<b>479,246</b>	<b>665,435</b>	<b>-</b>	<b>2,756,739</b>
Charged for the year	485,107	21,947	109,791	219,248	-	836,093
Disposals during the year	(17,270)	-	(329,998)	-	-	(347,268)
<b>As at 31 December 2011</b>	<b>2,019,863</b>	<b>81,979</b>	<b>259,039</b>	<b>884,683</b>	<b>-</b>	<b>3,245,564</b>
<b>Net book value</b>						
As at 31 December 2010	725,416	49,724	13,754	1,527,088	29,923	2,345,905
<b>As at 31 December 2011</b>	<b>353,545</b>	<b>27,777</b>	<b>392,361</b>	<b>1,307,840</b>	<b>251,471</b>	<b>2,332,994</b>

### 13. TIME DEPOSITS

Time deposits represent deposits with banks with maturity period of more than three months from the date of its original acquisition. Such deposits earn average special commission income at a rate of 2.19% per annum (31 December 2010: 3.91% per annum).

Time deposits are placed with counterparties that have good credit ratings.

The carrying amounts of the time deposits reasonably approximate its fair value as at the statement of financial position date.

### 14. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT

Investments held at fair value through income statement represent units in investment funds at local banks and investment and bond portfolios.

The movement of investments held at fair value through income statement is as follows:

	2011 SR		2010 SR	
	Reinsurance Operations	Shareholders' Operations	Reinsurance Operations	Shareholders' Operations
Opening balance	-	307,400,220	-	573,632,717
Additions	17,600,000	442,173,227	-	523,200,000
Disposals	-	(470,851,315)	-	(794,003,090)
Transfer from shareholders' operations to reinsurance operations	26,741,870	(26,741,870)	-	-
Unrealized gains	303,091	552,211	-	2,915,876
Realized gains	-	3,468,229	-	1,654,717
<b>Ending balance</b>	<b>44,644,961</b>	<b>256,000,702</b>	<b>-</b>	<b>307,400,220</b>

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 14. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT (Continued)

Investments under shareholders' operations include SR 113 million (2010: Nil) cash deposits with Saudi banks. These funds are placed by the Company with the asset managers and are independently operated by them. These funds are expected to be invested in early 2012.

The resulting effect of disposal of units in investment funds during the year ended 31 December 2011 and 2010 on the realized gains in the statement of shareholders' operations is as follows:

	2011 SR	2010 SR
Proceeds from disposal of units	470,851,315	794,003,090
Less: Historical cost of disposed units	<u>(464,752,138)</u>	<u>(786,479,293)</u>
	6,099,177	7,523,797
Less: Accumulated unrealized gains for disposed units which were recognized in previous periods in the statement of shareholders' operations	<u>(2,630,948)</u>	<u>(5,869,080)</u>
<b>Realized gains from disposed units for the year</b>	<u><b>3,468,229</b></u>	<u><b>1,654,717</b></u>

### 15. HELD TO MATURITY INVESTMENTS

The held to maturity investments represent debt instruments with a 4 to 10 year time horizon yielding an average special commission of 4.41% per annum (31 December 2010: 4.35% per annum). The fair value of held to maturity investments amounted to SR 218,771,209 (31 December 2010: SR 219,210,264) as at the statement of financial position date.

### 16. UNEARNED COMMISSION INCOME

	2011 SR	2010 SR
Opening balance for the year	10,409,218	6,128,576
Commission received on retroceded business during the year	16,108,270	20,103,398
Commission earned on retroceded business during the year	<u>(19,590,997)</u>	<u>(15,822,756)</u>
	<u><b>6,926,491</b></u>	<u><b>10,409,218</b></u>

### 17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011 SR	2010 SR
Employees bonus	3,358,117	5,200,000
Withholding tax payable	3,168,777	785,697
Professional fees payable	459,838	654,250
Board of directors' remunerations	257,130	257,130
Meeting fees and expenses	129,500	132,000
Others	1,417,554	796,714
	<u><b>8,790,916</b></u>	<u><b>7,825,791</b></u>

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 18. ZAKAT AND INCOME TAX

#### A) Zakat

The Zakat base is composed of the following:

	2011 SR	2010 SR
Share Capital	1,000,000,000	1,000,000,000
Statutory reserve – beginning of the year	6,070,924	6,070,924
Accumulated deficit – beginning of the year	(21,656,126)	(438,324)
Net (loss) / income for the year	(34,305,879)	56,277
Provisions	7,375,864	946,699
	<u>957,484,783</u>	<u>1,006,635,576</u>
<b>Deduct:</b>		
Property and equipment, net	(2,332,994)	(2,345,905)
Held to maturity investments	(209,791,799)	(211,322,003)
Statutory deposit	(100,000,000)	(100,000,000)
<b>Zakat base</b>	<u>645,359,990</u>	<u>692,967,668</u>

#### Zakat for the year

The Zakat for the year includes the following:

	2011 SR	2010 SR
Portion of the Saudi shareholders' Zakat base (94.1%)	607,283,751	652,082,576
Zakat for the year (2.5%)	<u>15,182,094</u>	<u>16,302,064</u>

#### B) Income tax

Income tax for the year includes the following:

	2011 SR	2010 SR
Portion of net income for non-Saudi shareholders (5.9%)	(2,024,047)	3,320
Income tax for the year (20%)	-	664
Zakat and income tax charge for the year	<u>15,182,094</u>	<u>16,302,728</u>

The movement of the provision for Zakat and income tax is as follows:

	2011 SR	2010 SR
Opening balance for the year	21,359,836	24,202,000
Charged for the year	15,182,094	16,302,728
Additional zakat provision for the year	4,935,352	4,971,351
Paid during the year	<u>(16,313,938)</u>	<u>(24,116,243)</u>
	<u>25,163,344</u>	<u>21,359,836</u>

The Company has filed its zakat return for the years ended 31 December 2010 and 2009 to the Department of Zakat and Income Tax (DZIT) and has not yet received the final assessment.

Zakat provision is calculated based on the Company's best understanding of the DZIT instructions. Excess provision is accounted for to cover for any difference with the final zakat and income tax assessment when received from DZIT.

### 19. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 1 billion divided into 100 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid SR 600 million for 60 million shares with a nominal value of SR 10 each, which represent 60% of the shares of the Company and the remaining SR 400 million for 40 million shares with a nominal value of SR 10 each have been subscribed for by the public. The following summarizes the share capital as at 31 December 2011 and 2010:

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 19. SHARE CAPITAL (Continued)

	Number of shares	Amount SR
Share capital – founding shareholders	60,000,000	600,000,000
Share capital – general public	40,000,000	400,000,000
	<b>100,000,000</b>	<b>1,000,000,000</b>

### 20. STATUTORY RESERVE

In accordance with the Company's by-laws, 20% of its net income of the year is transferred to the statutory reserve. The company may resolve to discontinue such transfers when the reserve totals 100% of the capital. This reserve is not available for distribution to shareholders.

### 21. GENERAL AND ADMINISTRATIVE EXPENSES

	2011 SR	2010 SR
Salaries and related benefits	22,902,562	16,314,835
Consulting fees	4,919,150	1,786,309
Professional fees	2,479,964	1,410,373
Depreciation (Note 12)	836,093	1,010,071
Rent and premises expenses	807,940	747,894
Travelling expenses	611,837	748,473
Advertising	593,820	314,556
Withholding tax	216,235	85,937
Others	2,900,669	1,832,530
	<b>36,268,270</b>	<b>24,250,978</b>

### 22. BOARD OF DIRECTORS' REMUNERATIONS AND EXPENSES

	2011 SR	2010 SR
Board of directors' remunerations	-	2,962
Meeting fees and expenses	284,350	586,673
	<b>284,350</b>	<b>589,635</b>

### 23. RELATED PARTY TRANSACTIONS AND BALANCES

Following are details of major related party transactions during the year and its balances at the end of the year:

Related party	Nature of transactions	Amount of transactions for the year ended		Balance as at	
		31 December 2011 SR	31 December 2010 SR	31 December 2011 SR	31 December 2010 SR
Board of directors	Consulting fees	687,114	1,638,059	-	-
	Remunerations	-	2,962	257,130	257,130
	Expenses	284,350	586,673	129,500	132,000
Key Management Personnel	Short term benefits	13,307,693	8,974,970	2,448,500	4,500,000
	End of service benefits	306,467	280,076	383,727	647,609

Balances with related parties are included in accrued expenses and other liabilities shown in the statement of financial position.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 24. BASIC AND DILUTED (LOSS) / EARNINGS PER SHARE

(Loss) / earnings per share for the year ended 31 December 2011 and 2010 have been calculated by dividing net (loss) / income for the year by the average ordinary issued and outstanding shares at the end of the year.

### 25. STATUTORY DEPOSIT

The Company has deposited an amount of SR 100 million with a local bank representing the statutory deposit of 10% of its paid-up capital as required by the Implementing Regulations of the "Law On Supervision of Cooperative Insurance Companies" issued by the Saudi Arabian Monetary Agency. This statutory deposit cannot be withdrawn without the consent of the Saudi Arabian Monetary Agency.

### 26. NET DEFICIT FROM REINSURANCE OPERATIONS' RESULTS

Net deficit from reinsurance operations' results has been charged to the statement of shareholders' operations. The total net deficit from date of incorporation of the company to 31 December 2011 is as follows:

	SR
For the period from 1 May 2008 to 31 December 2008	11,925,491
For the year ended 31 December 2009	20,545,633
For the year ended 31 December 2010	21,935,456
For the year ended 31 December 2011	55,284,547
	<u>109,691,127</u>

### 27. Net claims paid

	For the Year Ended	
	31 December 2011	31 December 2010
	SR	SR
Gross claims paid	(39,077,436)	(21,669,997)
Retroceded share of claims paid	22,736,921	13,448,076
<b>Net claims paid</b>	<b>(16,340,515)</b>	<b>(8,221,921)</b>

Net claims paid include all amounts paid and amounts received through claim portfolio transfers from insurance companies. A respective provision is provided for such claim portfolio transfers in the outstanding claims.

### 28. SEGMENTAL INFORMATION

The Company has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess its performance.

Consistent with the Company's internal reporting process, business and geographical segments have been approved by the Management committee in respect of the Company's activities, assets and liabilities as stated below.

Segment results do not include unrealized gains on investments held at fair value through income statement, general and administrative expenses, and board of directors' remuneration and expenses.

Segment assets do not include cash and cash equivalents of reinsurance operations, investments held at fair value through income statement, prepaid expenses and other assets, due from shareholders' operations and, property and equipment, net.

Segment liabilities do not include accrued expenses and other liabilities and employees' end of service benefits.

**Saudi Reinsurance Company (A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For The Year Ended 31 December 2011

**28. SEGMENTAL INFORMATION (Continued)**

**28.1 Business segments**

For the year ended  
31 December 2011

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Health SR	Others SR	Total SR
<b>Reinsurance operations' results</b>								
Gross premiums written	38,949,750	73,475,807	21,700,076	8,811,929	4,608,747	1,725,108	10,337,967	159,609,384
Retroceded premiums	(16,346,862)	(29,138,024)	(7,075,808)	(141)	(32,114)	-	(2,492,592)	(55,085,541)
Excess of loss expenses	(3,511,000)	(6,360,799)	(1,836,497)	(212,310)	-	-	(1,069,519)	(12,990,125)
<b>Net premiums written</b>	19,091,888	37,976,984	12,787,771	8,599,478	4,576,633	1,725,108	6,775,856	91,533,718
Change in net unearned premiums	(9,103,492)	(17,121,255)	(4,546,856)	244,421	(2,233,734)	(857,841)	(3,028,798)	(36,647,555)
<b>Net premiums earned</b>	9,988,396	20,855,729	8,240,915	8,843,899	2,342,899	867,267	3,747,058	54,886,163
Net claims paid	(569,619)	(6,194,029)	(1,181,666)	(7,803,955)	(476,132)	-	(115,114)	(16,340,515)
Change in net outstanding claims	(5,284,280)	(29,609,696)	(3,603,509)	(2,370,735)	(110,550)	(268,508)	(874,225)	(42,111,503)
Gross acquisition costs	(9,191,533)	(14,828,762)	(6,277,835)	(1,749,214)	(32,829)	-	(2,027,337)	(34,107,510)
Commissions on retroceded business	6,172,733	9,021,701	3,307,020	21	1,145	-	1,088,377	19,590,997
Supervision and inspection fees	(244,723)	(439,855)	(129,395)	(48,688)	(23,044)	(8,626)	(58,319)	(952,650)
<b>Net underwriting results</b>	870,974	(21,194,912)	355,530	(3,128,672)	1,701,489	600,133	1,760,440	(19,035,018)
<b>Other items:</b>								
Depreciation	204,033	384,893	113,673	46,160	24,142	9,037	54,155	836,093



**Saudi Reinsurance Company (A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For The Year Ended 31 December 2011

28. **SEGMENTAL INFORMATION (Continued)**

28.1 **Business segments (Continued)**

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Health SR	Others SR	Total SR
<b>For the year ended</b>								
<b>31 December 2010</b>								
<b>Reinsurance operations' results</b>								
Gross premiums written	31,752,280	47,040,027	12,678,517	9,986,761	-	-	6,017,600	107,475,185
Retroceded premiums	(22,761,334)	(32,631,275)	(7,850,675)	(117,399)	-	-	(3,621,881)	(66,982,564)
Excess of loss expenses	(512,847)	(665,145)	(237,675)	(144,093)	-	-	(62,911)	(1,622,671)
<b>Net premiums written</b>	<b>8,478,099</b>	<b>13,743,607</b>	<b>4,590,167</b>	<b>9,725,269</b>	<b>-</b>	<b>-</b>	<b>2,332,808</b>	<b>38,869,950</b>
Change in net unearned premiums	(4,368,060)	(3,621,741)	(753,251)	(2,042,454)	-	-	(602,471)	(11,387,977)
<b>Net premiums earned</b>	<b>4,110,039</b>	<b>10,121,866</b>	<b>3,836,916</b>	<b>7,682,815</b>	<b>-</b>	<b>-</b>	<b>1,730,337</b>	<b>27,481,973</b>
Net claims paid	(288,456)	(4,793,378)	(463,958)	(2,481,576)	-	-	(194,553)	(8,221,921)
Change in net outstanding claims	(1,124,923)	(6,364,476)	(835,998)	(2,336,153)	-	-	(302,408)	(10,963,958)
Gross acquisition costs	(4,553,223)	(9,552,482)	(3,979,494)	(1,559,965)	-	-	(1,139,523)	(20,784,687)
Commissions on retroceded business	3,895,152	8,011,024	3,021,453	17,610	-	-	877,517	15,822,756
Supervision and inspection fees	(121,766)	(184,666)	(51,878)	(46,235)	-	-	(24,461)	(429,006)
<b>Net underwriting results</b>	<b>1,916,823</b>	<b>(2,762,092)</b>	<b>1,527,041</b>	<b>1,276,476</b>	<b>-</b>	<b>-</b>	<b>946,909</b>	<b>2,905,157</b>
<b>Other items:</b>								
Depreciation	298,414	442,090	119,155	93,857	-	-	56,555	1,010,071

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Health SR	Others SR	Total SR
<b>As at 31 December 2011</b>								
Segment assets	52,199,391	98,470,269	29,081,849	11,809,507	6,176,517	2,311,943	13,854,660	213,904,136
Segment liabilities	66,792,016	125,998,171	37,211,839	15,110,919	7,903,196	2,958,259	17,727,806	273,702,206

<b>As at 31 December 2010</b>								
Segment assets	37,967,920	56,248,306	15,160,389	11,941,710	-	-	7,195,571	128,513,896
Segment liabilities	45,227,718	67,003,474	18,059,188	14,225,070	-	-	8,571,426	153,086,876

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 28. SEGMENTAL INFORMATION (Continued)

#### 28.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Total SR
<b>For the year ended 31 December 2011</b>				
<b>Reinsurance operations' results</b>				
Gross premiums written	123,683,218	30,985,035	4,941,131	159,609,384
Retroceded premiums	(43,824,033)	(8,973,231)	(2,288,277)	(55,085,541)
Excess of loss expenses	(9,650,055)	(2,994,595)	(345,475)	(12,990,125)
<b>Net premiums written</b>	<b>70,209,130</b>	<b>19,017,209</b>	<b>2,307,379</b>	<b>91,533,718</b>
Change in net unearned premiums	(25,570,661)	(10,213,904)	(862,990)	(36,647,555)
<b>Net premiums earned</b>	<b>44,638,469</b>	<b>8,803,305</b>	<b>1,444,389</b>	<b>54,886,163</b>
Net claims paid	(15,132,676)	(751,024)	(456,815)	(16,340,515)
Change in net outstanding claims	(29,057,570)	(3,839,259)	(9,214,674)	(42,111,503)
Gross acquisition costs	(27,734,081)	(5,399,084)	(974,345)	(34,107,510)
Commissions on retroceded business	15,819,191	3,095,672	676,134	19,590,997
Supervision and inspection fees	(618,416)	(275,986)	(58,248)	(952,650)
<b>Net underwriting results</b>	<b>(12,085,083)</b>	<b>1,633,624</b>	<b>(8,583,559)</b>	<b>(19,035,018)</b>
<b>Other items:</b>				
Depreciation	647,898	162,311	25,884	836,093
<b>For the year ended 31 December 2010</b>				
<b>Reinsurance operations' results</b>				
Gross premiums written	85,695,162	18,680,339	3,099,684	107,475,185
Retroceded premiums	(52,709,569)	(11,975,874)	(2,297,121)	(66,982,564)
Excess of loss expenses	(1,238,713)	(344,020)	(39,938)	(1,622,671)
<b>Net premiums written</b>	<b>31,746,880</b>	<b>6,360,445</b>	<b>762,625</b>	<b>38,869,950</b>
Change in net unearned premiums	(9,075,398)	(2,329,568)	16,989	(11,387,977)
<b>Net premiums earned</b>	<b>22,671,482</b>	<b>4,030,877</b>	<b>779,614</b>	<b>27,481,973</b>
Net claims paid	(7,979,410)	(217,245)	(25,266)	(8,221,921)
Change in net outstanding claims	(7,694,330)	(1,038,240)	(2,231,388)	(10,963,958)
Gross acquisition costs	(17,157,560)	(2,777,851)	(849,276)	(20,784,687)
Commissions on retroceded business	12,850,328	2,267,910	704,518	15,822,756
Supervision and inspection fees	(429,006)	-	-	(429,006)
<b>Net underwriting results</b>	<b>2,261,504</b>	<b>2,265,451</b>	<b>(1,621,798)</b>	<b>2,905,157</b>
<b>Other items:</b>				
Depreciation	805,378	175,561	29,132	1,010,071
<b>As at 31 December 2011</b>				
<b>Reinsurance operations</b>				
Segment assets	165,756,870	41,525,298	6,621,968	213,904,136
Segment liabilities	212,095,109	53,133,922	8,473,175	273,702,206
<b>As at 31 December 2010</b>				
<b>Reinsurance operations</b>				
Segment assets	102,470,344	22,337,092	3,706,460	128,513,896
Segment liabilities	122,063,569	26,608,139	4,415,168	153,086,876

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 29. RISK MANAGEMENT

#### Risk governance

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

#### Risk Management structure

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

#### Board of directors

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

#### Senior Management

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

The risks faced by the Company and the way these risks are mitigated by Management are as follows:

#### 29.1 Reinsurance risk

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

The variability of risks is improved by the diversification of the risks written and the build up of a large portfolio of reinsurance contracts, (inward business) as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by a careful selection of inward business, by the underwriting guidelines as well as the use of retrocession protection. The Company's underwriting strategy includes, but is not limited to, the following:

- Diversification in the type of accepted risks, and within each of these categories to achieve sufficiently large population of risks to reduce the variability of the expected outcome.
- Diversification of the underwriting risks in terms of type and amount of risk, industry and geographical location.

A significant portion of the accepted reinsurance business is retroceded on a quota share and surplus basis with retention limits varying by product line. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the assumptions used for ascertaining the underlying accepted policy benefits and are presented in the statement of financial position as reinsurance assets.

Although the Company has retrocession agreements, it is not relieved of its direct obligations to its ceding companies and thus a credit exposure exists with respect to its retrocessionaires, to the extent that any retrocessionaire is unable to meet its obligations assumed under such retrocession agreements.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 29. RISK MANAGEMENT (Continued)

#### 29.1 Reinsurance risk (Continued)

##### Geographical concentration of risk

The Company accepts reinsurance business from insurance companies in the Kingdom of Saudi Arabia, the Middle East and Africa. The written premiums are distributed geographically as follows:

	For the year ended 31 December 2011	
	Amount SR	Percentage
Kingdom of Saudi Arabia	123,683,218	78%
Other Middle Eastern Countries	30,985,035	19%
Africa	4,941,131	3%
	<u>159,609,384</u>	<u>100%</u>

	For the year ended 31 December 2010	
	Amount SR	Percentage
Kingdom of Saudi Arabia	85,695,162	80%
Other Middle Eastern Countries	18,680,339	17%
Africa	3,099,684	3%
	<u>107,475,185</u>	<u>100%</u>

##### Key assumptions

The key assumptions underlying the liability estimates are the Company's estimated ultimate loss ratio. The ultimate loss was determined using actuarial methods.

##### Sensitivities

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

#### 31 December 2011

	Change in assumptions	Net Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+ 10%	5,488,616	(5,488,616)
	- 10%	(5,488,616)	5,488,616

#### 31 December 2010

	Change in assumptions	Net Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+ 10%	2,748,197	(2,748,197)
	- 10%	(2,748,197)	2,748,197

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 29. RISK MANAGEMENT (Continued)

#### 29.2 Retrocession risk

In order to minimize its financial exposure arising from large claims, the Company, in the normal course of business, enters into retrocession agreements with other parties. Such retrocession agreements provide for higher underwriting capacity, and allow Management to contain exposure within the risk appetite of the Company. A significant portion of the retrocession is effected under proportional treaties such as quota share and surplus and non-proportional treaties such as excess of loss.

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

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

- a. Minimum acceptable credit rating by recognized rating agencies (e.g. Standard & Poors) that is not lower than BBB.
- b. Reputation of particular retrocessionaire companies.
- c. Existing or past business experience with the retrocessionaire.

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

Retrocession contracts do not relieve the Company from its obligations to ceding companies and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the retrocessionaire fails to meet the obligations under the retrocession agreements.

#### 29.3 Credit risk

Credit risk is the risk that one party will fail to discharge an obligation related to a financial instrument and cause the other party to incur a financial loss.

For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

37% of the Company's receivables are due from four ceding companies as at 31 December 2011 (31 December 2010: 43%)

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

- To minimize its exposure to significant losses from retrocessionaires insolvencies, the Company evaluates the financial condition of its retrocessionaires counterparties. Accordingly, as a pre-requisite, the parties with whom retrocession is effected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company enters into inward insurance contracts with recognized, creditworthy third parties. In addition, receivables from ceding companies are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to ceding companies through monitoring outstanding receivables.
- The Company, with respect to credit risk arising from other financial assets, only deals with commercial banks with strong financial position and credit ratings.

## Saudi Reinsurance Company (A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

#### 29. RISK MANAGEMENT (Continued)

##### 29.3 Credit risk (Continued)

The table below shows the maximum exposure to credit risk for the assets of the statements of financial position.

	31 December 2011		31 December 2010	
	Reinsurance Operations	Shareholders' Operations	Reinsurance Operations	Shareholders' Operations
Cash and cash equivalents	8,293,673	140,053,940	3,935,529	1,168,051
Time deposit	-	258,438,845	-	403,925,060
Premiums receivable	19,126,852	-	10,641,763	-
Deferred excess of loss premiums	10,316,395	-	1,105,136	-
Prepayments and other assets	238,160	-	329,975	-
Due from shareholders' operations	14,017,816	-	26,734,061	-
Retroceded share of outstanding claims	86,634,442	-	39,410,609	-
Accrued special commission income from time deposits	-	1,900,346	-	5,697,284
Accrued special commission income from bonds	-	2,987,001	-	2,996,077
Investments held at fair value through income statement	44,644,961	256,000,702	-	307,400,220
Held to maturity investments	-	209,791,799	-	211,322,003
Statutory deposit	-	100,000,000	-	100,000,000
	<u>183,272,299</u>	<u>969,172,633</u>	<u>82,157,073</u>	<u>1,032,508,695</u>

The credit quality for held to maturity investments is as follows:

	31 December 2011 SR	31 December 2010 SR
Standard and Poors "AA-" to "AA"	57,233,173	57,453,980
Standard and Poors "A-" to "A+"	142,864,543	143,983,702
Moody's "A3"	9,694,083	9,884,321
	<u>209,791,799</u>	<u>211,322,003</u>

The used rating grades for investments are being adopted by Standard & Poors and Moody's agencies.

#### 29.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.

Liquidity requirements are monitored on a monthly basis and Management ensures that sufficient liquid funds are available to meet any commitments as they arise.

All time deposits held by the Company at the statement of financial position date had original maturity periods between one day and five years.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 29. RISK MANAGEMENT (Continued)

#### 29.4 Liquidity risk (Continued)

##### Maturity profiles

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

	31 December 2011					
	Reinsurance Operations			Shareholders' Operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
<b>LIABILITIES</b>						
Retrocession balances payable	24,722,282	-	24,722,282	-	-	-
Accrued retroceded premiums	14,196,773	-	14,196,773	-	-	-
Gross outstanding claims	146,505,565	-	146,505,565	-	-	-
Accrued expenses and other liabilities	8,790,916	-	8,790,916	-	-	-
Employees' end of service benefits	-	938,618	938,618	-	-	-
Provision for zakat and income tax	-	-	-	25,163,344	-	25,163,344
Due to reinsurance operations	-	-	-	14,017,816	-	14,017,816
	<b>194,215,536</b>	<b>938,618</b>	<b>195,154,154</b>	<b>39,181,160</b>	<b>-</b>	<b>39,181,160</b>

	31 December 2010					
	Reinsurance Operations			Shareholders' Operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
<b>LIABILITIES</b>						
Retrocession balances payable	15,362,298	-	15,362,298	-	-	-
Accrued retroceded premiums	16,024,650	-	16,024,650	-	-	-
Gross outstanding claims	57,170,229	-	57,170,229	-	-	-
Accrued expenses and other liabilities	7,825,791	-	7,825,791	-	-	-
Employees' end of service benefits	545,773	400,926	946,699	-	-	-
Provision for zakat and income tax	-	-	-	21,359,836	-	21,359,836
Due to reinsurance operations	-	-	-	26,734,061	-	26,734,061
	<b>96,928,741</b>	<b>400,926</b>	<b>97,329,667</b>	<b>48,093,897</b>	<b>-</b>	<b>48,093,897</b>

##### Liquidity profile

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

#### 29.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are carried out in local and foreign currencies. Management believes that there is no significant foreign currency exposure since most of the Company's transactions were performed in foreign currencies which are pegged to Saudi Riyals.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 29. RISK MANAGEMENT (Continued)

#### 29.5 Currency risk (Continued)

The table below represents the Company's assets and liabilities denominated in major currencies as follows:

31 December 2011	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>ASSETS</b>							
<b>Reinsurance operations</b>							
Cash and cash equivalents	5,495,335	2,584,178	-	128,200	85,960	-	8,293,673
Investments held at fair value through income statement	44,644,961	-	-	-	-	-	44,644,961
Premiums receivable	9,785,519	3,989,917	615,602	1,752,303	298,996	2,684,515	19,126,852
Accrued insurance premiums	38,262,960	2,364,637	2,403,602	4,835,534	70,759	5,210,526	53,148,018
Retroceded share of unearned premiums	24,836,358	-	-	-	-	-	24,836,358
Retroceded share of outstanding claims	75,117,060	946,070	354,893	2,587,686	70,143	7,558,590	86,634,442
Deferred acquisition costs	19,842,071	-	-	-	-	-	19,842,071
Deferred excess of loss premiums	10,316,395	-	-	-	-	-	10,316,395
Prepaid expenses and other assets	238,160	-	-	-	-	-	238,160
Due from shareholders' operations	14,017,816	-	-	-	-	-	14,017,816
Property and equipment, net	2,332,994	-	-	-	-	-	2,332,994
<b>Shareholders</b>							
Cash and cash equivalents	140,053,940	-	-	-	-	-	140,053,940
Time deposits	-	37,500,000	114,566,985	106,371,860	-	-	258,438,845
Accrued special commission income from time deposits	84,166	100,172	206,857	1,509,151	-	-	1,900,346
Accrued special commission income from bonds	-	2,887,496	-	-	99,505	-	2,987,001
Investments held at fair value through income statement	156,007,368	99,993,334	-	-	-	-	256,000,702
Held to maturity investments	-	184,932,482	-	-	24,859,317	-	209,791,799
Statutory deposit	100,000,000	-	-	-	-	-	100,000,000
Other assets	3,036,627	-	-	-	-	-	3,036,627
	<u>644,071,730</u>	<u>335,298,286</u>	<u>118,147,939</u>	<u>117,184,734</u>	<u>25,484,680</u>	<u>15,453,631</u>	<u>1,255,641,000</u>



# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 29. RISK MANAGEMENT (Continued)

#### 29.5 Currency risk (Continued)

31 December 2010	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>ASSETS</b>							
<b>Reinsurance operations</b>							
Cash and cash equivalents	2,718,699	803,993	-	69,471	343,366	-	3,935,529
Premiums receivable	7,824,696	561,959	706,004	215,731	-	1,333,373	10,641,763
Accrued insurance premiums	23,550,074	884,426	139,959	430,526	27,174	3,718,490	28,750,649
Retroceded share of unearned premiums	34,253,299	-	-	-	-	-	34,253,299
Retroceded share of outstanding claims	25,803,826	655,432	61,031	652,950	19,618	12,217,752	39,410,609
Deferred acquisition costs	14,352,440	-	-	-	-	-	14,352,440
Deferred excess of loss premiums	873,057	232,079	-	-	-	-	1,105,136
Prepaid expenses and other assets	329,975	-	-	-	-	-	329,975
Due from shareholders' operations	26,734,061	-	-	-	-	-	26,734,061
Property and equipment, net	2,345,905	-	-	-	-	-	2,345,905
<b>Shareholders</b>							
Cash and cash equivalents	45,287	-	-	-	1,122,764	-	1,168,051
Time deposits	100,000,000	37,500,000	164,327,060	102,098,000	-	-	403,925,060
Accrued special commission income from time deposits	213,056	100,171	2,423,215	2,960,842	-	-	5,697,284
Accrued special commission income from bonds	-	2,894,306	-	-	101,771	-	2,996,077
Investments held at fair value through income statement	307,400,220	-	-	-	-	-	307,400,220
Held to maturity investments	-	185,705,839	-	-	25,616,164	-	211,322,003
Statutory deposit	100,000,000	-	-	-	-	-	100,000,000
Other assets	1,757,379	-	-	-	-	-	1,757,379
	<u>648,201,974</u>	<u>229,338,205</u>	<u>167,657,269</u>	<u>106,427,520</u>	<u>27,230,857</u>	<u>17,269,615</u>	<u>1,196,125,440</u>
<b>31 December 2011</b>							
	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>LIABILITIES</b>							
<b>Reinsurance operations</b>							
Retrocession balances payable	24,722,282	-	-	-	-	-	24,722,282
Accrued retrocession premiums	10,774,983	595,841	55,107	238,532	33,601	2,498,709	14,196,773
Gross unearned premiums	81,351,095	-	-	-	-	-	81,351,095
Gross outstanding claims	117,938,005	1,693,528	1,001,399	4,654,128	87,420	21,131,085	146,505,565
Unearned commission income	6,926,491	-	-	-	-	-	6,926,491
Accrued expenses and other liabilities	8,790,916	-	-	-	-	-	8,790,916
Employees' end of service benefits	938,618	-	-	-	-	-	938,618
<b>Shareholders</b>							
Provision for zakat and income tax	25,163,344	-	-	-	-	-	25,163,344
Due to reinsurance operations	14,017,816	-	-	-	-	-	14,017,816
Other liabilities	3,036,627	-	-	-	-	-	3,036,627
	<u>293,660,177</u>	<u>2,289,369</u>	<u>1,056,506</u>	<u>4,892,660</u>	<u>121,021</u>	<u>23,629,794</u>	<u>325,649,527</u>

## Saudi Reinsurance Company (A Saudi Joint Stock Company)

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

#### 29. RISK MANAGEMENT (Continued)

##### 29.5 Currency risk (Continued)

31 December 2010	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>LIABILITIES</b>							
<b>Reinsurance operations</b>							
Retrocession balances payable	15,180,535	181,763	-	-	-	-	15,362,298
Accrued retrocession premiums	12,912,379	628,190	99,119	285,080	20,537	2,079,345	16,024,650
Gross unearned premiums	54,120,481	-	-	-	-	-	54,120,481
Gross outstanding claims	39,727,063	952,635	81,715	955,349	24,581	15,428,886	57,170,229
Unearned commission income	10,409,218	-	-	-	-	-	10,409,218
Accrued expenses and other liabilities	7,799,541	26,250	-	-	-	-	7,825,791
Employees end of service benefits	946,699	-	-	-	-	-	946,699
<b>Shareholders</b>							
Provision for zakat and income tax	21,359,836	-	-	-	-	-	21,359,836
Due to reinsurance operations	26,734,061	-	-	-	-	-	26,734,061
Other liabilities	1,757,379	-	-	-	-	-	1,757,379
	<u>190,947,192</u>	<u>1,788,838</u>	<u>180,834</u>	<u>1,240,429</u>	<u>45,118</u>	<u>17,508,231</u>	<u>211,710,642</u>

##### 29.6 Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future profitability or the fair values of financial instruments. The company's Management believes that there is no significant commission rate risk exposure since all its commission bearing investments have fixed commission rate and are carried at amortized cost.

##### 29.7 Fund Price Risk

Fund price risk is the risk that the fair value of future cash flows of a fund will fluctuate because of changes in the net asset value (NAV) being determined by fund managers.

The Company limits fund price risk by maintaining a diversified portfolio by having different types of funds (i.e., Money market fund and commodity trading fund) and by monitoring of developments in fund markets.

A 5% change in the net asset value of funds, with all other variables held constant, would impact net income by increase / decrease of SR 8,536,236 (31 December 2010: SR 15,370,011).

##### 29.8 Capital Management risk

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

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2011

### 29. RISK MANAGEMENT (Continued)

#### 29.8 Capital Management risk (Continued)

The table below summarizes the minimum regulatory capital of the Company and the total capital held:

	2011 SR	2010 SR
Total capital held	929,991,473	984,414,798
Minimum regulatory capital	200,000,000	200,000,000

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial period.

#### 29.9 Regulatory framework risk

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

### 30. CONTINGENT LIABILITY

The Company may be liable for contingent liabilities in respect of the period prior to incorporation. The Company believes it is unlikely that any such liability will arise.

### 31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current year.

### 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 28 Rabi Al-Awwal 1433 H corresponding to 20 February 2012.