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

**FINANCIAL STATEMENTS AND AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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Saudi Reinsurance Company (A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

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For The Year Ended 31 December 2010

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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 2010, 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:**

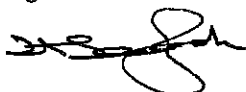
In our opinion, the financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as at 31 December 2010 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).

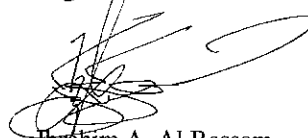
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Husam H Sadagah  
Certified Public Accountant  
Registration No. 73

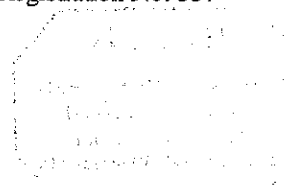


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P. O. Box 69658  
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Kingdom of Saudi Arabia



Ibrahim A. Al Bassam  
Certified Public Accountant  
Registration No. 337

February 15, 2011  
Rabi Al-Awwal 12, 1432 H



Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As At 31 December 2010

	Notes	31 December 2010 SR	31 December 2009 SR
<b>REINSURANCE OPERATIONS' ASSETS</b>			
Banks balances	6	3,935,529	2,716,710
Premiums receivable	7	10,641,763	13,112,294
Accrued insurance premiums		28,750,649	12,256,370
Retroceded share of unearned premiums	8	34,253,299	19,968,169
Retroceded share of outstanding claims	9	39,410,609	15,260,001
Deferred acquisition costs	10	14,352,440	7,486,779
Prepaid expenses and other assets	11	1,435,111	1,298,409
Due from shareholders' operations		26,734,061	11,756,134
Property and equipment, net	12	2,345,905	3,170,931
<b>TOTAL REINSURANCE OPERATIONS' ASSETS</b>		<b>161,859,366</b>	<b>87,025,797</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and banks balances	6	1,168,051	1,945,304
Time deposits	13	403,925,060	243,263,605
Accrued special commission income from time deposits		5,697,284	5,857,623
Accrued special commission income from bonds		2,996,077	1,185,207
Investments held at fair value through income statement	14	307,400,220	573,632,717
Held to maturity investments	15	211,322,003	115,706,278
Statutory deposit	25	100,000,000	100,000,000
Other assets		1,757,379	680,834
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>1,034,266,074</b>	<b>1,042,271,568</b>
<b>TOTAL ASSETS</b>		<b>1,196,125,440</b>	<b>1,129,297,365</b>
<b>REINSURANCE OPERATIONS' LIABILITIES</b>			
Retrocession balances payable		15,362,298	17,243,405
Accrued retroceded premiums		16,024,650	8,041,644
Gross unearned premiums	8	54,120,481	28,447,374
Gross outstanding claims	9	57,170,229	22,055,663
Unearned commission income	16	10,409,218	6,128,576
Accrued expenses and other liabilities	17	7,825,791	4,499,186
Employees' end of service benefits		946,699	609,949
<b>TOTAL REINSURANCE OPERATIONS' LIABILITIES</b>		<b>161,859,366</b>	<b>87,025,797</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Provision for zakat and income tax	18	21,359,836	24,202,000
Due to reinsurance operations		26,734,061	11,756,134
Other liabilities		1,757,379	680,834
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>49,851,276</b>	<b>36,638,968</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	1,000,000,000	1,000,000,000
Statutory reserve	20	6,070,924	6,070,924
Accumulated deficit		(21,656,126)	(438,324)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>984,414,798</b>	<b>1,005,632,600</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>1,034,266,074</b>	<b>1,042,271,568</b>
<b>TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>1,196,125,440</b>	<b>1,129,297,365</b>

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

For The Year Ended 31 December 2010

	Notes	For The Year Ended 31 December 2010 SR	For The Year Ended 31 December 2009 SR
Gross premiums written	8	107,475,185	51,053,121
Retroceded premiums	8	(66,982,564)	(34,765,056)
<b>Net premiums written</b>		<b>40,492,621</b>	<b>16,288,065</b>
Change in net unearned premiums	8	(11,387,977)	(7,945,887)
<b>Net premiums earned</b>		<b>29,104,644</b>	<b>8,342,178</b>
Net claims paid	27	(8,221,921)	1,675,140
Change in net outstanding claims	9	(10,963,958)	(6,751,654)
Gross acquisition costs	10	(20,784,687)	(5,948,618)
Commissions on retroceded business	16	15,822,756	4,808,194
Excess of loss expenses		(1,622,671)	(1,576,162)
<b>Net underwriting results</b>		<b>3,334,163</b>	<b>549,078</b>
General and administrative expenses	21	(24,679,984)	(20,484,984)
Board of directors' remunerations and expenses	22	(589,635)	(609,727)
<b>Net deficit from reinsurance operations' results</b>	26	<b>(21,935,456)</b>	<b>(20,545,633)</b>
Net deficit transferred to the statement of shareholders' operations		21,935,456	20,545,633
<b>Net result for the year</b>		<b>-</b>	<b>-</b>





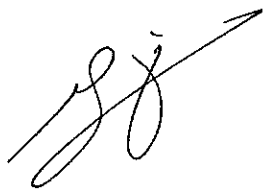
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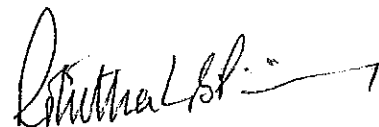
Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' OPERATIONS

For The Year Ended 31 December 2010

	Notes	For The Year Ended 31 December 2010 SR	For The Year Ended 31 December 2009 SR
Special commission income from time deposits		12,165,258	17,947,068
Special commission income from bonds		8,190,186	808,877
Realized gains from investments held at fair value through income statement	14	1,654,717	727,568
Unrealized gains on investments held at fair value through income statement	14	2,915,876	5,891,316
Foreign exchange translation losses		(2,907,372)	-
Other expenses		(26,932)	-
Net deficit transferred from reinsurance operations		(21,935,456)	(20,545,633)
<b>Net income for the year</b>		<b>56,277</b>	<b>4,829,196</b>
<b>Earnings per share for the year</b>	<b>24</b>	<b>0.001</b>	<b>0.048</b>



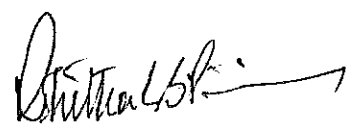


The accompanying notes 1 to 31 form an integral part of these financial statements.

Saudi Reinsurance Company (A Saudi Joint Stock Company)  
 STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS  
 For The Year Ended 31 December 2010

	Note	For The Year Ended 31 December 2010 SR	For The Year Ended 31 December 2009 SR
Net income for the year		56,277	4,829,196
Other comprehensive expenses:			
Zakat and income tax	18	(21,274,079)	(24,722,019)
<b>Total comprehensive deficit for the year</b>		<b>(21,217,802)</b>	<b>(19,892,823)</b>





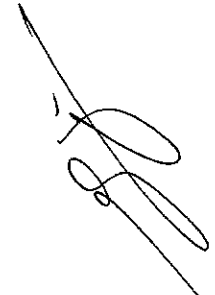
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Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For The Year Ended 31 December 2010

	GCC Founding Shareholders and general public				Non - GCC Founding Shareholders				Total			
	Notes	Share capital	Statutory reserve	Accumulated deficit	Share capital	Statutory reserve	Retained Earnings	Share capital	Statutory reserve	Accumulated deficit	Total	
		SR	SR	SR	SR	SR	SR	SR	SR	SR	SR	
Balance as at 1 January 2009	19	841,000,000	4,805,885	19,525,887	59,000,000	391,200	954,841	1,000,000,000	5,105,085	30,420,338	1,045,525,423	
Net income for the year		-	-	4,544,273	-	-	284,923	-	-	4,829,196	4,829,196	
Zakat and income tax	18	-	-	(24,672,019)	-	-	(50,000)	-	-	(24,722,019)	(24,722,019)	
Transfer to statutory reserve	20	-	938,355	(938,355)	-	56,604	(52,984)	-	965,839	(965,839)	-	
Balance as at 31 December 2009		841,000,000	5,712,740	(1,510,904)	59,000,000	358,184	1,072,580	1,000,000,000	6,070,924	(439,324)	1,005,632,600	
Balance as at 1 January 2010	19	841,000,000	5,712,740	(1,510,904)	59,000,000	358,184	1,072,580	1,000,000,000	6,070,924	(439,324)	1,005,632,600	
Net income for the year		-	-	52,957	-	-	3,320	-	-	56,277	56,277	
Zakat and income tax	18	-	-	(21,273,415)	-	-	(664)	-	-	(21,274,079)	(21,274,079)	
Balance as at 31 December 2010		841,000,000	5,712,740	(22,731,362)	59,000,000	358,184	1,075,236	1,000,000,000	6,070,924	(21,556,128)	984,413,798	

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

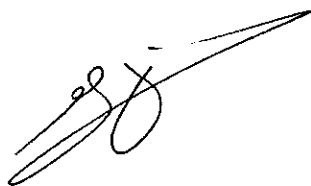
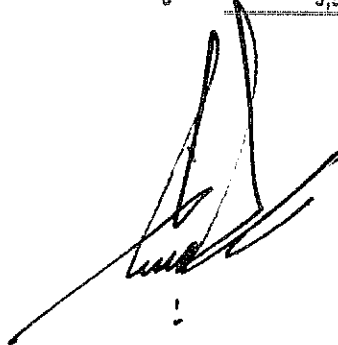



Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF REINSURANCE OPERATIONS' CASH FLOWS

For The Year Ended 31 December 2010

Note	For The Year Ended 31 December 2010 SR	For The Year Ended 31 December 2009 SR
<b>OPERATING ACTIVITIES</b>		
Net result for the year	-	-
Adjustments for:		
Employees' end of service benefits	363,072	243,417
Depreciation	1,010,071	928,624
Operating profit before changes in operating assets and liabilities:	1,373,143	1,172,041
<b>Changes in operating assets and liabilities:</b>		
Premiums receivable	2,470,531	(10,855,127)
Accrued insurance premiums	(16,494,279)	(12,256,370)
Retroceded share of unearned premiums	(14,285,130)	(17,810,364)
Retroceded share of outstanding claims	(24,150,608)	(15,101,385)
Deferred acquisition costs	(6,865,661)	(6,874,772)
Prepaid expenses and other assets	(136,702)	(871,982)
Due from shareholders' operations	(14,977,927)	(11,560,086)
Retrocession balances payable	(1,881,107)	15,330,230
Accrued retroceded premiums	7,983,006	8,041,644
Gross unearned premiums	25,673,107	25,556,252
Gross outstanding claims	35,114,566	21,853,040
Unearned commission income	4,280,642	5,515,762
Accrued expenses and other liabilities	3,326,605	754,059
Employees' end of service benefits paid	(26,322)	-
<b>Net cash from operating activities</b>	<b>1,403,864</b>	<b>3,092,942</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(185,045)	(409,836)
<b>Net cash used in investing activities</b>	<b>(185,045)</b>	<b>(409,836)</b>
<b>NET CHANGE IN BANK BALANCES</b>	<b>1,218,819</b>	<b>2,683,106</b>
Bank balances at the beginning of the year	2,716,710	33,604
<b>BANK BALANCES AT THE END OF THE YEAR</b>	<b>3,935,529</b>	<b>2,716,710</b>

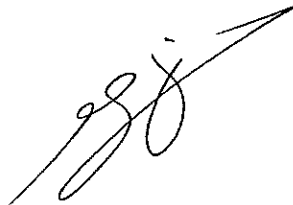
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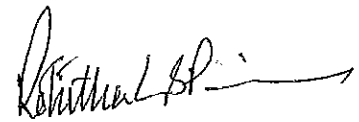
Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For The Year Ended 31 December 2010

	For The Year Ended 31 December 2010	For The Year Ended 31 December 2009
Note	SR	SR
<b>OPERATING ACTIVITIES</b>		
Net income for the year	56,277	4,829,196
Adjustments for:		
Realized gains from investments held at fair value through income statement	(1,654,717)	(727,568)
Unrealized gains on investments held at fair value through income Statement	(2,915,876)	(5,891,316)
Operating Deficit before changes in operating assets and liabilities:	(4,514,316)	(1,789,688)
<b>Changes in operating assets and liabilities:</b>		
Statutory deposit	-	(100,000,000)
Due to reinsurance operations	14,977,927	11,560,086
Other assets	(1,076,545)	(680,834)
Other Liabilities	1,076,545	680,834
Zakat and income tax paid	(24,116,243)	(849,625)
Net cash used in operating activities	(13,652,632)	(91,079,227)
<b>INVESTING ACTIVITIES</b>		
Proceeds from investments held at fair value through income statement	794,003,090	360,000,000
Accrued special commission income from time deposits	160,339	7,863,103
Accrued special commission income from bonds	(1,810,870)	(1,185,207)
Investments held at fair value through income statement	(523,200,000)	(927,013,833)
Time deposits, net	(160,661,455)	356,736,395
Held to maturity investments	(95,615,725)	(115,706,278)
Net cash from (used in) investing activities	12,875,379	(319,305,820)
<b>NET CHANGE IN CASH AND BANKS BALANCES</b>		
	(777,253)	(410,385,047)
Cash and banks balances at the beginning of the year	1,945,304	412,330,351
CASH AND BANKS BALANCES AT THE END OF THE YEAR	6 1,168,051	1,945,304





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 2010

### 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, 6<sup>th</sup> 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.

### 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. ADOPTION OF NEW REVISED STANDARDS AND INTERPRETATION

#### 3.1 Standards affecting the disclosures and presentation in the current year

None of the revised Standards that have been adopted in the current year which is effective for annual periods beginning on or after January 1, 2010 has affected the disclosures and presentations in the financial statements. Details of those Standards adopted in these financial statements but that have had no effect on the amounts reported are set out in Note 2.2.

#### 3.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual periods beginning on or after
<i>Amendments to Standards:</i>	
IFRS 2 Share-based Payment – Amendments relating to group cash-settled share-based payment transactions	January 1, 2010
IFRS 8 Operating Segments – Amendments for disclosure of segment assets	January 1, 2010

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2010

3. ADOPTION OF NEW REVISED STANDARDS AND INTERPRETATION (Continued)

3.3 Standards and Interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not effective:

Standard / Interpretation	Effective for annual periods beginning on or after
IFRIC 19      Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010
<i>New Standard:</i>	
IFRS 9      Financial Instruments	January 1, 2013
<i>Amendments to Standards and Interpretations:</i>	
IFRS 1      First-time Adoption of International Financial Reporting Standards- Amendment relating to limited exemption from comparative IFRS 7 disclosures for first-time adopters	July 1, 2010
IFRS 7      Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	July 1, 2011
IAS 24      Related Party Disclosures	January 1, 2011
IAS 32      Financial Instruments: Presentation – Classification of Right Issues	February 1, 2010
IFRIC 14    IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2011
Various Standards    Amendments resulting from May 2010 Annual Improvements to IFRSs	Various

The Directors anticipate that all of the above Standards and Interpretations as applicable, will be adopted in the Company's financial statements in future periods and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

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 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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:

4. 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:

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

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

The change in the provision for unearned premiums and commission income is taken to the statement of reinsurance operations in order 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 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 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 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 shareholders' operations.

**4. 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.

**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 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 the kingdom of Saudi Arabia.

**Leases**

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

**Foreign currencies**

Transactions in foreign currencies are recorded in Saudi riyals at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the financial position 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-laws, Zakat and income Tax are considered as dividends 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 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**

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 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 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, 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.

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.

**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 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 2010, 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 2010

6. CASH AND BANK BALANCES

	31 December 2010		31 December 2009	
	Reinsurance SR	Shareholders SR	Reinsurance SR	Shareholders SR
Cash on hand	-	6,252	-	20,000
Cash at banks	3,935,529	1,161,799	2,716,710	1,925,304
	<u>3,935,529</u>	<u>1,168,051</u>	<u>2,716,710</u>	<u>1,945,304</u>

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

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

7. PREMIUMS RECEIVABLE

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

	Neither past due nor impaired	Past Due but not impaired			Past due and impaired	Total
		Less than 90 days	91 to 180 days	Above 180 days		
2010	8,472,434	1,652,163	-	-	618,518	10,743,115
2009	12,797,123	126,614	-	-	235,045	13,158,782

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 101,352 as at 31 December 2010 (31 December 2009: SR 46,488).

8. UNEARNED PREMIUMS

	31 DECEMBER 2010		
	Gross SR	Retroceded share SR	Net SR
Opening balance for the year	28,447,374	(19,968,169)	8,479,205
Premiums written during the year	107,475,185	(66,982,564)	40,492,621
Premiums earned	(81,802,078)	52,697,434	(29,104,644)
Change in unearned premiums	25,673,107	(14,285,130)	11,387,977
	<u>54,120,481</u>	<u>(34,253,299)</u>	<u>19,867,182</u>
	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 2010

9. OUTSTANDING CLAIMS

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

	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
	22,055,663	(15,260,001)	6,795,662

10. DEFERRED ACQUISITION COSTS

	2010 SR	2009 SR
Opening balance for the year	7,486,779	612,007
Incurred during the year	27,650,348	12,823,390
Amortized during the year	(20,784,687)	(5,948,618)
	14,352,440	7,486,779

11. PREPAYMENTS AND OTHER ASSETS

	2010 SR	2009 SR
Deferred excess of loss premiums	1,105,136	706,239
Prepaid rent	162,252	248,283
Advances to employees	52,922	169,282
Prepaid insurance	-	2,022
Others	114,801	172,583
	1,435,111	1,298,409

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

12. PROPERTY AND EQUIPMENT, NET

	Computers and Equipment SR	Furniture And Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Work in Progress SR	Total SR
<b>Cost:</b>						
As at 31 December 2008	1,712,484	109,756	493,000	2,192,523	-	4,507,763
Additions during the year	409,836	-	-	-	-	409,836
<b>As at 31 December 2009</b>	<b>2,122,320</b>	<b>109,756</b>	<b>493,000</b>	<b>2,192,523</b>	<b>-</b>	<b>4,917,599</b>
Additions during the year	155,122	-	-	-	29,923	185,045
<b>As at 31 December 2010</b>	<b>2,277,442</b>	<b>109,756</b>	<b>493,000</b>	<b>2,192,523</b>	<b>29,923</b>	<b>5,102,644</b>
<b>Accumulated depreciation:</b>						
As 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
<b>As at 31 December 2009</b>	<b>875,837</b>	<b>38,085</b>	<b>386,559</b>	<b>446,187</b>	<b>-</b>	<b>1,746,668</b>
Additions during the year	676,189	21,947	92,687	219,248	-	1,010,071
<b>As at 31 December 2010</b>	<b>1,552,026</b>	<b>60,032</b>	<b>479,246</b>	<b>665,435</b>	<b>-</b>	<b>2,756,739</b>
<b>Net book value</b>						
As at 31 December 2009	1,246,483	71,671	106,441	1,746,336	-	3,170,931
<b>As at 31 December 2010</b>	<b>725,416</b>	<b>49,724</b>	<b>13,754</b>	<b>1,527,088</b>	<b>29,923</b>	<b>2,345,905</b>

13. TIME DEPOSITS

Time deposits represent deposits with foreign banks with maturity period of more than three months from the date of its original acquisition. Such deposits earn average special commission income at a rate of 3.91% per annum (31 December 2009: 5.90% per annum).

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

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

14. INVESTMENTS HELD AT FAIR VALUE THROUGH INCOME STATEMENT

Investments held at fair value through income statement represent units in investments funds at local banks.

The movement of investments held at fair value through income statement for the year ended 31 December as follows:

	2010 SR	2009 SR
Opening Balance as at 1 January	573,632,717	-
Subscriptions	523,200,000	927,013,833
Disposals	(794,003,090)	(360,000,000)
Unrealized gains	2,915,876	5,841,316
Realized gains	1,654,717	727,568
<b>Ending balance as at 31 December</b>	<b>307,400,220</b>	<b>573,632,717</b>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

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

The resulting effect of disposal of units in investment funds during the year on the realized gains is as follows:

	2010 SR	2009 SR
Proceeds from disposal of units	794,003,090	360,000,000
Less: Historical cost of disposed units	<u>786,479,293</u>	<u>359,272,432</u>
	7,523,797	727,568
Less: Accumulated unrealized gains for disposed units as at 31 December which were recognized in previous periods in the statement of shareholders' operations	<u>5,869,080</u>	<u>-</u>
<b>Realized gains from disposed units for the year</b>	<u><b>1,654,717</b></u>	<u><b>727,568</b></u>

15. HELD TO MATURITY INVESTMENTS

Held to maturity investments represent debt instruments with a 4 to 10 year time horizon yielding an average special commission income of 4.35% per annum (31 December 2009: 4.44% per annum). The fair value of held to maturity investments amounted to SR 219,210,264 (31 December 2009: SR 114,486,444) as at the statement of financial position date.

16. UNEARNED COMMISSION INCOME

	2010 SR	2009 SR
Opening balance for the year	6,128,576	612,814
Commission received on retroceded business during the year	20,103,398	10,323,956
Commission earned on retroceded business during the year	<u>(15,822,756)</u>	<u>(4,808,194)</u>
	<u>10,409,218</u>	<u>6,128,576</u>

17. ACCRUED EXPENSES AND OTHER LIABILITIES

	2010 SR	2009 SR
Employees bonus	5,200,000	2,580,000
Withholding tax payable	785,697	300,663
Professional fees payable	654,250	901,443
Board of directors' remunerations	257,130	254,168
Meeting fees and expenses	132,000	114,000
Other	<u>796,714</u>	<u>348,912</u>
	<u>7,825,791</u>	<u>4,499,186</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

18. 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	6,070,924
Retained earnings – beginning of the year	(438,324)
Net income for the year	56,277
Provisions	946,699
<b>Deduct:</b>	
Property and equipment, net	(2,345,905)
Held to maturity investments	(211,322,003)
Statutory deposit	(100,000,000)
<b>Zakat base</b>	<b>692,967,668</b>

Zakat for the year

The Zakat for the year includes the following:

	Year ended 31 December 2010 SR
Portion of the Saudi shareholders' Zakat base (94.1%)	652,082,576
Zakat for the year (2.5%)	16,302,064

B) Income tax

Income tax for the year includes the following:

	Year ended 31 December 2010 SR
Portion of net income for non-Saudi shareholders (5.9%)	3,320
Income tax for the year (20%)	664
Zakat and income tax charge for the year	16,302,728

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

	2010 SR	2009 SR
Opening balance for the year	24,202,000	329,606
Charged for the year	16,302,728	24,722,019
Additional zakat provision for the year	4,971,351	-
Paid during the year	(24,116,243)	(849,625)
	<u>21,359,836</u>	<u>24,202,000</u>

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

19. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 1 billion divided into 100 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid SR 600 million for 60 million shares with a nominal value of SR 10 each, which 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 2010:

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

19. SHARE CAPITAL (Continued)

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

20. STATUTORY RESERVE

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

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2010 SR	2009 SR
Salaries and related benefits	16,314,835	12,129,562
Consulting fees	1,786,309	1,531,217
Professional fees	1,410,373	1,277,619
Depreciation	1,010,071	928,624
Travelling expenses	748,473	800,140
Rent and premises expenses	747,894	677,369
Advertising	314,556	298,667
Withholding tax	85,937	498,038
Other	2,261,536	2,343,748
	<b>24,679,984</b>	<b>20,484,984</b>

22. BOARD OF DIRECTORS' REMUNERATIONS AND EXPENSES

	2010 SR	2009 SR
Board of directors' remunerations	2,962	254,168
Meeting fees and expenses	586,673	355,559
	<b>589,635</b>	<b>609,727</b>

23. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Nature of transactions	Amount of transactions for the year ended		Balance as at	
		31 December 2010 SR	31 December 2009 SR	31 December 2010 SR	31 December 2009 SR
Board of directors	Consulting fees	1,638,059	1,469,441	-	269,441
	Remunerations	2,962	254,168	257,130	254,168
	Expenses	586,673	355,559	132,000	114,000
Key management	Short term benefits	8,974,970	5,543,706	4,500,000	1,500,000
Personnel	End of service benefits	280,076	206,468	647,609	449,551

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 2010

### 24. EARNINGS PER SHARE

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

### 25. STATUTORY DEPOSIT

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

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

Net deficit from reinsurance operations' results has been charged to statement of shareholders' operations. The total net deficit from date of incorporation of the company to 31 December 2010 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
	<u>54,406,580</u>

### 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.

### 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 personnel 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 banks balances of reinsurance operations, prepaid expenses and other assets, due from shareholders' operations, property and equipment, net.

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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

28. SEGMENTAL INFORMATION (Continued)

28.1 Business segments

	Engineering SR	Fire SR	Marine SR	Motor SR	Others SR	Total SR
<b>Year ended 31 December 2010</b>						
<b>Results of reinsurance operations</b>						
Gross premiums written	31,752,280	47,040,027	12,678,517	9,986,761	6,017,600	107,475,185
Retroceded premiums	(22,761,334)	(32,631,275)	(7,850,675)	(117,399)	(3,621,881)	(66,982,564)
Net premiums written	8,990,946	14,408,752	4,827,842	9,869,362	2,395,719	40,492,621
Change in net unearned premiums	(4,368,060)	(3,621,741)	(753,251)	(2,042,454)	(602,471)	(11,387,977)
Net premiums earned	4,622,886	10,787,011	4,074,591	7,826,908	1,793,248	29,104,644
Net claims paid	(288,456)	(4,793,378)	(463,958)	(2,481,576)	(194,553)	(8,221,921)
Change in net outstanding claims	(1,124,923)	(6,364,476)	(835,998)	(2,336,153)	(302,408)	(10,963,958)
Gross acquisition costs	(4,553,223)	(9,552,462)	(3,979,494)	(1,559,985)	(1,139,523)	(20,784,687)
Commissions on retroceded business	3,895,152	8,011,024	3,021,453	17,610	877,517	15,822,756
Excess of loss expenses	(512,847)	(665,145)	(237,675)	(144,093)	(62,911)	(1,622,671)
<b>Net underwriting results</b>	<b>2,038,589</b>	<b>(2,577,426)</b>	<b>1,578,919</b>	<b>1,322,711</b>	<b>971,370</b>	<b>3,334,163</b>
<b>Other items</b>						
Depreciation	298,414	442,090	119,155	93,857	56,555	1,010,071
<b>Year ended 31 December 2009</b>						
<b>Results of reinsurance operations</b>						
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)
<b>Net underwriting results</b>	<b>(94,588)</b>	<b>(396,001)</b>	<b>245,068</b>	<b>656,209</b>	<b>138,390</b>	<b>549,078</b>
<b>Other items</b>						
Depreciation	264,399	391,594	168,999	54,872	48,760	928,624
<b>As at 31 December 2010</b>						
Segment assets	37,641,420	55,764,607	15,030,021	11,839,019	7,133,693	127,408,760
Segment liabilities	45,227,718	67,003,474	16,059,188	14,225,070	8,571,426	153,086,876
<b>As at 31 December 2009</b>						
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



Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

28. SEGMENTAL INFORMATION (Continued)

28.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern countries SR	Africa SR	Total SR
<b>Year ended 31 December 2010</b>				
<b>Results of reinsurance operations</b>				
Gross premiums written	85,695,162	18,680,339	3,099,684	107,475,185
Retroceded premiums	(52,709,569)	(11,975,874)	(2,297,121)	(66,982,564)
Net premiums written	32,985,593	6,704,465	802,563	40,492,621
Change in net unearned premiums	(9,075,398)	(2,329,568)	16,989	(11,387,977)
Net premiums earned	23,910,195	4,374,897	819,552	29,104,644
Net claims paid	(7,979,410)	(217,245)	(25,266)	(8,221,921)
Change in net outstanding claims	(7,694,330)	(1,038,240)	(2,231,388)	(10,963,958)
Gross acquisition costs	(17,157,560)	(2,777,851)	(849,276)	(20,784,687)
Commissions on retroceded business	12,850,328	2,267,910	704,518	15,822,756
Excess of loss expenses	(1,238,713)	(344,020)	(39,938)	(1,622,671)
Net underwriting results	2,690,510	2,265,451	(1,621,798)	3,334,163
<b>Other items</b>				
Depreciation	805,378	175,561	29,132	1,010,071
<b>Year ended 31 December 2009</b>				
<b>Results of reinsurance operations</b>				
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 in 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
<b>Other items</b>				
Depreciation	778,052	93,487	57,085	928,624
<b>As at 31 December 2010</b>				
<b>Results of reinsurance operations</b>				
Segment assets	101,589,165	22,145,008	3,674,587	127,408,760
Segment liabilities	122,063,569	26,608,139	4,415,168	153,086,876
<b>As at 31 December 2009</b>				
<b>Results of reinsurance operations</b>				
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

## 29. RISK MANAGEMENT

### Risk governance

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

### Risk management structure

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

### Board of directors

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

### Senior management

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

The risks faced by the Company and the way these risks are mitigated by management as follows.

#### 29.1 Reinsurance risk

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

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

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

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

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

29. RISK MANAGEMENT (Continued)

29.1 Reinsurance risk (Continued)

Geographical concentration of risk

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

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

	For the year ended 31 December 2009	
	Amount SR	Percentage
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>

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 2010

	Change in assumptions	Net Impact on net liabilities	Impact on net income
		SR	SR
Ultimate loss ratio	+ 10%	2,910,464	(2,910,464)
	- 10%	(2,910,464)	2,910,464

31 December 2009

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

**29. RISK MANAGEMENT (Continued)**

**29.2 Retrocession risk**

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

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

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

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

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

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

**29.3 Credit risk**

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

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

43% of the Company's receivables are due from four ceding companies as at 31 December 2010 (31 December 2009: 78%).

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 2010

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 2010		31 December 2009	
	Reinsurance Operations	Shareholders	Reinsurance Operations	Shareholders
Cash and banks balances	3,935,529	1,168,051	2,716,710	1,945,304
Time deposit	-	403,925,060	-	243,263,605
Premiums receivable	10,641,763	-	13,112,294	-
Prepayments and other assets	1,435,111	-	1,298,409	-
Due from shareholders' operations	26,734,061	-	11,756,134	-
Retroceded share of outstanding claims	39,410,609	-	15,260,001	-
Accrued special commission income from time deposits	-	5,697,284	-	5,857,623
Accrued special commission income from bonds	-	2,996,077	-	1,185,207
Investments held at fair value through income statement	-	307,400,220	-	573,632,717
Held to maturity investments	-	211,322,003	-	115,706,278
Statutory deposit	-	100,000,000	-	100,000,000
	<u>82,157,073</u>	<u>1,032,508,695</u>	<u>44,143,548</u>	<u>1,041,590,734</u>

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

	31 December 2010 SR	31 December 2009 SR
Standard and Poors "AA-" to "AA"	57,453,980	57,663,658
Standard and Poors "A-" to "A+"	143,983,702	47,977,026
Moody's "AA2"	9,884,321	10,065,594
	<u>211,322,003</u>	<u>115,706,278</u>

The used rating grades for investments are being adopted by Standard & Poors and Moodys 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 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 2010

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 2010	SAR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>ASSETS</b>							
<b>Reinsurance operations</b>							
Banks balances	2,718,699	803,993	-	69,471	343,366	-	3,935,529
Premiums receivable	7,824,696	561,959	706,004	215,731	-	1,333,373	10,641,763
Accrued insurance premiums	23,550,074	884,426	139,959	430,526	27,174	3,718,490	28,750,649
Retroceded share of unearned Premiums	34,253,299	-	-	-	-	-	34,253,299
Retroceded share of outstanding Claims	25,803,826	655,432	61,031	652,950	19,618	12,217,752	39,410,609
Deferred acquisition costs	14,352,440	-	-	-	-	-	14,352,440
Prepayments and other assets	1,203,032	232,079	-	-	-	-	1,435,111
Due from shareholders' operations	26,734,061	-	-	-	-	-	26,734,061
Property and equipment, net	2,345,905	-	-	-	-	-	2,345,905
<b>Shareholders</b>							
Cash and Banks balances	45,287	-	-	-	1,122,764	-	1,168,051
Time deposits	100,000,000	37,500,000	164,327,060	102,098,000	-	-	403,925,060
Accrued special commission income from time deposits	213,056	100,171	2,423,215	2,960,842	-	-	5,697,284
Accrued special commission income from bonds	-	2,894,306	-	-	101,771	-	2,996,077
Investments held at fair value through income statement	307,400,220	-	-	-	-	-	307,400,220
Held to maturity investments	-	185,705,839	-	-	25,616,164	-	211,322,003
Statutory deposit	100,000,000	-	-	-	-	-	100,000,000
Other assets	1,757,379	-	-	-	-	-	1,757,379
	<u>648,201,974</u>	<u>229,338,205</u>	<u>167,657,269</u>	<u>106,427,520</u>	<u>27,230,857</u>	<u>17,269,615</u>	<u>1,196,125,440</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

29. RISK MANAGEMENT (Continued)

29.5 Currency risk (Continued)

31 December 2009	SAR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>ASSETS</b>							
<b>Reinsurance operations</b>							
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
<b>Shareholders</b>							
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>



Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

29. RISK MANAGEMENT (Continued)

29.5 Currency risk (Continued)

31 December 2010	SAR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>LIABILITIES</b>							
<b>Reinsurance operations</b>							
Retrocession balances payable	15,180,535	181,763	-	-	-	-	15,362,298
Accrued retrocession premiums	12,912,379	628,190	99,119	285,080	20,537	2,079,346	16,024,651
Gross unearned premiums	54,120,481						54,120,481
Gross outstanding claims	39,727,063	952,635	81,715	955,349	24,581	15,428,885	57,170,228
Unearned commission income	10,409,218						10,409,218
Accrued expenses and other liabilities	7,799,541	26,250	-	-	-	-	7,825,791
Employees' end of service benefits	946,699		-	-	-	-	946,699
<b>Shareholders</b>							
Provision for zakat and income tax	21,359,836	-	-	-	-	-	21,359,836
Due to reinsurance operations	26,734,061	-	-	-	-	-	26,734,061
Other liabilities	1,757,379	-	-	-	-	-	1,757,379
	<u>190,947,192</u>	<u>1,788,838</u>	<u>180,834</u>	<u>1,240,429</u>	<u>45,118</u>	<u>17,508,231</u>	<u>211,710,642</u>

Saudi Reinsurance Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

29. RISK MANAGEMENT (Continued)

29.5 Currency risk (Continued)

31 December 2009	SAR	USD	QAR	AED	EUR	Other	Total
	SR	SR	SR	SR	SR	SR	SR
<b>LIABILITIES</b>							
<b>Reinsurance operations</b>							
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	143,677	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
<b>Shareholders</b>							
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>

29.6 Special commission rate risk

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

29.7 Fund Price Risk

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

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

A 5% change in the net asset value of funds, with all other variables held constant, would impact net income by increase/ decrease of SAR 15,370,011 (31 December 2009: SAR 28,681,636).

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS - Continued

For The Year Ended 31 December 2010

### 29. RISK MANAGEMENT (Continued)

#### 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:

	2010 SR	2009 SR
Total Capital held	984,414,798	1,005,632,600
Minimum regulatory capital	200,000,000	200,000,000

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

#### 29.9 Regulatory framework risk

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

### 30. CONTINGENT LIABILITY

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

### 31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on February 15, 2011 corresponding to Rabi Al-Awwal 12, 1432 H.