

SAUDI REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012**

Saudi Reinsurance Company (A Saudi Joint Stock Company)
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
For The Year Ended 31 December 2012

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INDEPENDENT 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 2012, and the related statements of reinsurance operations and accumulated surplus, 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 the 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 the 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 2012 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:

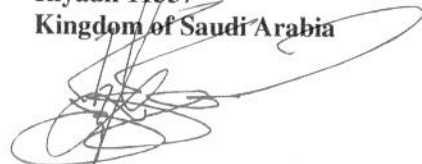
The management has prepared these financial statements in accordance with the International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia as presented in note (2).

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Rabi Al Thani 11, 1434 H
February 21, 2013



Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As At 31 December 2012

	Notes	2012 SR	2011 SR
REINSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	6	582,850	8,293,673
Investments held at fair value through income statement	14	83,244,130	44,644,961
Premiums receivable	7	27,607,624	19,126,852
Accrued insurance premiums		91,900,865	53,148,018
Retroceded share of unearned premiums	8	5,755,601	24,836,358
Retroceded share of outstanding claims	9	42,123,104	86,634,442
Deferred acquisition costs	10	32,506,462	19,842,071
Deferred excess of loss premiums		11,592,791	10,316,395
Prepaid expenses and other assets	11	967,944	238,160
Due from shareholders' operations		6,385,126	14,017,816
Property and equipment, net	12(a)	5,303,065	2,332,994
TOTAL REINSURANCE OPERATIONS' ASSETS		307,969,562	283,431,740
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	6	615,353	140,053,940
Time deposits	13	187,500,000	258,438,845
Accrued special commission income from time deposits		477,740	1,900,346
Accrued special commission income from bonds and sukuk		3,279,972	2,987,001
Investments held at fair value through income statement	14	445,743,014	256,000,702
Held to maturity investments	15	209,047,506	209,791,799
Statutory deposit	25	100,000,000	100,000,000
Property and equipment	12(b)	29,784,000	-
Other assets		4,282,585	3,036,627
TOTAL SHAREHOLDERS' ASSETS		980,730,170	972,209,260
TOTAL ASSETS		1,288,699,732	1,255,641,000
REINSURANCE OPERATIONS' LIABILITIES			
Accounts payable		4,768,189	2,486,081
Retrocession balances payable		3,265,617	22,236,201
Accrued retroceded premiums		4,243,430	14,196,773
Gross unearned premiums	8	122,378,709	81,351,095
Gross outstanding claims	9	159,413,407	146,505,565
Unearned commission income	16	1,580,555	6,926,491
Surplus distribution payable		932,077	-
Accrued expenses and other liabilities	17	10,025,363	8,790,916
Employees' end of service benefits		1,362,215	938,618
TOTAL REINSURANCE OPERATIONS' LIABILITIES		307,969,562	283,431,740
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accounts payable		1,000,000	-
Provision for zakat and income tax	18	30,086,812	25,163,344
Due to reinsurance operations		6,385,126	14,017,816
Other liabilities		4,282,585	3,036,627
TOTAL SHAREHOLDERS' LIABILITIES		41,754,523	42,217,787
SHAREHOLDERS' EQUITY			
Share capital	19	1,000,000,000	1,000,000,000
Statutory reserve	20	6,070,924	6,070,924
Accumulated deficit		(67,095,277)	(76,079,451)
TOTAL SHAREHOLDERS' EQUITY		938,975,647	929,991,473
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		980,730,170	972,209,260
TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SHAREHOLDERS' LIABILITIES AND EQUITY		1,288,699,732	1,255,641,000

The accompanying notes 1 to 31 form an integral part of these financial statements.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For The Year Ended 31 December 2012

	Notes	2012 (Reclassified – note 30) SR	2011 SR
Gross written premiums	8	245,031,947	159,609,384
Retroceded premiums	8	(3,318,790)	(55,085,541)
Excess of loss expenses		(22,427,478)	(12,990,125)
Net written premiums		219,285,679	91,533,718
Change in net unearned premiums	8	(60,108,371)	(36,647,555)
Net earned premiums		159,177,308	54,886,163
Net claims paid	27	(34,819,246)	(16,340,515)
Change in net outstanding claims	9	(57,419,180)	(42,111,503)
Gross acquisition costs	10	(49,786,324)	(34,107,510)
Commissions on retroceded business	16	6,122,890	19,590,997
Supervision and inspection fees		(1,225,160)	(952,650)
Net underwriting results		22,050,288	(19,035,018)
Realized gains on investments held at fair value through income statement	14	47,688	-
Unrealized gains on investments held at fair value through income statement	14	636,578	303,091
Other income	23	4,160,088	-
Investment management expenses		(37,497)	-
General and administrative expenses	21, 30	(17,536,370)	(18,351,212)
Net surplus / (deficit) from reinsurance operations	26	9,320,775	(37,083,139)
Shareholders' appropriation from reinsurance operations (surplus) / deficit		(8,388,698)	37,083,139
Reinsurance operations' surplus after shareholders' appropriation		932,077	-
Surplus distribution		(932,077)	-
Accumulated surplus at the end of the year		-	-

The accompanying notes 1 to 31 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 2012

	Notes	2012 SR	2011 (Reclassified – note 30) SR
Special commission income from time deposits		2,733,346	8,625,201
Special commission income from bonds and sukuk		9,730,937	9,245,476
Dividend income		583,333	-
Realized gains on investments held at fair value through income statement	14	2,345,978	3,468,229
Unrealized gains on investments held at fair value through income statement	14	17,264,137	552,211
Foreign exchange translation gains / (losses)		102,886	(614,010)
Other income	23	2,250,000	-
Investment management expenses		(1,841,418)	(298,439)
General and administrative expenses	21, 30	(11,278,989)	(17,917,058)
Board of directors' remunerations, meeting fees and expenses	22	(1,327,135)	(284,350)
Shareholders' appropriation from reinsurance operations' surplus / (deficit)		8,388,698	(37,083,139)
Net income / (loss) for the year		28,951,773	(34,305,879)
Basic and diluted earnings / (loss) per share for the year	24	0.290	(0.343)
Weighted average number of issued shares during the year		100,000,000	100,000,000

The accompanying notes 1 to 31 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 2012

	Note	2012 SR	2011 SR
Net income / (loss) for the year		28,951,773	(34,305,879)
Other comprehensive expenses:			
Zakat and income tax	18	(19,967,599)	(20,117,446)
Total comprehensive income / (loss) for the year		8,984,174	(54,423,325)

The accompanying notes 1 to 31 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 2012

Notes	GCC Founding Shareholders and General Public						Non – GCC Founding Shareholders						Total					
	Share capital	Statutory reserve	SR	SR	Accumulated deficit	SR	Share capital	Statutory reserve	SR	SR	Retained earnings / (Accumulated deficit)	Share capital	Statutory reserve	SR	SR	Accumulated deficit	SR	Total
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	
	-	-			(32,281,832)		-	-		(2,024,047)		-	-		(34,305,879)		(34,305,879)	
18	-	-			(20,117,446)		-	-		-		-	-		(20,117,446)		(20,117,446)	
	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	
19	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	
	-	-			27,243,618		-	-		1,708,155		-	-		28,951,773		28,951,773	
18	-	-			(19,713,367)		-	-		(254,232)		-	-		(19,967,599)		(19,967,599)	
	941,000,000	5,712,740			(67,600,389)		59,000,000	358,184		505,112		1,000,000,000	6,070,924		(67,095,277)		938,975,647	

The accompanying notes 1 to 31 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 2012

	Note	2012 SR	2011 SR
OPERATING ACTIVITIES			
Reinsurance operations' surplus after shareholders' appropriation		932,077	-
Adjustments for:			
Employees' end of service benefits		634,587	602,179
Depreciation		650,650	836,093
Realized gains on investments held at fair value through income statement		(47,688)	-
Unrealized gains on investments held at fair value through income statement		(636,578)	(303,091)
Gains from disposal of property and equipment		(16,520)	(146,695)
Shareholders' appropriation from reinsurance operations' surplus / (deficit)		8,388,698	(37,083,139)
Operating profit / (deficit) before changes in operating assets and liabilities		9,905,226	(36,094,653)
Changes in operating assets and liabilities:			
Premiums receivable		(8,480,772)	(8,485,089)
Accrued insurance premiums		(38,752,847)	(24,397,369)
Retroceded share of unearned premiums		19,080,757	9,416,941
Retroceded share of outstanding claims		44,511,338	(47,223,833)
Deferred acquisition costs		(12,664,391)	(5,489,631)
Deferred excess of loss premiums		(1,276,396)	(9,211,259)
Prepaid expenses and other assets		(729,784)	91,815
Due from shareholders' operations, net		(756,008)	23,057,514
Accounts payable		2,282,108	-
Retrocession balances payable		(18,970,584)	9,359,984
Accrued retroceded premiums		(9,953,343)	(1,827,877)
Gross unearned premiums		41,027,614	27,230,614
Gross outstanding claims		12,907,842	89,335,336
Unearned commission income		(5,345,936)	(3,482,727)
Accrued expenses and other liabilities		1,234,447	965,125
Employees' end of service benefits paid		(210,990)	(610,260)
Net cash from operating activities		33,808,281	22,634,631
INVESTING ACTIVITIES			
Purchase of property and equipment		(3,709,201)	(826,487)
Proceeds from disposal of property and equipment		105,000	150,000
Additions in investments held at fair value through income statement		(71,516,844)	(17,600,000)
Proceeds from investments held at fair value through income statement		33,601,941	-
Net cash used in investing activities		(41,519,104)	(18,276,487)
NET CHANGE IN CASH AND CASH EQUIVALENTS			
		(7,710,823)	4,358,144
Cash and cash equivalents at the beginning of the year		8,293,673	3,935,529
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	582,850	8,293,673
Non - cash transactions:			
Transfer of investments held at fair value through income statement from shareholders' operations		-	26,741,870

The accompanying notes 1 to 31 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 2012

	Note	2012 SR	2011 SR
OPERATING ACTIVITIES			
Net income / (loss) for the year		28,951,773	(34,305,879)
Adjustments for:			
Realized gains on investments held at fair value through income statement		(2,345,978)	(3,468,229)
Unrealized gains on investments held at fair value through income statement		(17,264,137)	(552,211)
Dividend income		(583,333)	-
Shareholders' appropriation from reinsurance operations (surplus) / deficit		(8,388,698)	37,083,139
Operating profit / (deficit) before changes in operating assets and liabilities		369,627	(1,243,180)
Changes in operating assets and liabilities:			
Due to reinsurance operations, net		756,008	(23,057,514)
Other assets		(1,245,958)	(1,279,248)
Accounts payable		1,000,000	-
Other liabilities		1,245,958	1,279,248
Zakat and income tax paid		(15,044,131)	(16,313,938)
Net cash used in operating activities		(12,918,496)	(40,614,632)
INVESTING ACTIVITIES			
Purchase of property and equipment		(29,784,000)	-
Proceeds from investments held at fair value through income statement		470,328,552	470,851,315
Accrued special commission income from time deposits		1,422,606	3,796,938
Accrued special commission income from bonds and sukuk		(292,971)	9,076
Dividends received		583,333	-
Additions in investments held at fair value through income statement		(640,460,749)	(442,173,227)
Time deposits, net		70,938,845	145,486,215
Held to maturity investments		744,293	1,530,204
Net cash (used in) / from investing activities		(126,520,091)	179,500,521
NET CHANGE IN CASH AND CASH EQUIVALENTS		(139,438,587)	138,885,889
Cash and cash equivalents at the beginning of the year		140,053,940	1,168,051
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	615,353	140,053,940
Non - cash transactions:			
Transfer of investments held at fair value through income statement to reinsurance operations		-	(26,741,870)

The accompanying notes 1 to 31 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 2012

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, 6th 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 31 December 2011, 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) Amendment to IFRS 7 - Financial instruments: Transfers of financial assets:
This amendment is effective from 1 July 2011 and requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities.
- b) Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012):
Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which has been withdrawn.

The Company has chosen not to early adopt the following new standards and amendments, which are effective for the Company's financial years starting 2013:

- IAS 1 Amendment – Presentation of items of other comprehensive income
- IFRS 10 – Consolidated financial statements
- IFRS 11 – Joint arrangements
- IFRS 12 – Disclosure of interests in other entities
- IFRS 13 – Fair value measurement
- IAS 19 (revised 2011) – Employee benefits
- IAS 27 (revised 2011) – Separate financial statements
- IAS 28 (revised 2011) - Associates and joint ventures
- IFRS 7 Amendments – Disclosures on offsetting financial assets and liabilities
- Amendment to the basis for conclusions on IAS 1, 16, 32, and 34 (Annual improvements 2011)

In addition to the above, the Company has chosen not to early adopt IFRS 9 (2010) – Financial instruments and amendment to IAS 32 – Presentation on offsetting financial assets and liabilities, which have been published, but will not be effective until January 1, 2015 and January 1, 2014 respectively.

The management is currently assessing the implication of the above standards and amendments on the Company and the timing of adoption.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

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 and accumulated surplus.

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 at banks and Murabaha 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 and accumulated surplus.

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amounts are less than the carrying value an impairment loss is recognized in the statement of reinsurance operations and accumulated surplus. 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 and accumulated surplus on a straight line basis over the estimated useful lives of the assets as follows:

Building	33 Years
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 2012

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 and accumulated surplus 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 and accumulated surplus 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 written premiums 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 and accumulated surplus 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 and accumulated surplus 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 2012

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 and accumulated surplus. 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

Special commission income 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 accumulated surplus 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 taking 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 statements of reinsurance operations and accumulated surplus and shareholders' 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 and accumulated surplus 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 2012

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 accumulated surplus 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 2012

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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 and accumulated surplus 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, accrued special commission income and other assets and its financial liabilities consist of accounts payable, 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.

6. CASH AND CASH EQUIVALENTS

	2012		2011	
	Reinsurance Operations SR	Shareholders' Operations SR	Reinsurance Operations SR	Shareholders' Operations SR
Cash at banks	582,850	615,353	8,293,673	53,940
Murabaha deposits	-	-	-	140,000,000
	582,850	615,353	8,293,673	140,053,940

Murabaha 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 an average rate of Nil % per annum (2011: 2.17% per annum).

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

The carrying amounts disclosed above reasonably approximate their fair value as at the date of 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 2012

7. PREMIUMS RECEIVABLE

	2012 SR	2011 SR
Premiums receivable	29,930,781	20,518,200
Less: Provision for doubtful debts	(2,323,157)	(1,391,348)
	<u>27,607,624</u>	<u>19,126,852</u>

As at 31 December, 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		
2012	3,089,422	3,847,284	8,113,194	12,361,757	2,519,124	29,930,781
2011	9,830,059	4,721,522	4,623,612	1,343,007	-	20,518,200

8. UNEARNED PREMIUMS

	2012		
	Gross SR	Retroceded share SR	Net SR
Opening balance	81,351,095	(24,836,358)	56,514,737
Premiums written during the year	245,031,947	(3,318,790)	241,713,157
Premiums earned	(204,004,333)	22,399,547	(181,604,786)
Change in unearned premiums	41,027,614	19,080,757	60,108,371
Closing balance	<u>122,378,709</u>	<u>(5,755,601)</u>	<u>116,623,108</u>

	2011		
	Gross SR	Retroceded share SR	Net SR
Opening balance	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
Closing balance	<u>81,351,095</u>	<u>(24,836,358)</u>	<u>56,514,737</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

9. OUTSTANDING CLAIMS

	2012		
	Gross SR	Retroceded share SR	Net SR
Opening balance	146,505,565	(86,634,442)	59,871,123
Outstanding claims provided during the year	6,526,088	35,041,239	41,567,327
Claims incurred but not reported provided during the year	6,381,754	9,470,099	15,851,853
Change in outstanding claims	12,907,842	44,511,338	57,419,180
Closing balance	159,413,407	(42,123,104)	117,290,303

	2011		
	Gross SR	Retroceded share SR	Net SR
Opening balance	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
Closing balance	146,505,565	(86,634,442)	59,871,123

10. DEFERRED ACQUISITION COSTS

	2012 SR	2011 SR
Opening balance	19,842,071	14,352,440
Incurred during the year	62,450,715	39,597,141
Amortized during the year	(49,786,324)	(34,107,510)
Closing balance	32,506,462	19,842,071

11. PREPAYMENTS AND OTHER ASSETS

	2012 SR	2011 SR
Advances to employees	297,233	16,652
Prepaid insurance	112,647	2,833
Prepaid rent	112,501	112,501
Advance payments	73,800	47,500
Others	371,763	58,674
	967,944	238,160

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

12. PROPERTY AND EQUIPMENT, NET

a) Reinsurance operations:

	Computers and Equipment SR	Furniture and Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Work in Progress SR	Total SR
Cost:						
As at 31 December 2010	2,277,442	109,756	493,000	2,192,523	29,923	5,102,644
Additions during the year	116,539	-	488,400	-	221,548	826,487
Disposals during the year	(20,573)	-	(330,000)	-	-	(350,573)
As at 31 December 2011	2,373,408	109,756	651,400	2,192,523	251,471	5,578,558
Additions during the year	632,765	3,500	-	-	3,072,936	3,709,201
Disposals during the year	-	-	(137,000)	-	-	(137,000)
As at 31 December 2012	3,006,173	113,256	514,400	2,192,523	3,324,407	9,150,759
Accumulated depreciation:						
As at 31 December 2010	1,552,026	60,032	479,246	665,435	-	2,756,739
Charged for the year	485,107	21,947	109,791	219,248	-	836,093
Disposals during the year	(17,270)	-	(329,998)	-	-	(347,268)
As at 31 December 2011	2,019,863	81,979	259,039	884,683	-	3,245,564
Charged for the year	296,053	21,812	113,536	219,249	-	650,650
Disposals during the year	-	-	(48,520)	-	-	(48,520)
As at 31 December 2012	2,315,916	103,791	324,055	1,103,932	-	3,847,694
Net book value						
As at 31 December 2011	353,545	27,777	392,361	1,307,840	251,471	2,332,994
As at 31 December 2012	690,257	9,465	190,345	1,088,591	3,324,407	5,303,065

As at 31 December 2012 work in progress included advances that amounted to SR 3,324,407 paid for software development.

b) Shareholders' operations:

The Company acquired land and a building at a cost of SR 18,329,960 and SR 11,454,040 respectively. The acquisition occurred at the end of year 2012 and therefore no depreciation for the building was recorded.

13. TIME DEPOSITS

Time deposits represent deposits with banks with maturity period of more than three months from the date of original placement. Such deposits earn special commission at an average rate of 2.3% per annum as at 31 December 2012 (31 December 2011: 2.19% per annum).

Time deposits are placed with counterparties that have a good credit rating.

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

14. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT

i. Investments held at fair value through income statement consist of the following:

	2012		2011	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Funds	83,244,130	74,035,494	44,644,961	126,079,764
Equity Portfolios	-	135,863,916	-	29,927,604
Bond Portfolios	-	210,843,604	-	99,993,334
Sukuk	-	25,000,000	-	-
	83,244,130	445,743,014	44,644,961	256,000,702

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

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

- ii. As at 31 December 2012 and 2011, all financial instruments under reinsurance operations which are fair valued are quoted. The analysis of the composition of investments for shareholders' operations is as follows:

	2012		
	Quoted SR	Unquoted SR	Total SR
Funds	49,035,494	25,000,000	74,035,494
Equity Portfolios	135,863,916	-	135,863,916
Bond Portfolios	210,843,604	-	210,843,604
Sukuk	-	25,000,000	25,000,000
	395,743,014	50,000,000	445,743,014

	2011		
	Quoted SR	Unquoted SR	Total SR
Funds	101,066,975	25,012,789	126,079,764
Equity Portfolios	29,927,604	-	29,927,604
Bond Portfolios	99,993,334	-	99,993,334
Sukuk	-	-	-
	230,987,913	25,012,789	256,000,702

- iii. Determination of fair value and fair values hierarchy

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

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

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.

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

As at 31 December 2012 and 2011, all financial instruments under reinsurance operations which are fair valued are Level 1 instruments. The following table shows an analysis of financial instruments under shareholders' operations recorded at fair value by level of the fair value hierarchy:

	2012			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Funds	49,035,494	-	25,000,000	74,035,494
Equity Portfolios	135,863,916	-	-	135,863,916
Bond Portfolios	210,843,604	-	-	210,843,604
Sukuk	-	-	25,000,000	25,000,000
	395,743,014	-	50,000,000	445,743,014

	2011			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Funds	101,066,975	-	25,012,789	126,079,764
Equity Portfolios	29,927,604	-	-	29,927,604
Bond Portfolios	99,993,334	-	-	99,993,334
Sukuk	-	-	-	-
	230,987,913	-	25,012,789	256,000,702

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

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

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

	2012 SR		2011 SR	
	Reinsurance Operations	Shareholders' Operations	Reinsurance Operations	Shareholders' Operations
Opening balance	44,644,961	256,000,702	-	307,400,220
Additions	71,516,844	640,460,749	17,600,000	442,173,227
Disposals	(33,601,941)	(470,328,552)	-	(470,851,315)
Transfer from shareholders' operations to reinsurance operations	-	-	26,741,870	(26,741,870)
Unrealized gains	636,578	17,264,137	303,091	552,211
Realized gains	47,688	2,345,978	-	3,468,229
Closing balance	83,244,130	445,743,014	44,644,961	256,000,702

Investments under shareholders' operations include SR 4.8 million as at 31 December 2012 (2011: SR 113 million) 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 the subsequent periods.

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 4.37% per annum (2011: 4.41% per annum). The fair value of held to maturity investments amounted to SR 226,009,171 (2011: SR 218,771,209) as at the statement of financial position date.

16. UNEARNED COMMISSION INCOME

	2012 SR	2011 SR
Opening balance	6,926,491	10,409,218
Commission received on retroceded business during the year	776,954	16,108,270
Commission earned on retroceded business during the year	(6,122,890)	(19,590,997)
Closing balance	1,580,555	6,926,491

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2012 SR	2011 SR
Withholding tax payable	3,402,809	3,168,777
Employees bonus	3,123,568	3,358,117
Board of directors' remunerations	1,277,130	257,130
Professional fees payable	927,489	459,838
Meeting fees and expenses	188,500	129,500
Others	1,105,867	1,417,554
	10,025,363	8,790,916

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

18. ZAKAT AND INCOME TAX

A) Zakat

The Zakat base is composed of the following:

	2012 SR	2011 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	(76,079,451)	(21,656,126)
Adjusted net income / (loss) for the year	30,832,614	(34,305,879)
Provisions	12,238,189	7,375,864
	973,062,276	957,484,783
Deduct:		
Property and equipment, net	(35,087,065)	(2,332,994)
Held to maturity investments	(209,047,506)	(209,791,799)
Statutory deposit	(100,000,000)	(100,000,000)
Zakat base	628,927,705	645,359,990

Zakat for the year

The Zakat for the year includes the following:

	2012 SR	2011 SR
Portion of the Saudi shareholders' Zakat base (94.1%)	591,820,970	607,283,751
Zakat for the year (2.5%)	14,795,524	15,182,094

B) Income tax

Income tax for the year includes the following:

	2012 SR	2011 SR
Portion of net income /(loss) for non-Saudi shareholders (5.9%)	1,271,160	(2,024,047)
Income tax for the year (20%)	254,232	-
Zakat and income tax charge for the year	15,049,756	15,182,094

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

	2012 SR	2011 SR
Opening balance	25,163,344	21,359,836
Charged for the year	15,049,756	15,182,094
Additional zakat provision for the year	4,917,843	4,935,352
Paid during the year	(15,044,131)	(16,313,938)
Closing balance	30,086,812	25,163,344

The Company has filed its zakat return for the years ended 31 December 2009 to 2011 with the Department of Zakat and Income Tax (DZIT) and has not yet received related final assessments.

Zakat provision is calculated based on the Company's best understanding of the DZIT instructions. Additional zakat 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 2012 and 2011:

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

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
	100,000,000	1,000,000,000

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

	2012		2011	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Salaries and related benefits	13,450,862	6,255,643	15,702,662	7,034,343
Consulting fees	-	630,190	-	4,853,296
Professional fees	153,902	1,320,874	170,643	2,253,028
Depreciation (Note 12)	227,728	422,922	151,787	684,306
Rent and premises expenses	346,460	643,425	-	807,940
Travelling expenses	1,158,373	288,527	648,724	127,604
Advertising	138,581	464,943	78,831	468,818
Provision for doubtful debts	931,809	-	1,355,850	-
Others	1,128,655	1,252,465	242,715	1,687,723
	17,536,370	11,278,989	18,351,212	17,917,058

22. BOARD OF DIRECTORS' REMUNERATIONS AND EXPENSES

	2012 SR	2011 SR
Board of directors' remunerations	1,020,000	-
Meeting fees and expenses	307,135	284,350
	1,327,135	284,350

23. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year and balances at the end of the year:

Related party	Nature of transactions	Amount of transactions for the year ended 31 December		Balance as at 31 December	
		2012 SR	2011 SR	2012 SR	2011 SR
Board of directors	Consulting fees	360,671	687,114	-	-
	Remunerations	1,020,000	-	1,277,130	257,130
	Meeting fees and expenses	307,135	284,350	188,500	129,500
Key management personnel	Short term benefits	8,297,472	13,307,693	2,000,000	2,448,500
	End of service benefits	250,301	306,467	299,043	383,727

In June 2012, a founding member of the Company paid SR 5.6 million to the Company on account of severance dues paid by the Company, in 2011, to the previous chief executive officer (CEO) of the Company. The payment in 2011 by the Company, to the previous CEO, was recognized proportionately in the reinsurance and shareholders operations and accordingly the recovery of this amount has been recognized as other income using the same proportion in their respective statements.

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 2012

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

Earnings / (loss) per share for the years ended 31 December 2012 and 2011 have been calculated by dividing net income / (loss) 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 SURPLUS / (DEFICIT) FROM REINSURANCE OPERATIONS

Net surplus / (deficit) from reinsurance operations has been charged to the statement of shareholders' operations. The total net deficit from date of incorporation of the Company to 31 December 2012 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	(37,083,139)
For the year ended 31 December 2012	8,388,698
	<u>(83,101,021)</u>

27. NET CLAIMS PAID

	2012 SR	2011 SR
Gross claims paid	89,496,456	39,077,436
Retroceded share of claims paid	(54,677,210)	(22,736,921)
Net claims paid	<u>34,819,246</u>	<u>16,340,515</u>

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 realized and unrealized gains on investments held at fair value through income statement, other income, investment management expenses and all general and administrative expenses except depreciation.

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 surplus distribution payable, 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 2012

28. SEGMENTAL INFORMATION (Continued)

28.1 Business segments

The Company revises periodically its estimated gross written premiums and related retroceded premium upon receipt of actual information from cedants. In some business segments, this results in negative gross written premiums, positive retroceded premiums and negative net written premiums for the year when the revision took place.

For the year ended 31 December 2012

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Health SR	Others SR	Total SR
Reinsurance operations' results								
Gross written premiums	62,183,179	95,622,641	30,314,301	12,218,912	15,757,985	1,500,150	27,434,779	245,031,947
Retroceded premiums	(3,072,296)	(256,376)	(360,342)	-	393	-	369,831	(3,318,790)
Excess of loss expenses	(6,016,513)	(11,429,142)	(2,993,523)	(167,659)	-	-	(1,820,641)	(22,427,478)
Net written premiums	53,094,370	83,937,123	26,960,436	12,051,253	15,758,378	1,500,150	25,963,969	219,285,679
Change in net unearned premiums	(23,576,813)	(16,923,429)	(4,880,111)	(2,934,529)	(7,107,330)	113,930	(4,800,089)	(60,108,371)
Net earned premiums	29,517,557	67,013,694	22,080,325	9,116,724	8,651,048	1,614,080	21,163,880	159,177,308
Net claims paid	(2,200,197)	(23,146,699)	(3,484,274)	(4,620,068)	(1,094,944)	-	(273,064)	(34,819,246)
Change in net outstanding claims	(10,260,271)	(23,940,854)	(2,451,186)	(1,364,344)	(396,163)	(361,829)	(18,644,513)	(57,419,180)
Gross acquisition costs	(13,435,903)	(21,859,706)	(8,830,840)	(1,598,737)	(442,017)	-	(3,619,121)	(49,786,324)
Commissions on retroceded business	2,926,185	2,280,914	684,122	-	(12)	-	231,681	6,122,890
Supervision and inspection fees	(310,916)	(478,113)	(151,572)	(61,095)	(78,790)	(7,501)	(137,173)	(1,225,160)
Net underwriting results	6,236,455	(130,764)	7,846,575	1,472,480	6,639,102	1,244,750	(1,258,310)	22,050,288
Other items:								
Depreciation	165,119	253,913	80,496	32,446	41,843	3,983	72,850	650,650

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

28. SEGMENTAL INFORMATION (Continued)

28.1 Business segments (Continued)

For the year ended 31 December 2011

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Health SR	Others SR	Total SR
Reinsurance operations' results								
Gross written premiums	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)
Net written premiums	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)
Net earned premiums	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)	(258,508)	(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)
Net underwriting results	870,974	(21,194,912)	355,530	(3,128,672)	1,701,489	600,133	1,760,440	(19,035,018)
Other items:								
Depreciation	204,033	384,893	113,673	46,160	24,142	9,037	54,155	836,093

As at 31 December 2012

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Health SR	Others SR	Total SR
Segment assets	65,466,362	81,898,531	24,459,570	10,348,435	15,970,291	169,022	13,174,236	211,486,447
Segment liabilities	80,078,184	133,781,066	22,589,021	15,685,919	10,364,449	1,413,432	31,737,836	295,649,907
As at 31 December 2011								
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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

28. SEGMENTAL INFORMATION (Continued)

28.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Emerging Markets SR	Total SR
For the year ended 31 December 2012					
Reinsurance operations' results					
Gross written premiums	146,950,528	47,726,279	15,262,564	35,092,576	245,031,947
Retroceded premiums	(2,563,234)	(713,838)	(41,718)	-	(3,318,790)
Excess of loss expenses	(14,422,007)	(4,959,255)	(306,361)	(2,739,855)	(22,427,478)
Net written premiums	129,965,287	42,053,186	14,914,485	32,352,721	219,285,679
Change in net unearned premiums	(25,352,006)	(12,760,716)	(9,116,788)	(12,878,861)	(60,108,371)
Net earned premiums	104,613,281	29,292,470	5,797,697	19,473,860	159,177,308
Net claims paid	(31,251,845)	(1,793,838)	(2,180,235)	406,672	(34,819,246)
Change in net outstanding claims	(18,394,197)	(21,116,347)	4,935,466	(22,844,102)	(57,419,180)
Gross acquisition costs	(34,870,850)	(9,237,487)	(1,262,430)	(4,415,557)	(49,786,324)
Commissions on retroceded business	5,062,603	997,039	63,248	-	6,122,890
Supervision and inspection fees	(734,753)	(238,631)	(76,313)	(175,463)	(1,225,160)
Net underwriting results	24,424,239	(2,096,794)	7,277,433	(7,554,590)	22,050,288
Other items:					
Depreciation	390,208	126,731	40,528	93,183	650,650
For the year ended 31 December 2011					
Reinsurance operations' results					
Gross written premiums	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)
Net written premiums	70,209,130	19,017,209	2,307,379	-	91,533,718
Change in net unearned premiums	(25,570,661)	(10,213,904)	(862,990)	-	(36,647,555)
Net earned premiums	44,638,469	8,803,305	1,444,389	-	54,886,163
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)
Net underwriting results	(12,085,083)	1,633,624	(8,583,559)	-	(19,035,018)
Other items:					
Depreciation	647,898	162,311	25,884	-	836,093
As at 31 December 2012					
Segment assets	132,448,697	44,343,118	14,653,667	20,040,965	211,486,447
Segment liabilities	178,139,075	61,756,619	18,880,674	36,873,539	295,649,907
As at 31 December 2011					
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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

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 insurance, 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 Insurance 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.

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 with the risk appetite of the company. The retrocession is effected under proportional treaties such as quota share and surplus and non-proportional treaties such as excess of loss for Risk and catastrophe to ensure its net retention is aligned with its risk tolerance.

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 2012

29. RISK MANAGEMENT (Continued)

29.1 Insurance risk (Continued)

Geographical concentration of risk

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

	For the year ended 31 December 2012	
	Amount SR	Percentage
Kingdom of Saudi Arabia	146,950,528	60%
Other Middle Eastern Countries	47,726,279	20%
Africa	15,262,564	6%
Emerging Markets	35,092,576	14%
	245,031,947	100%

	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%
Emerging Markets	-	0%
	159,609,384	100%

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 2012

	Change in assumptions	Net Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	15,917,731	(15,917,731)
	-10%	(15,917,731)	15,917,731

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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

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. Amounts recoverable from retrocessionaire are estimated and recognized in a manner consistent with the amounts associated with the underlying accepted policy benefits and in accordance with the terms of the respective retrocession treaties and are presented in the statement of financial position as reinsurance assets

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 Risk and Underwriting 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 (S&P) or equivalent.
- 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 Risk and Underwriting 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 is due from four ceding companies as at 31 December 2012 (31 December 2011: 37%)

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 2012

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 2012		31 December 2011	
	Reinsurance Operations	Shareholders' Operations	Reinsurance Operations	Shareholders' Operations
Cash and cash equivalents	582,850	615,353	8,293,673	140,053,940
Time deposits	-	187,500,000	-	258,438,845
Premiums receivable	27,607,624	-	19,126,852	-
Deferred excess of loss premiums	11,592,791	-	10,316,395	-
Prepaid expenses and other assets	967,944	-	238,160	-
Due from shareholders' operations	6,385,126	-	14,017,816	-
Retroceded share of outstanding claims	42,123,104	-	86,634,442	-
Accrued special commission income from time deposits	-	477,740	-	1,900,346
Accrued special commission income from bonds and sukuk	-	3,279,972	-	2,987,001
Investments held at fair value through income statement	83,244,130	445,743,014	44,644,961	256,000,702
Held to maturity investments	-	209,047,506	-	209,791,799
Statutory deposit	-	100,000,000	-	100,000,000
	172,503,569	946,663,585	183,272,299	969,172,633

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

	31 December 2012	31 December 2011
	SR	SR
Standard and Poors "AA-" to "AA"	57,002,149	57,233,173
Standard and Poors "A-" to "A+"	138,074,373	142,864,543
Standard and Poors "BBB"	4,475,517	-
Moody's "A3"	-	9,694,083
Moody's "Aa2"	9,495,467	-
	209,047,506	209,791,799

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 2012

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 2012					
	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
LIABILITIES						
Accounts payable	4,768,189	-	4,768,189	1,000,000	-	1,000,000
Retrocession balances payable	3,265,617	-	3,265,617	-	-	-
Accrued retroceded premiums	4,243,430	-	4,243,430	-	-	-
Gross outstanding claims	159,413,407	-	159,413,407	-	-	-
Accrued expenses and other liabilities	10,025,363	-	10,025,363	-	-	-
Employees' end of service benefits	-	1,362,215	1,362,215	-	-	-
Provision for zakat and income tax	-	-	-	30,086,812	-	30,086,812
Due to reinsurance operations	-	-	-	6,385,126	-	6,385,126
	181,716,006	1,362,215	183,078,221	37,471,938	-	37,471,938

	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
LIABILITIES						
Accounts payable	2,486,081	-	2,486,081	-	-	-
Retrocession balances payable	22,236,201	-	22,236,201	-	-	-
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
	194,215,536	938,618	195,154,154	39,181,160	-	39,181,160

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 2012

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 2012	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
ASSETS							
Reinsurance operations							
Cash and cash equivalents	378,919	79,869	-	-	124,062	-	582,850
Investments held at fair value through income statement	83,244,130	-	-	-	-	-	83,244,130
Premiums receivable	7,677,994	5,330,516	1,834,981	3,627,870	727,846	8,408,417	27,607,624
Accrued insurance premiums	45,314,791	10,334,485	4,178,997	7,110,976	53,869	24,907,747	91,900,865
Retroceded share of unearned premiums	5,755,601	-	-	-	-	-	5,755,601
Retroceded share of outstanding claims	35,957,353	875,207	377,584	1,208,421	64,572	3,639,967	42,123,104
Deferred acquisition costs	32,506,462	-	-	-	-	-	32,506,462
Deferred excess of loss premiums	11,592,791	-	-	-	-	-	11,592,791
Prepaid expenses and other assets	967,944	-	-	-	-	-	967,944
Due from shareholders' operations	6,385,126	-	-	-	-	-	6,385,126
Property and equipment, net	5,303,065	-	-	-	-	-	5,303,065
Shareholders							
Cash and cash equivalents	307,376	307,977	-	-	-	-	615,353
Time deposits	150,000,000	37,500,000	-	-	-	-	187,500,000
Accrued special commission income from time deposits	375,000	102,740	-	-	-	-	477,740
Accrued special commission income from bonds and sukuk	285,062	2,894,306	-	-	100,604	-	3,279,972
Investments held at fair value through income statement	164,550,018	281,192,996	-	-	-	-	445,743,014
Held to maturity investments	-	184,125,227	-	-	24,922,279	-	209,047,506
Statutory deposit	100,000,000	-	-	-	-	-	100,000,000
Property and equipment	29,784,000	-	-	-	-	-	29,784,000
Other assets	4,282,585	-	-	-	-	-	4,282,585
	684,668,217	522,743,323	6,391,562	11,947,267	25,993,232	36,956,131	1,288,699,732

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

29. RISK MANAGEMENT (Continued)

29.5 Currency risk (Continued)

31 December 2011	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
ASSETS							
Reinsurance operations							
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
Shareholders							
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 and sukuk	-	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
	644,071,730	335,298,286	118,147,939	117,184,734	25,484,680	15,453,631	1,255,641,000

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

29. RISK MANAGEMENT (Continued)

29.5 Currency risk (Continued)

31 December 2012	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
LIABILITIES							
Reinsurance operations							
Accounts payable	4,768,189	-	-	-	-	-	4,768,189
Retrocession balances payable	3,265,617	-	-	-	-	-	3,265,617
Accrued retrocession premiums	2,673,555	566,442	27,931	198,253	11,723	765,526	4,243,430
Gross unearned premiums	122,378,709	-	-	-	-	-	122,378,709
Gross outstanding claims	93,615,221	10,174,722	9,021,200	7,555,040	158,761	38,888,463	159,413,407
Unearned commission income	1,580,555	-	-	-	-	-	1,580,555
Surplus distribution payable	932,077	-	-	-	-	-	932,077
Accrued expenses and other liabilities	10,025,363	-	-	-	-	-	10,025,363
Employees' end of service benefits	1,362,215	-	-	-	-	-	1,362,215
Shareholders							
Accounts payable	1,000,000	-	-	-	-	-	1,000,000
Provision for zakat and income tax	30,086,812	-	-	-	-	-	30,086,812
Due to reinsurance operations	6,385,126	-	-	-	-	-	6,385,126
Other liabilities	4,282,585	-	-	-	-	-	4,282,585
	282,356,024	10,741,164	9,049,131	7,753,293	170,484	39,653,989	349,724,085
31 December 2011							
	SR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
LIABILITIES							
Reinsurance operations							
Accounts payable	2,486,081	-	-	-	-	-	2,486,081
Retrocession balances payable	22,236,201	-	-	-	-	-	22,236,201
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
Shareholders							
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
	293,660,177	2,289,369	1,056,506	4,892,660	121,021	23,629,794	325,649,527

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.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For The Year Ended 31 December 2012

29. RISK MANAGEMENT (Continued)

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 7,863,981 (31 December 2011: SR 8,536,236).

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.

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

	2012 SR	2011 SR
Total capital held	938,975,647	929,991,473
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 year.

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. COMPARATIVE FIGURES

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

The general and administrative expenses for year 2012 were reclassified to separate the reinsurance operations related costs from shareholders' costs. Accordingly the 2011 comparative figures were also reclassified based on similar classification. As a result of this reclassification, an amount of SR 17.9 million was taken out from reinsurance operations' general and administrative expenses and charged to shareholders operations.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on Rabi Al Thani 11, 1434 H corresponding to February 21, 2013.