
SAUDI REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

**FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009**

Saudi Reinsurance Company (A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

For The Year Ended 31 December 2009

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INDEPENDENT AUDITOR'S 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 2009, and the related statements of reinsurance operations, shareholders' operations and shareholders' comprehensive operations, changes in shareholders' equity, reinsurance operations and shareholders' cash flows for the year then ended and the notes which form 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:

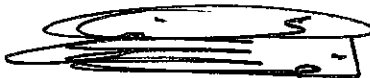
In our opinion, the financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as at 31 December 2009 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-law with respect to the preparation and presentation of the financial statements.

EMPHASIS OF A MATTER:

We draw attention to the fact that 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).

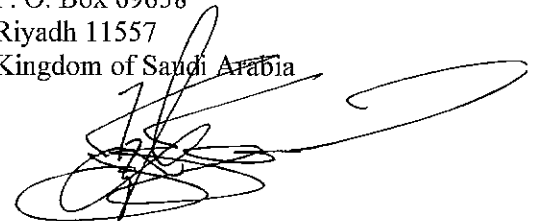
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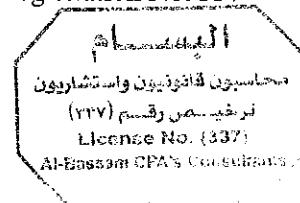
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Certified Public Accountant
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03 February 2010
19 Safar 1431H

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As At 31 December 2009

	Notes	31 December 2009 SR	31 December 2008 SR
REINSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	5	2,716,710	33,604
Premiums receivable	6	13,112,294	2,257,167
Accrued insurance premiums		12,256,370	-
Retroceded share of unearned premiums	7	19,968,169	2,357,805
Retroceded share of outstanding claims	8	15,260,001	158,616
Deferred acquisition costs	9	7,486,779	612,007
Prepaid expenses and other assets	10	1,298,409	426,427
Due from shareholders' operations		11,756,134	196,048
Property and equipment, net	11	3,170,931	3,689,719
TOTAL REINSURANCE OPERATIONS' ASSETS		87,025,797	9,731,393
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	1,945,304	412,330,351
Time deposits	12	243,263,605	600,000,000
Accrued special commission income from time deposits		5,857,623	13,720,726
Accrued special commission income from bonds		1,185,207	-
Investments held at fair value through income statement	13	573,632,717	-
Held to maturity investments	14	115,706,278	-
Statutory deposit	25	100,000,000	-
Other assets		680,834	-
TOTAL SHAREHOLDERS' ASSETS		1,042,271,568	1,026,051,077
TOTAL ASSETS		1,129,297,365	1,035,782,470
REINSURANCE OPERATIONS' LIABILITIES			
Retrocession balances payable		17,243,405	1,913,175
Accrued retroceded premiums		8,041,644	-
Gross unearned premiums	7	28,447,374	2,891,122
Gross outstanding claims	8	22,055,663	202,623
Unearned commission income	15	6,128,576	612,814
Accrued expenses and other liabilities	16	4,499,186	3,745,127
Employees' end of service benefits		609,949	366,532
TOTAL REINSURANCE OPERATIONS' LIABILITIES		87,025,797	9,731,393
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Provision for zakat and income tax	17	24,202,000	329,606
Due to reinsurance operations		11,756,134	196,048
Other liabilities		680,834	-
TOTAL SHAREHOLDERS' LIABILITIES		36,638,968	525,654
SHAREHOLDERS' EQUITY			
Share capital	18	1,000,000,000	1,000,000,000
Statutory reserve	19	6,070,924	5,105,085
(Deficit)/Retained earnings		(438,324)	20,420,338
TOTAL SHAREHOLDERS' EQUITY		1,005,632,600	1,025,525,423
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		1,042,271,568	1,026,051,077
TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SHAREHOLDERS' LIABILITIES AND EQUITY		1,129,297,365	1,035,782,470

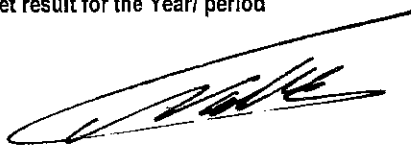
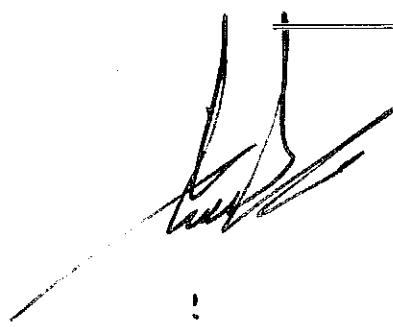
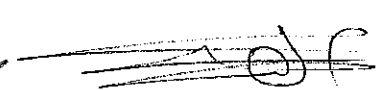
The accompanying notes 1 to 32 form an integral part of these financial statements.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF REINSURANCE OPERATIONS

For The Year Ended 31 December 2009

	Notes	For The Year Ended 31 December 2009 SR	For The Period from 1 May 2008 to 31 December 2008 SR
Gross premiums written	7	51,053,121	3,217,946
Retroceded premiums	7	(34,765,056)	(2,613,851)
Net premiums written		16,288,065	604,095
Change in net unearned premiums	7	(7,945,887)	(533,317)
Net premiums earned		8,342,178	70,778
Net claims paid	27	1,675,140	-
Change in net outstanding claims	8	(6,751,654)	(44,007)
Gross acquisition costs	9	(5,948,618)	(90,604)
Commissions on retroceded business	15	4,808,194	87,862
Excess of loss expenses		(1,576,162)	(293,506)
Net underwriting results		549,078	(269,477)
General and administrative expenses	20	(20,484,984)	(10,520,651)
Board of directors' remunerations and expenses	22	(609,727)	(1,135,363)
Net deficit from reinsurance operations' results	26	(20,545,633)	(11,925,491)
Net deficit transferred to the statement of shareholders' operations		20,545,633	11,925,491
Net result for the Year/ period		-	-

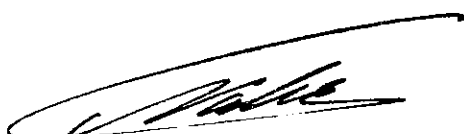
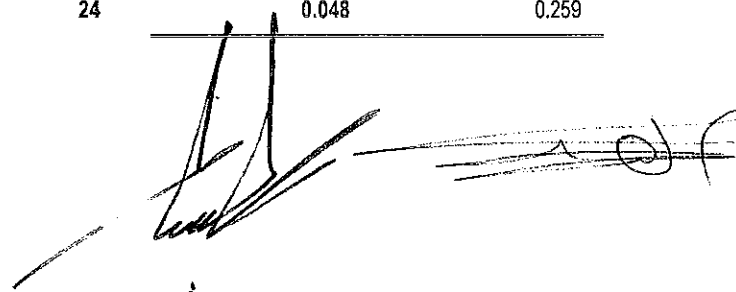




Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' OPERATIONS

For The Year Ended 31 December 2009

	Notes	For The Year Ended 31 December 2009 SR	For The Period from 1 May 2008 to 31 December 2008 SR
Special commission income from time deposits		17,947,068	29,538,749
Special commission income from bonds		808,877	-
Realized gains from investments held at fair value through income statement		727,568	-
Unrealized gains on investments held at fair value through income statement		5,891,316	-
Net deficit transferred from reinsurance operations		(20,545,633)	(11,925,491)
Net income for the year/ period before income from pre-incorporation		4,829,196	17,613,258
Net income from pre-incorporation	21	-	8,241,771
Net income for the year/period		4,829,196	25,855,029
Earnings per share	24	0.048	0.259

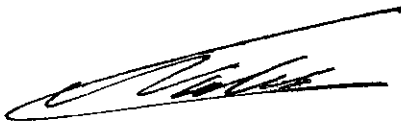
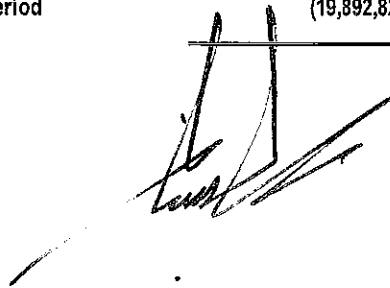
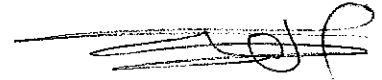
The accompanying notes 1 to 32 form an integral part of these financial statements.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS

For The Year Ended 31 December 2009

	For The Year Ended 31 December 2009 SR	For The Period from 1 May to 31 December 2008 SR
Net income for the year/ period	4,829,196	25,855,029
Other comprehensive expenses	-	-
Zakat and income tax	17 (24,722,019)	(329,606)
Total comprehensive (deficit) / income for the year/ period	(19,892,823)	25,525,423

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 2009

Notes	Saudi Founding Shareholders and general public				Non Saudi Founding Shareholders				Total				
	Share capital	Statutory reserve	Retained Earnings / (deficit)	SR	Share capital	Statutory reserve	Retained earnings	SR	Share capital	Statutory reserve	Retained Earnings / (deficit)	SR	
	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	
18	941,000,000	-	-	-	59,000,000	-	-	-	1,000,000,000	-	-	-	1,000,000,000
	-	-	24,329,582	-	-	-	1,525,447	-	-	-	25,855,029	-	25,855,029
	-	-	-	-	-	-	(329,606)	-	-	-	(329,606)	-	(329,606)
	-	4,803,885	(4,803,885)	-	-	301,200	(301,200)	-	-	5,105,085	(5,105,085)	-	-
	941,000,000	4,803,885	19,525,597	-	59,000,000	301,200	894,641	-	1,000,000,000	5,105,085	20,420,338	-	1,025,525,423
	-	-	4,544,273	-	-	-	284,923	-	-	-	4,829,196	-	4,829,196
17	-	-	(24,672,019)	-	-	-	(50,000)	-	-	-	(24,722,019)	-	(24,722,019)
19	-	908,855	(908,855)	-	-	56,984	(56,984)	-	-	955,839	(955,839)	-	-
	941,000,000	5,712,740	(1,510,904)	-	59,000,000	358,184	1,072,580	-	1,000,000,000	6,070,924	(438,324)	-	1,005,632,600

Balance as at 31 December 2009



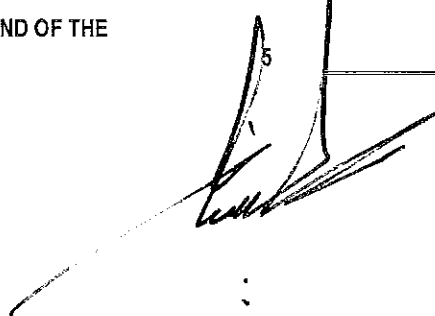
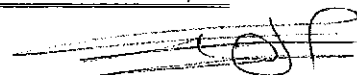

The accompanying notes 1 to 32 form an integral part of these financial statements.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF REINSURANCE OPERATIONS' CASH FLOWS

For The Year Ended 31 December 2009

Note	For The Year Ended 31 December 2009 SR	For The Period from 1 May 2008 to 31 December 2008 SR
OPERATING ACTIVITIES		
Net result for the year/ period	-	-
Adjustments for:		
Employees' end of service benefits	243,417	366,532
Depreciation	928,624	818,044
Operating profit before changes in operating assets and liabilities:	1,172,041	1,184,576
Premiums receivable	(10,855,127)	(2,257,167)
Accrued insurance premiums	(12,256,370)	-
Retroceded share of unearned premiums	(17,610,364)	(2,357,805)
Retroceded share of outstanding claims	(15,101,385)	(158,616)
Deferred acquisition costs	(6,874,772)	(612,007)
Prepaid expenses and other assets	(871,982)	(426,427)
Due from shareholders' operations	(11,560,086)	(196,048)
Retrocession balances payable	15,330,230	1,913,175
Accrued retroceded premiums	8,041,644	-
Gross unearned premiums	25,556,252	2,891,122
Gross outstanding claims	21,853,040	202,623
Unearned commission income	5,515,762	612,814
Accrued expenses and other liabilities	754,059	3,745,127
Net cash from operating activities	3,092,942	4,541,367
INVESTING ACTIVITIES		
Purchase of property and equipment	(409,836)	(4,507,763)
Net cash used in investing activities	(409,836)	(4,507,763)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,683,106	33,604
Cash and cash equivalents at the beginning of the year/period	33,604	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	2,716,710	33,604


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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

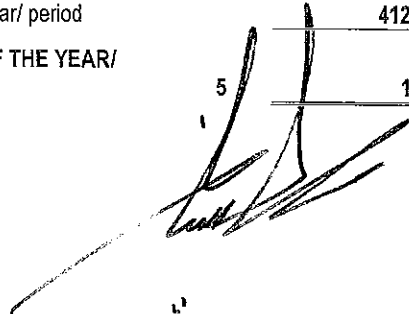
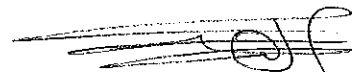
STATEMENT OF SHAREHOLDERS' CASH FLOWS

For The Year Ended 31 December 2009

	For The Year Ended 31 December 2009 SR	For The Period from 1 May 2008 to 31 December 2008 SR
OPERATING ACTIVITIES		
Net income for the year/period	4,829,196	25,855,029
Adjustments for:		
Realized gains from investments held at fair value through income statement	(727,568)	-
Unrealized gains on investments held at fair value through income Statement	(5,891,316)	-
Operating (Deficit) / profit before changes in operating assets and liabilities:	(1,789,688)	25,855,029
Changes in operating assets and liabilities:		
Statutory deposit	(100,000,000)	-
Due to reinsurance operations	11,560,086	196,048
Other assets	(680,834)	-
Other Liabilities	680,834	-
Zakat and income tax paid	(849,625)	-
Net cash (used in) / from operating activities	(91,079,227)	26,051,077
INVESTING ACTIVITIES		
Proceeds from investments held at fair value through income statement	360,000,000	-
Accrued special commission income from time deposits	7,863,103	(13,720,726)
Accrued special commission income from bonds	(1,185,207)	-
Investments held at fair value through income statement	(927,013,833)	-
Time deposits, net	356,736,395	(600,000,000)
Held to maturity investments	(115,706,278)	-
Net cash used in investing activities	(319,305,820)	(613,720,726)
FINANCING ACTIVITIES		
Issue of share capital	-	1,000,000,000
Net cash from financing activities	-	1,000,000,000
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(410,385,047)	412,330,351
Cash and cash equivalents at the beginning of the year/ period	412,330,351	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/ PERIOD	1,945,304	412,330,351



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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 2009

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 Awal 1429H (corresponding to 17 May 2008). The address of the Company's registered office is at P.O. Box 30025, Riyadh 11372, 6th Floor, Arch 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.

As per the Company's by-laws, the Company's first fiscal year commenced on the issuance date of the Ministerial Resolution declaring the incorporation of the Company, dated 24 Rabi Al Thani 1429H (corresponding to 1 May 2008), and ended on 31 December 2008.

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 a 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New standards and interpretations issued

The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) which the Company has implemented during the current year:

- IFRS 7 Financial Instruments Disclosures (Revised)
- IFRS 8 Operating Segments
- IAS 1 - Presentation of financial statements (Revised)

The application of the above standards has resulted in amendments to the presentation of the financial statements.

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank current accounts and time deposits with an original maturity of three months or less at the date of original acquisition.

Reinsurance

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 recognized as an expense when incurred.

Subsequent to initial recognition, these 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:

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

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet 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 the total premiums in relation to contracts incepting during the financial year. It includes an estimate of pipeline premiums, being those premiums written but not reported to the company at the balance sheet 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:

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Premiums earned and commission income (Continued)

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

Line of business	Years
Engineering	4
Marine cargo	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 that revenue is recognized 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 balance sheet date.

Any difference between the provisions at the balance sheet date and settlements and provisions for the following year is included in the underwriting account for that year.

Liability adequacy test

At each balance sheet 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.

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 special commission rate applicable.

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 shareholders' operations.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Employee end of service benefits

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

Leases

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

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 balance sheet date. All differences are taken to the statements of reinsurance operations or shareholders' operations.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian Fiscal Regulations. As per the Company's by-law, Zakat and income Tax are considered as dividends to the shareholders. Accordingly income tax is debited to Non-Saudi Founding shareholders' equity account while the Zakat is debited to the Saudi 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 than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the 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 risks and rewards that are different from those of other segments. For management purposes, the Company is organized into business units based on their products and services and has four 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 Insurance provides coverage for goods in transit and the vehicles of transportation on waterways, and any other insurance included under this class of insurance.
- Motor Insurance provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Shareholders' Funds is a non-operating segment. Investment income is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The losses or surplus from the reinsurance operations are allocated to this segment on an appropriate basis.

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

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

4. 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 balance sheet 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 needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the balance sheet date, for which the insured event has occurred prior to the balance sheet date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

Impairment losses on receivables

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

Deferred 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 reinsurance 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 balance sheet 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 2009, all financial instruments which are fair valued are Level 1 instruments.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

5. CASH AND CASH EQUIVALENTS

	31 December 2009		31 December 2008	
	Reinsurance SR	Shareholders SR	Reinsurance SR	Shareholders SR
Cash in hand	-	20,000	-	28,045
Cash at banks	2,716,710	1,925,304	33,604	302,306
Time deposits	-	-	-	412,000,000
	<u>2,716,710</u>	<u>1,945,304</u>	<u>33,604</u>	<u>412,330,351</u>

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

Time deposits are made for varying periods between one day and three months depending on the cash requirements of the Company. All deposits result in an average commission rate of 2.16% per annum (31 December 2008: 4.75% per annum).

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

6. PREMIUMS RECEIVABLE

As at 31 December 2009, the ageing of unimpaired policyholders balances is as follows:

	Neither past due nor impaired SR	Past due but not impaired SR	Total SR
31 December 2009	<u>12,797,123</u>	<u>315,171</u>	<u>13,112,294</u>
31 December 2008	<u>2,257,167</u>	<u>-</u>	<u>2,257,167</u>

The company does not have balances which are past due. The Company classifies balances as 'past due and impaired' on a case to case basis. It is not the practice of the Company to obtain collateral over receivables. Amounts which are neither past due nor impaired, in respect of premiums receivable are from unrated companies.

During the year the company has made provisions for doubtful premium receivable in accordance with the guidelines of Saudi Arabian Monetary Agency, amounting to SR 46,488 as at 31 December 2009 (31 December 2008: Nil).

7. UNEARNED PREMIUMS

	31 DECEMBER 2009		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the year	2,891,122	(2,357,805)	533,317
Premiums written during the year	51,053,121	(34,765,056)	16,288,065
Premiums earned	(25,496,869)	17,154,692	(8,342,178)
Change in unearned premiums	25,556,252	(17,610,364)	7,945,887
	<u>28,447,374</u>	<u>(19,968,169)</u>	<u>8,479,204</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

7. UNEARNED PREMIUMS - Continued

	31 DECEMBER 2008		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the period	-	-	-
Premiums written during the period	3,217,946	(2,613,851)	604,095
Premiums earned	(326,824)	256,046	(70,778)
Change in unearned premiums	2,891,122	(2,357,805)	533,317
	<u>2,891,122</u>	<u>(2,357,805)</u>	<u>533,317</u>

8. GROSS OUTSTANDING CLAIMS

	31 DECEMBER 2009		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the year	202,623	(158,616)	44,007
Outstanding claims provided during the year	15,513,678	(10,695,394)	4,818,284
Claims incurred but not reported provided during the year	6,339,362	(4,405,991)	1,933,371
Change in outstanding claims	21,853,040	(15,101,385)	6,751,654
	<u>22,055,663</u>	<u>(15,260,001)</u>	<u>6,795,662</u>

	31 DECEMBER 2008		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the period	-	-	-
Outstanding claims provided during the period	6,529	(4,988)	1,541
Claims incurred but not reported provided during the period	196,094	(153,628)	42,466
Change in outstanding claims	202,623	(158,616)	44,007
	<u>202,623</u>	<u>(158,616)</u>	<u>44,007</u>

9. DEFERRED ACQUISITION COSTS

	2009 SR	2008 SR
Opening balance for the year/ period	612,007	-
Incurred during the year/ period	12,823,390	702,611
Amortized during the year/ period	(5,948,618)	(90,604)
	<u>7,486,779</u>	<u>612,007</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

10. PREPAYMENTS AND OTHER ASSETS

	2009 SR	2008 SR
Deferred excess of loss premiums	706,239	164,823
Prepaid rent	248,283	228,596
Advances to employees	169,282	-
Prepaid insurance	2,022	24,758
Other	172,583	8,250
	1,298,409	426,427

11. PROPERTY AND EQUIPMENT, NET

31 December 2008	Computers and Equipment SR	Furniture And Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Total SR
Cost:					
Additions during the period	1,712,484	109,756	493,000	2,192,523	4,507,763
At 31 December 2008	1,712,484	109,756	493,000	2,192,523	4,507,763
Additions during the year	409,836	-	-	-	409,836
At 31 December 2009	2,122,320	109,756	493,000	2,192,523	4,917,599
Accumulated depreciation:					
Charged for the period	320,407	8,195	267,690	221,752	818,044
At 31 December 2008	320,407	8,195	267,690	221,752	818,044
Charged for the year	555,430	29,890	118,869	224,435	928,624
At 31 December 2009	875,837	38,085	386,559	446,187	1,746,668
Net book value					
31 December 2008	1,392,077	101,561	225,310	1,970,771	3,689,719
31 December 2009	1,246,483	71,671	106,441	1,746,336	3,170,931

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

12. TIME DEPOSITS

The time deposits represent deposits with foreign banks with maturity period of more than three months from the date of original acquisition. Such deposits earn average special commission income at a rate of 5.9% per annum (31 December 2008: 6.16% per annum).

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

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

13. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT

Investments held at fair value through income statement represent units in money market and commodity trading funds at local banks.

14. 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 income of 4.44% on an annual basis. The fair value of held to maturity investments amounted to SR 114,486,444 as at the financial position date.

15. UNEARNED COMMISSION INCOME

	2009 SR	2008 SR
Opening balance for the year/ period	612,814	-
Commission received on retroceded business during the year/ period	10,323,956	700,676
Commission earned on retroceded business during the year/ period	(4,808,194)	(87,862)
	<u>6,128,576</u>	<u>612,814</u>

16. ACCRUED EXPENSES AND OTHER LIABILITIES

	2009 SR	2008 SR
Employees bonus	2,580,000	900,000
Professional fees payable	901,443	852,000
Withholding tax payable	300,663	142,588
Board of directors' remuneration	254,168	900,000
Meeting fees and expenses	114,000	140,000
Payable to suppliers	-	712,677
Other	348,912	97,862
	<u>4,499,186</u>	<u>3,745,127</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

17. ZAKAT AND INCOME TAX

A) Zakat

The Zakat base is composed of the following:

	SR
Share Capital	1,000,000,000
Statutory reserve – beginning of the year	5,105,085
Retained earnings – beginning of the year	20,420,338
Net income for the year	4,829,196
Provisions	609,949
Deduct:	
Property and equipment, net	(3,170,931)
Zakat base	1,027,793,637

Zakat for the year

The Zakat for the year includes the following:

	Year ended 31 December 2009 SR
Portion of the Saudi shareholders' Zakat base (94.1%)	967,153,812
Zakat for the year (2.5%)	24,672,019

B) Income tax

Income tax for the year includes the following:

	Year ended 31 December 2009 SR
Portion of net income for non-Saudi shareholders (5.9%)	284,923
Income tax for the year (20%)	50,000
Zakat and income tax charge for the year	24,722,019

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

	2009 SR	For The Period from 1 May 2008 to 31 December 2008 SR
Opening balance for the year / period	329,606	-
Charged for the year / period	24,722,019	329,606
Paid during the year / period	(849,625)	-
	<u>24,202,000</u>	<u>329,606</u>

The Company did not make any zakat provision for the period from 1 May 2008 to 31 December 2008, because the company had not completed one year of its operations.

18. 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 represents 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 2009.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

18. SHARE CAPITAL - Continued

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

19. STATUTORY RESERVE

In accordance with its by – laws, the Company transferred 20% of its net income for the year/ period 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.

20. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2009 SR	For the period from 1 May 2008 to 31 December 2008 SR
Salaries and related benefits	12,129,562	5,409,073
Consulting fees	1,531,217	1,264,858
Professional fees	1,277,619	1,151,342
Depreciation	928,624	818,044
Travelling expenses	800,140	482,272
Rent and premises expenses	677,369	408,833
Withholding tax	498,038	142,588
Advertising	298,667	224,053
Licensing Fees	-	216,102
Other	2,343,748	403,486
	<u>20,484,984</u>	<u>10,520,651</u>

21. NET INCOME FROM PRE-INCORPORATION

	From 16 April 2005 To 30 April 2008 SR
Income	
Special commission income from time deposits	40,749,444
Expenses	
Salaries and related benefits	10,885,977
Issue costs	10,657,763
Professional and consulting fees	4,756,195
Bank guarantee charges	2,906,250
Travel expenses	1,593,598
Rent and premises	1,191,300
Other	516,590
Total Expenses	<u>32,507,673</u>
	<u>8,241,771</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

22. BOARD OF DIRECTORS' REMUNERATIONS AND EXPENSES

	For the year ended 31 December 2009 SR	For the period from 1 May 2008 to 31 December 2008 SR
Board of directors' remunerations	254,168	900,000
Meeting fees and expenses	355,559	235,363
	609,727	1,135,363

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/period:

Related party	Nature of transactions	Amount of transactions for the year ended 31 December 2009 SR	Balance as at 31 December 2009 SR	Balance as at 31 December 2008 SR
Board of directors	Consulting fees	1,469,441	269,441	244,000
	Remunerations	254,168	254,168	900,000
	Expenses	355,559	114,000	140,000
Key management	Short term benefits	5,543,706	1,500,000	700,000
Personnel	End of service benefits	206,468	449,551	235,348
Others	Consulting fees	92,000	92,000	150,000

Balances with related parties are presented in statement of financial position and note 16.

24. EARNINGS PER SHARE

Earnings per share for the year / period ended 31 December has been calculated by dividing net income for the year / period by the ordinary issued and outstanding shares at the end of the year / period.

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 statement of shareholders' operations. The total net deficit from date of incorporation of the company to 31 December 2009 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
	32,471,124

27. NET CLAIMS PAID

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.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

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 in contrast, the predecessor standard IAS 14. Segment Reporting required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personal serving only as a starting point for the identification of such segments. Following the adoption of IFRS 8 the identification of the Company's reportable segments has not changed.

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

Segment results do not include general and administrative expenses, and board of directors' remuneration and expenses.

Segment assets do not include reinsurance operations cash and cash equivalents, prepaid expenses and other assets, due from shareholders' operations, property and equipment, net.

Segment liabilities do not include accrued expenses and other liabilities, due to shareholders operations, employees' end of service benefits and due to reinsurance operations.

28.1 Business segments

	Engineering SR	Fire SR	Marine SR	Motor SR	Others SR	Total SR
For the year ended 31 December 2009						
Reinsurance operations						
Gross premiums written	14,535,833	21,528,634	9,291,060	3,016,685	2,680,909	51,053,121
Retroceded premiums	(10,790,192)	(15,736,641)	(6,471,647)	-	(1,766,576)	(34,765,056)
Net premiums written	3,745,641	5,791,993	2,819,413	3,016,685	914,333	16,288,065
Change in net unearned premiums	(2,208,615)	(2,598,936)	(1,527,967)	(1,131,958)	(478,411)	(7,945,887)
Net premiums earned	1,537,026	3,193,057	1,291,446	1,884,727	435,922	8,342,178
Net claims paid	(12,894)	1,767,244	(40,169)	(233,252)	194,211	1,675,140
Change in net outstanding claims	(994,473)	(4,403,260)	(402,464)	(545,634)	(405,823)	(6,751,654)
Gross acquisition costs	(1,461,395)	(2,512,400)	(1,360,313)	(353,576)	(260,934)	(5,948,618)
Commissions on retroceded business	1,296,580	2,214,448	1,085,270	-	211,896	4,808,194
Excess of loss expenses	(459,432)	(655,090)	(328,702)	(96,056)	(36,882)	(1,576,162)
Net underwriting results	(94,588)	(396,001)	245,068	656,209	138,390	549,078
For the period from 1 May 2008 to 31 December 2008						
Reinsurance operations						
Gross premiums written	2,469,105	669,491	79,350	-	-	3,217,946
Retroceded premiums	(2,061,229)	(496,710)	(55,912)	-	-	(2,613,851)
Net premiums written	407,876	172,781	23,438	-	-	604,095
Change in net unearned premiums	(377,359)	(138,727)	(17,231)	-	-	(533,317)
Net premiums earned	30,517	34,054	6,207	-	-	70,778
Change in net outstanding claims	(18,663)	(21,620)	(3,724)	-	-	(44,007)
Gross acquisition costs	(58,295)	(29,313)	(2,996)	-	-	(90,604)
Commissions on retroceded business	57,911	27,679	2,272	-	-	87,862
Excess of loss expenses	-	(142,813)	(36,829)	(113,864)	-	(293,506)
Net underwriting results	11,470	(132,013)	(35,070)	(113,864)	-	(269,477)
As at 31 December 2009						
Segment assets	19,801,604	32,096,568	11,200,850	1,204,458	3,780,133	68,083,613
Segment liabilities	19,324,535	46,766,835	10,662,618	1,677,592	3,485,082	81,916,662
As at 31 December 2008						
Segment assets	4,306,150	950,900	128,545	-	-	5,385,595
Segment liabilities	4,407,531	1,085,425	126,778	-	-	5,619,734

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

28. SEGMENTAL INFORMATION - Continued

28.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern countries SR	Africa SR	Total SR
For the year ended 31 December 2009				
Reinsurance operations				
Gross premiums written	42,774,890	5,139,625	3,138,606	51,053,121
Retroceded premiums	(29,465,055)	(3,219,178)	(2,080,823)	(34,765,056)
Net premiums written	13,309,835	1,920,447	1,057,783	16,288,065
Change in net unearned premiums	(6,773,504)	(803,313)	(369,070)	(7,945,887)
Net premiums earned	6,536,331	1,117,134	688,713	8,342,178
Net claims paid	1,696,755	(15,383)	(6,232)	1,675,140
Change in net outstanding claims	(6,237,550)	(339,258)	(174,846)	(6,751,654)
Gross acquisition costs	(4,927,469)	(447,592)	(573,557)	(5,948,618)
Commissions on retroceded business	3,990,743	365,615	451,836	4,808,194
Excess of loss expenses	(1,223,882)	(205,412)	(146,868)	(1,576,162)
Net underwriting results	(165,072)	475,104	239,046	549,078
For the period from 1 May 2008 to 31 December 2008				
Reinsurance operations				
Gross premiums written	2,355,655	392,280	470,011	3,217,946
Retroceded premiums	(1,971,994)	(274,627)	(367,230)	(2,613,851)
Net premiums written	383,661	117,653	102,781	604,095
Change in net unearned premiums	(350,415)	(102,228)	(80,674)	(533,317)
Net premiums earned	33,246	15,425	22,107	70,778
Change in net outstanding claims	(21,137)	(9,606)	(13,264)	(44,007)
Gross acquisition costs	(53,756)	(14,783)	(22,065)	(90,604)
Commissions in retroceded business	53,396	13,012	21,454	87,862
Excess of loss expenses	(293,506)	-	-	(293,506)
Net underwriting results	(281,757)	4,048	8,232	(269,477)
As at 31 December 2009				
Reinsurance operations				
Segment assets	57,043,897	6,854,121	4,185,595	68,083,613
Segment liabilities	68,633,926	8,246,724	5,036,012	81,916,662
As at 31 December 2008				
Reinsurance operations				
Segment assets	4,190,064	580,690	614,841	5,385,595
Segment liabilities	4,210,392	634,312	775,030	5,619,734

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 as follows.

29.1 Reinsurance risk

The risk 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 insurance 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 balance sheet 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 2009

29. RISK MANAGEMENT – Continued

29.1 Reinsurance risk - Continued

Geographical concentration of risk

The Company accepts reinsurance business from ceding 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 2009	
	Amount SR	%
Kingdom of Saudi Arabia	42,774,890	84
Other Middle Eastern Countries	5,139,625	10
Africa	3,138,606	6
	<u>51,053,121</u>	<u>100</u>

	For the period from 1 May 2008 to 31 December 2008	
	Amount SR	%
Kingdom of Saudi Arabia	2,355,655	73
Other Middle Eastern Countries	392,280	12
Africa	470,011	15
	<u>3,217,946</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 2009

	Change in assumptions	Net Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+ 10%	834,218	834,218
	- 10%	(834,218)	(834,218)

31 December 2008

	Change in assumptions	Net Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+ 10%	7,097	(7,097)
	- 10%	(7,097)	7,097

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 & Poor's) 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.

78 % of the Company's receivables are due from four ceding companies as at 31 December 2009.

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 2009

29. RISK MANAGEMENT - Continued

29.3 Credit risk - Continued

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

	31 December 2009		31 December 2008	
	SR		SR	
	Reinsurance Operations	Shareholders	Reinsurance Operations	Shareholders
Cash and cash equivalents	2,716,710	1,945,304	33,604	412,330,351
Time deposit	-	243,263,605	-	600,000,000
Premiums receivable	13,112,294	-	2,257,167	-
Prepayments and other assets	1,298,409	-	426,427	-
Due from shareholders' operations	11,756,134	-	196,048	-
Retroceded share of outstanding claims	15,260,001	-	158,616	-
Accrued special commission income from time deposits	-	5,857,623	-	13,720,726
Accrued special commission income from bonds	-	1,185,207	-	-
Investments held at fair value through income statement	-	573,632,717	-	-
Held to maturity investments	-	115,706,278	-	-
Statutory deposit	-	100,000,000	-	-
	<u>44,143,548</u>	<u>1,041,590,734</u>	<u>3,071,862</u>	<u>1,026,051,077</u>

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

	31 December 2009 SR	31 December 2008 SR
Standard and Poor's "AA-" to "AA"	57,663,658	-
Standard and Poor's "A-" to "A+"	47,977,026	-
Moody's "Aa2"	10,065,594	-
	<u>115,706,278</u>	<u>-</u>

The used rating grades for investments are being adopted by Standard & Poor's 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 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 balance sheet 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 2009

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 2009					
	Reinsurance operations			Shareholders		
	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						
Retrocession balances payable	17,243,405	-	17,243,405	-	-	-
Accrued retroceded premiums	8,041,644	-	8,041,644	-	-	-
Gross outstanding claims	22,055,663	-	22,055,663	-	-	-
Accrued expenses and other liabilities	4,499,186	-	4,499,186	-	-	-
Employees' end of service benefits	-	609,949	609,949	-	-	-
Provision for zakat and income tax	-	-	-	24,202,000	-	24,202,000
Due to reinsurance operations	-	-	-	11,560,086	196,048	11,756,134
	51,839,898	609,949	52,449,847	35,762,086	196,048	35,958,134

	31 December 2008					
	Reinsurance operations			Shareholders		
	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						
Retrocession balances payable	1,913,175	-	1,913,175	-	-	-
Gross outstanding claims	202,623	-	202,623	-	-	-
Accrued expenses and other liabilities	3,745,127	-	3,745,127	-	-	-
Employees' end of service benefits	-	366,532	366,532	-	-	-
Provision for income tax	-	-	-	329,606	-	329,606
Due to reinsurance operations	-	-	-	196,048	-	196,048
	5,860,925	366,532	6,227,457	525,654		525,654

Liquidity profile

None of the liabilities in the balance sheets are based on discounted cash flows and are all payable on a 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 its transactions were performed in foreign currencies which are pegged to Saudi Riyal.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

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 2009	SAR SR	USD SR	QAR SR	AED SR	EUR SR	Other SR	Total SR
ASSETS							
Reinsurance operations							
Cash and cash equivalents	1,293,950	1,393,052	-	-	29,708	-	2,716,710
Premiums receivable	12,133,916	6,869	-	-	46,106	925,403	13,112,294
Accrued insurance premiums	10,916,810	134,050	32,636	182,971	13,163	976,740	12,256,370
Retroceded share of unearned Premiums	19,968,169	-	-	-	-	-	19,968,169
Retroceded share of outstanding Claims	14,298,616	374,300	6,315	96,587	56,607	427,576	15,260,001
Deferred acquisition costs	7,486,779	-	-	-	-	-	7,486,779
Prepayments and other assets	592,170	706,239	-	-	-	-	1,298,409
Due from shareholders' operations	11,756,134	-	-	-	-	-	11,756,134
Property and equipment, net	3,170,931	-	-	-	-	-	3,170,931
Shareholders							
Cash and cash equivalents	1,945,304	-	-	-	-	-	1,945,304
Time deposits	-	37,500,000	103,393,605	102,370,000	-	-	243,263,605
Accrued special commission income from time deposits	-	100,173	2,699,147	3,058,303	-	-	5,857,623
Accrued special commission income from bonds	-	1,075,843	-	-	109,364	-	1,185,207
Investments held at fair value through income statement	573,632,717	-	-	-	-	-	573,632,717
Held to maturity investments	-	88,031,098	-	-	27,675,180	-	115,706,278
Statutory deposit	100,000,000	-	-	-	-	-	100,000,000
Other assets	680,834	-	-	-	-	-	680,834
	<u>757,876,330</u>	<u>129,321,624</u>	<u>106,131,703</u>	<u>105,707,861</u>	<u>27,930,128</u>	<u>2,329,719</u>	<u>1,129,297,365</u>

31 December 2008	SAR SR	USD SR	Other SR	Total SR
ASSETS				
Reinsurance operations				
Cash and cash equivalents	-	33,604	-	33,604
Premiums receivable	1,796,936	198,664	261,567	2,257,167
Retroceded share of unearned premiums	2,357,805	-	-	2,357,805
Retroceded share of outstanding claims	158,616	-	-	158,616
Deferred acquisition costs	612,007	-	-	612,007
Prepayments and other assets	426,427	-	-	426,427
Due from shareholders' operations	196,048	-	-	196,048
Property and equipment, net	2,966,901	722,818	-	3,689,719
Shareholders				
Cash and cash equivalents	412,330,351	-	-	412,330,351
Time deposit	600,000,000	-	-	600,000,000
Accrued special commission income from time deposits	13,720,726	-	-	13,720,726
	<u>1,034,565,817</u>	<u>955,086</u>	<u>261,567</u>	<u>1,035,782,470</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

29. RISK MANAGEMENT - Continued

29.5 Currency risk - Continued

31 December 2009	SAR SR	USD SR	QAR SR	AED SR	EUR SR	Other SR	Total SR
LIABILITIES							
Reinsurance operations							
Retrocession balances payable	16,265,018	978,387	-	-	-	-	17,243,405
Accrued retrocession premiums	7,164,968	92,495	24,753	129,378	9,416	620,634	8,041,644
Gross unearned premiums	28,447,374	-	-	-	-	-	28,447,374
Gross outstanding claims	20,557,303	583,881	9,522	143,877	74,472	686,808	22,055,663
Unearned commission income	6,128,576	-	-	-	-	-	6,128,576
Accrued expenses and other liabilities	4,147,711	82,033	-	-	269,442	-	4,499,186
Employees end of service benefits	609,949	-	-	-	-	-	609,949
Shareholders							
Provision for zakat and income tax	24,202,000	-	-	-	-	-	24,202,000
Due to reinsurance operations	11,756,134	-	-	-	-	-	11,756,134
Other liabilities	680,834	-	-	-	-	-	680,834
	<u>119,959,867</u>	<u>1,736,796</u>	<u>34,275</u>	<u>273,055</u>	<u>353,330</u>	<u>1,307,442</u>	<u>123,664,765</u>

31 December 2008	SAR SR	USD SR	Other SR	Total SR
LIABILITIES				
Reinsurance operations				
Retrocession balances payable	-	1,913,175	-	1,913,175
Gross unearned premiums	2,891,122	-	-	2,891,122
Gross outstanding claims	202,623	-	-	202,623
Unearned commission income	612,814	-	-	612,814
Accrued expenses and other liabilities	3,745,127	-	-	3,745,127
Employees end of service benefits	366,532	-	-	366,532
Shareholders				
Provision for income tax	329,606	-	-	329,606
Due to reinsurance operations	196,048	-	-	196,048
	<u>8,343,872</u>	<u>1,913,175</u>	<u>-</u>	<u>10,257,047</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.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2009

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 SAR 28,681,636 (2008: Nil).

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:

	2009 SR	2008 SR
Total Capital held	1,005,632,600	1,025,525,423
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 e.g. 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 figures for the period from 1 May 2008 to 31 December 2008 have been reclassified to conform with the presentation of the current year.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 03 February 2010 corresponding to 19 Safar 1431 H.