

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

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**Saudi Reinsurance Company (A Saudi Joint Stock Company)**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
For The Year Ended 31 December 2013

---

<b>INDEX</b>	<b>PAGES</b>
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS	3
STATEMENT OF SHAREHOLDERS' OPERATIONS	4
STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS	5
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	6
STATEMENT OF REINSURANCE OPERATIONS' CASH FLOWS	7
STATEMENT OF SHAREHOLDERS' CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9 – 40



Building a better  
working world

**Al Bassam**

**Certified Public Accountants & Consultants**

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
SAUDI REINSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit:**

We have audited the accompanying statement of financial position of Saudi Reinsurance Company (A Saudi Joint Stock Company) (the "Company") as at 31 December 2013 and the related statements of reinsurance operations and accumulated surplus, shareholders' operations and shareholders' comprehensive operations, statement of changes in shareholders' equity, statements of reinsurance operations' cash flows and shareholders' cash flows for the year then ended and the related notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the 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:

- i) present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii) comply with the requirements of the Regulations for Companies and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

**Emphasis of a matter:**

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organization for Certified Public Accountants.

**Ernst & Young  
P. O. Box 2732  
Riyadh 11461  
Kingdom of Saudi Arabia**

**Fahad M. Al-Toaimi  
Certified Public Accountant  
Registration No. 354**



**Al Bassam CPAs & Consultants  
P. O. Box 69658  
Riyadh 11557  
Kingdom of Saudi Arabia**

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



20 Rabi Thani 1435H  
(20 February 2014)

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

**STATEMENT OF FINANCIAL POSITION**

**As at 31 December 2013**

	Notes	2013 SR	2012 SR
<b>REINSURANCE OPERATIONS' ASSETS</b>			
Cash and bank balances	7	5,268,638	582,850
Premium receivables, net	8	70,492,623	27,607,624
Investments held at fair value through income statement	9	95,329,159	83,244,130
Accrued insurance premiums		164,869,180	91,900,865
Retroceded share of outstanding claims	10	104,888,575	42,123,104
Prepaid expenses and other assets	11	1,069,002	967,944
Due from shareholders' operations		173,315,949	6,385,126
Retroceded share of unearned premiums	12	2,344,151	5,755,801
Deferred acquisition costs	13	54,445,929	32,506,462
Deferred excess of loss premiums		15,716,948	11,592,791
Property and equipment, net	14	7,337,119	5,303,065
<b>TOTAL REINSURANCE OPERATIONS' ASSETS</b>		<b>695,077,273</b>	<b>307,969,562</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and bank balances	7	85,673,516	615,353
Time deposits	15	37,500,000	187,500,000
Accrued special commission income from time deposits		1,040,241	477,740
Accrued special commission income from bonds and sukuk		3,295,158	3,279,972
Investments held at fair value through income statement	9	595,179,554	445,743,014
Held to maturity investments	16	173,995,409	209,047,506
Prepaid expenses and other assets	11	5,738,119	4,282,585
Statutory deposit	27	100,000,000	100,000,000
Property and equipment	14	32,991,742	29,784,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>1,035,413,739</b>	<b>980,730,170</b>
<b>TOTAL ASSETS</b>		<b>1,730,491,012</b>	<b>1,288,699,732</b>
<b>REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
Accounts payable		8,143,048	4,768,189
Retrocession balances payable		7,615,523	3,265,617
Accrued retroceded premiums		4,463,127	4,243,430
Gross unearned premiums	6,12	215,025,067	122,378,709
Gross outstanding claims	6,10	424,276,504	159,413,407
Premium deficiency reserve	6	26,167,000	-
Unearned commission income	17	810,894	1,580,555
Accrued expenses and other liabilities	18	5,923,389	10,025,363
Employees' end of service benefits		1,720,644	1,362,215
<b>TOTAL REINSURANCE OPERATIONS' LIABILITIES</b>		<b>694,145,196</b>	<b>307,037,485</b>
<b>REINSURANCE OPERATIONS' SURPLUS</b>			
Accumulated surplus		932,077	932,077
<b>TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>		<b>695,077,273</b>	<b>307,969,562</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Accounts payable		500,000	1,000,000
Provision for zakat and income tax	20	33,184,598	30,086,812
Due to reinsurance operations		173,315,949	6,385,126
Accrued expenses and other liabilities	18	6,641,169	4,282,585
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>213,641,716</b>	<b>41,754,523</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	21	1,000,000,000	1,000,000,000
Statutory reserve	22	6,070,924	6,070,924
Accumulated deficit		(184,298,901)	(67,095,277)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>821,772,023</b>	<b>938,975,647</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>1,035,413,739</b>	<b>980,730,170</b>
<b>TOTAL REINSURANCE OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>1,730,491,012</b>	<b>1,288,699,732</b>

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

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

**STATEMENT OF REINSURANCE OPERATIONS AND ACCUMULATED SURPLUS**

For the year ended 31 December 2013

	Notes	2013 SR	2012 SR
Gross written premiums	12	420,086,336	245,031,947
Retroceded premiums	12	(6,449,199)	(3,318,790)
Excess of loss expenses		(27,816,762)	(22,427,478)
<b>Net written premiums</b>		<b>385,820,375</b>	<b>219,285,679</b>
Change in net unearned premiums	6,12	(96,057,808)	(60,108,371)
<b>Net earned premiums</b>		<b>289,762,567</b>	<b>159,177,308</b>
Net claims paid	29,10	(98,159,195)	(34,819,246)
Change in net outstanding claims	6,10	(202,097,626)	(57,419,180)
<b>Net claims incurred</b>		<b>(300,256,821)</b>	<b>(92,238,426)</b>
Premium deficiency reserve	6	(26,167,000)	-
Acquisition costs	13	(83,330,181)	(49,786,324)
Commissions on retroceded business	17	3,437,425	6,122,890
Supervision and inspection fees		(2,100,432)	(1,225,160)
<b>Net underwriting results</b>		<b>(118,654,442)</b>	<b>22,050,288</b>
Realized gains on investments held at fair value through income statement	9	38,659	47,688
Unrealized gains on investments held at fair value through income statement	9	657,960	636,578
Other income		102,639	4,160,088
Investment management expenses		(191,040)	(37,497)
General and administrative expenses	23	(21,558,264)	(17,536,370)
<b>Net (deficit) surplus from reinsurance operations</b>	<b>28</b>	<b>(139,604,488)</b>	<b>9,320,775</b>
Shareholders' appropriation from reinsurance operations' deficit (surplus)		<b>139,604,488</b>	<b>(8,388,698)</b>
<b>Reinsurance operations' surplus after shareholders' appropriation</b>		<b>-</b>	<b>932,077</b>
Accumulated surplus at the beginning of the year		932,077	-
<b>Accumulated surplus at the end of the year</b>		<b>932,077</b>	<b>932,077</b>




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

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2013

	Notes	2013 SR	2012 SR
Special commission income from time deposits		1,912,501	2,733,346
Special commission income from bonds and sukuk		9,492,217	9,730,937
Dividend income		-	583,333
Realized gains on investments held at fair value through income statement	9	1,676,523	2,345,978
Unrealized gains on investments held at fair value through income statement	9	41,700,233	17,264,137
Foreign exchange translation gains		1,124,223	102,886
Other income		-	2,250,000
<b>Total revenues</b>		<b>55,905,697</b>	<b>35,010,617</b>
General and administrative expenses	23	(13,308,766)	(11,278,989)
Investment management expenses		(2,311,140)	(1,841,418)
Board of directors' remunerations, meeting fees and expenses	24	(335,465)	(1,327,135)
Shareholders' appropriation from reinsurance operations' (deficit) surplus		(139,604,488)	8,388,698
<b>Net (loss) income for the year</b>		<b>(99,654,162)</b>	<b>28,951,773</b>
<b>Basic and diluted (loss) earnings per share for the year</b>	26	<b>(0.997)</b>	<b>0.290</b>
<b>Weighted average number of issued and outstanding shares</b>		<b>100,000,000</b>	<b>100,000,000</b>




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

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

**STATEMENT OF SHAREHOLDERS' COMPREHENSIVE OPERATIONS**

For the year ended 31 December 2013

	Note	2013 SR	2012 SR
Net (loss) income for the year		(99,654,162)	28,951,773
Other comprehensive income:			
Items not to be reclassified subsequently to the income statement:			
Zakat and income tax	20	(17,549,462)	(19,967,599)
<b>Total comprehensive (loss) income for the year</b>		<b>(117,203,624)</b>	<b>8,984,174</b>




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

**Saudi Reinsurance Company (A Saudi Joint Stock Company)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the year ended 31 December 2013**

	Notes	GCC Shareholders and General Public			Non - GCC Shareholders			Total			
		Share capital	Statutory reserve	Accumulated deficit	Share capital	Statutory reserve	Retained earnings / (Accumulated deficit)	Share capital	Statutory reserve	Accumulated deficit	Total
Balance as at 1 January 2012	21	941,000,000	5,712,740	(75,130,640)	59,000,000	358,184	(949,811)	1,000,000,000	6,070,924	(76,079,451)	929,981,473
Net income for the year		-	-	27,243,618	-	-	1,708,155	-	-	28,951,773	28,951,773
<b>Other comprehensive income</b>											
Zakat and income tax	20	-	-	(19,713,367)	-	-	(254,232)	-	-	(19,967,599)	(19,967,599)
Total comprehensive income for the year				7,530,251			1,453,923			8,984,174	8,984,174
Balance as at 31 December 2012		941,000,000	5,712,740	(67,600,389)	59,000,000	358,184	505,112	1,000,000,000	6,070,924	(67,095,277)	938,975,647
Balance as at 1 January 2013	21	941,000,000	5,712,740	(67,600,389)	59,000,000	358,184	505,112	1,000,000,000	6,070,924	(67,095,277)	938,975,647
Transfer during the year		35,578,000	215,991	304,591	(35,578,000)	(215,991)	(304,591)	-	-	-	-
Net loss for the year		-	-	(97,322,255)	-	-	(2,331,907)	-	-	(99,654,162)	(99,654,162)
<b>Other comprehensive income</b>											
Zakat and income tax	20	-	-	(17,549,462)	-	-	-	-	-	(17,549,462)	(17,549,462)
Total comprehensive income for the year				(114,871,717)			(2,331,907)			(117,203,624)	(117,203,624)
<b>Balance as at 31 December 2013</b>		<b>976,578,000</b>	<b>5,928,731</b>	<b>(182,167,515)</b>	<b>23,422,000</b>	<b>142,193</b>	<b>(2,131,386)</b>	<b>1,000,000,000</b>	<b>6,070,924</b>	<b>(184,298,901)</b>	<b>821,772,023</b>

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



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

**STATEMENT OF REINSURANCE OPERATIONS' CASH FLOWS**

For the year ended 31 December 2013

	Notes	2013 SR	2012 SR
<b>OPERATING ACTIVITIES</b>			
Reinsurance operations' surplus after shareholders' appropriation		-	932,077
Adjustments for:			
Employees' end of service benefits		606,023	634,587
Depreciation		1,220,037	650,650
Realized gains on investments held at fair value through income statement	9	(38,659)	(47,688)
Unrealized gains on investments held at fair value through income statement	9	(657,960)	(636,578)
Gains from disposal of property and equipment		-	(16,520)
Shareholders' appropriation from reinsurance operations' (deficit) surplus		(139,604,488)	8,388,698
Operating (loss) profit before changes in operating assets and liabilities		(138,475,047)	9,905,226
<b>Changes in operating assets and liabilities:</b>			
Premiums receivable, net	8	(42,884,999)	(8,480,772)
Accrued insurance premiums		(72,968,315)	(38,752,847)
Retroceded share of outstanding claims	10	(62,765,471)	44,511,338
Prepaid expenses and other assets	11	(101,058)	(729,784)
Retroceded share of unearned premiums	12	3,411,450	19,080,757
Deferred acquisition costs	13	(21,939,467)	(12,664,391)
Deferred excess of loss premiums		(4,124,157)	(1,276,396)
Accounts payable		3,374,859	2,282,108
Retrocession balances payable		4,349,906	(18,970,584)
Accrued retroceded premiums	31	219,697	(9,953,343)
Gross unearned premiums	12	92,646,358	41,027,614
Gross outstanding claims	10	264,863,097	12,907,842
Premium deficiency reserves		26,167,000	-
Unearned commission income	17	(769,661)	(5,345,936)
Accrued expenses and other liabilities		(4,101,974)	1,234,447
Employees' end of service benefits paid		(247,594)	(210,990)
<b>Net cash from operating activities</b>		<b>46,654,624</b>	<b>34,564,289</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(3,254,091)	(3,709,201)
Proceeds from disposal of property and equipment		-	105,000
Additions in investments held at fair value through income statement	9	(60,268,130)	(71,516,844)
Proceeds from investments held at fair value through income statement	9	48,879,720	33,601,941
<b>Net cash used in investing activities</b>		<b>(14,642,501)</b>	<b>(41,519,104)</b>
<b>FINANCING ACTIVITY</b>			
Due from shareholders' operations		(27,326,335)	(756,008)
<b>Net cash used in financing activity</b>		<b>(27,326,335)</b>	<b>(756,008)</b>
<b>INCREASE (DECREASE) IN CASH AND BANK BALANCES</b>			
Cash and bank balances at the beginning of the year		582,850	8,293,673
<b>CASH AND BANK BALANCES AT THE END OF THE YEAR</b>	7	<b>5,268,638</b>	<b>582,850</b>

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

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

**STATEMENT OF SHAREHOLDERS' CASH FLOWS**

**For the year ended 31 December 2013**

	Note	2013 SR	2012 SR
<b>OPERATING ACTIVITIES</b>			
Net (loss) income for the period		(99,654,162)	28,951,773
Adjustments for:			
Realized gains on investments held at fair value through income statement		(1,676,523)	(2,345,978)
Unrealized gains on investments held at fair value through income statement		(41,700,233)	(17,264,137)
Dividend income		-	(583,333)
Shareholders' appropriation from reinsurance operations deficit (surplus)		139,604,488	(8,388,698)
Operating (deficit) income before changes in operating assets and liabilities		(3,426,430)	369,627
<b>Changes in operating assets and liabilities:</b>			
Prepaid expenses and other assets		(1,455,534)	(1,245,958)
Accounts payable		(500,000)	1,000,000
Accrued expense and other liabilities		2,358,584	1,245,958
Zakat and income tax paid		(14,451,676)	(15,044,131)
<b>Net cash used in operating activities</b>		<b>(17,475,056)</b>	<b>(13,674,504)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(3,207,742)	(29,784,000)
Proceeds from investments held at fair value through income statement		136,069,250	470,328,552
Accrued special commission income from time deposits		(562,501)	1,422,606
Accrued special commission income from bonds and sukuk		(15,186)	(292,971)
Dividends received		-	583,333
Additions in investments held at fair value through income statement		(242,129,034)	(640,460,749)
Time deposits, net		150,000,000	70,938,845
Held to maturity investments		35,052,097	744,293
<b>Net cash from (used in) investing activities</b>		<b>75,206,884</b>	<b>(126,520,091)</b>
<b>FINANCING ACTIVITY</b>			
Due to reinsurance operations		27,326,335	756,008
<b>Net cash from financing activity</b>		<b>27,326,335</b>	<b>756,008</b>
<b>INCREASE (DECREASE) IN CASH AND BANK BALANCES</b>		<b>85,058,163</b>	<b>(139,438,587)</b>
Cash and bank balances at the beginning of the year		615,353	140,053,940
<b>CASH AND BANK BALANCES AT THE END OF THE YEAR</b>	<b>7</b>	<b>85,673,516</b>	<b>615,353</b>




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

As at 31 December 2013

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

### 2. BASIS OF PREPARATION

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

#### Basis of measurement

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

#### Functional and presentational currency

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

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

The accounting and risk management policies used in the preparation of these year financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2012 except for the adoption of the following new standards and other amendments to existing standards mentioned below:

#### IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a Companying of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Company's financial position or performance.

#### IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Company), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Company's financial position or performance.

#### IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Company is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Company.

#### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 9.

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 3. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS (continued)

##### New amendments and standards issued but not yet effective:

The Company has chosen not to early adopt the following new standard and amendments to the International Financial Reporting Standards

##### IFRS 9 Financial Instruments: Classification and Measurement

On 19 November 2013, the IASB issued a new version of IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39). IFRS 9 (2013) which includes the new hedge accounting requirements and some related amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures. IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novations. The standard does not have a mandatory effective date, but it is available for application now. A new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial statements. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of IFRS 9 at the same time. An accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 is available for of their hedging relationships. They may later change that policy and apply the hedge accounting requirements in IFRS 9 before they eventually become mandatory. This choice is intended to be removed when the IASB completes its project on accounting for macro hedging.

##### IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Company.

#### 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.

##### Retrocession

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

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

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

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

##### Cash and cash equivalents

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



# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 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 expensed when incurred.

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

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

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

#### Property and equipment

Property and equipment are vehicles are stated at cost net of accumulated depreciation and any impairment in value. When significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognised in statement of income as incurred. The cost of property and equipment is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

Building	33 Years
Computers and equipment	3-5 Years
Furniture and fixtures	5 Years
Motor vehicles	4 Years
Leasehold improvements	10 Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of these assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

#### Impairment and un-collectability of financial assets

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

Impairment is determined as follows:

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

#### Written Premiums

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

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

#### Premiums earned and commission income

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

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

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

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

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

#### Claims

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

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

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

#### Liability adequacy test

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

#### Premiums receivable

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

#### Accounts payable and accruals

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

#### Special commission income

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

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

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

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

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

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

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

#### Held to maturity investments

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

#### Employees' end of service benefits

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

#### Operating leases

Operating lease payments are recognized as expenses in the statements of reinsurance operations and accumulated surplus and shareholders' operations on a straight-line basis over the lease contract.

#### Foreign currencies

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

#### Zakat and income tax

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

#### Provisions

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

#### Offsetting financial assets and liabilities

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

#### Trade date accounting

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

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

##### Segmental reporting

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

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

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

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

#### 5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

##### Impairment losses on receivables

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

##### Deferred acquisition costs

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



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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

##### Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

The Investment committee, in conjunction with the Company's external valuers, compares the changes in the fair value of each investment asset with relevant external sources to determine whether the change is reasonable.

The Risk and underwriting committee, in conjunction with the Company's external Actuaries, compares the changes in the technical reserves, to determine whether the change is reasonable.

The audit committee, in conjunction with the company's management, compares the changes in fair value of each other asset and liabilities, to determine whether the change is reasonable.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 6. TECHNICAL RESERVES

Based on recommendation from the external actuary of the Company and insurance regulator, the management of the Company has changed its basis to determine the technical reserves due to availability of new information and after considering longer historical experience. This has resulted in recording of additional reserves for unearned premiums, incurred but not reported claims and premium deficiency of SR 25 million, SR 45 million and SR 26 million respectively. Changes in estimating reserves for unearned premium and incurred but not reported claims have been considered as change in accounting estimate. Due to very nature of the insurance and reinsurance industry, it is not practicable for the company to determine the effect of this change in accounting estimate for the future.

### 7. CASH AND BANK BALANCES

	2013		2012	
	Reinsurance Operations SR	Shareholders' Operations SR	Reinsurance Operations SR	Shareholders' Operations SR
Cash in hand	970	-	-	-
Cash at bank	5,267,668	85,673,516	582,850	615,353
	<b>5,268,638</b>	<b>85,673,516</b>	<b>582,850</b>	<b>615,353</b>

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

### 8. PREMIUMS RECEIVABLE , NET

	2013 SR	2012 SR
Premiums receivable	72,815,780	29,930,781
Less: Provision for doubtful debts	(2,323,157)	(2,323,157)
	<b>70,492,623</b>	<b>27,607,624</b>

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

	Neither past due nor impaired SR	Past due but not impaired			Past due and impaired SR	Total SR
		Less than 90 days SR	91 to 180 days SR	Above 180 days SR		
2013	53,298,332	4,181,029	9,313,122	3,700,133	2,323,164	72,815,780
2012	3,089,422	3,847,284	8,113,194	12,361,757	2,519,124	29,930,781

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

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

	2013		2012	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Funds	95,329,159	234,236,625	83,244,130	74,035,494
Equity Portfolios	-	164,109,001	-	135,863,916
Bond Portfolios	-	156,796,858	-	210,843,604
Sukuk	-	40,037,070	-	25,000,000
	<b>95,329,159</b>	<b>595,179,554</b>	<b>83,244,130</b>	<b>445,743,014</b>

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

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

- ii. As at 31 December 2013 and 2012, all financial instruments under reinsurance operations which are fair valued are quoted.
- iii. The analysis of the composition of investments for shareholders' operations is as follows:

	2013		
	Quoted SR	Unquoted SR	Total SR
Funds	209,236,625	25,000,000	234,236,625
Equity Portfolios	164,109,001	-	164,109,001
Bond Portfolios	156,796,858	-	156,796,858
Sukuk	-	40,037,070	40,037,070
	<b>530,142,484</b>	<b>65,037,070</b>	<b>595,179,554</b>

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

As at 31 December 2013 and 31 December 2012, all financial instruments under reinsurance operations which are measured at fair value are Level 1 instruments. The following table shows an analysis of financial instruments under shareholders' operations measured at fair value by level of the fair value hierarchy:

	2013			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Funds	209,236,625	-	25,000,000	234,236,625
Equity Portfolios	164,109,001	-	-	164,109,001
Bond Portfolios	156,796,858	-	-	156,796,858
Sukuk	-	-	40,037,070	40,037,070
	<b>530,142,484</b>	<b>-</b>	<b>65,037,070</b>	<b>595,179,554</b>

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

There were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements during the year ended 31 December 2013 and year ended 31 December 2012.

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

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

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

	2013 SR		2012 SR	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Opening balance	83,244,130	445,743,014	44,644,961	256,000,702
Additions	60,268,130	242,129,034	71,516,844	640,460,749
Disposals	(48,879,720)	(136,069,250)	(33,601,941)	(470,328,552)
Unrealized gains	657,960	41,700,233	636,578	17,264,137
Realized gains	38,659	1,676,523	47,688	2,345,978
Closing balance	95,329,159	595,179,554	83,244,130	445,743,014

Investments under reinsurance and shareholders' operations include SR 12.3 million and SR 4.2 million respectively as at 31 December 2013 (31 December 2012: SR Nil and SR 4.8 million respectively) cash deposits with reputable banks. These funds are placed by the Company with the assets managers and are independently operated by them. These funds are expected to be invested in the subsequent periods.

#### 10. OUTSTANDING CLAIMS

	2013		
	Gross SR	Retroceded share SR	Net SR
Opening balance	159,413,407	(42,123,104)	117,290,303
Outstanding claims provided during the year	176,411,587	(63,856,633)	112,554,954
Claims incurred but not reported provided during the year	88,451,510	1,091,162	89,542,672
Change in outstanding claims	264,863,097	(62,765,471)	202,097,626
Closing balance	424,276,504	(104,888,575)	319,387,929
	2012		
	Gross SR	Retroceded share SR	Net SR
Opening balance	146,505,565	(86,634,442)	59,871,123
Outstanding claims provided during the year	6,526,088	35,041,239	41,567,327
Claims incurred but not reported provided during the year	6,381,754	9,470,099	15,851,853
Change in outstanding claims	12,907,842	44,511,338	57,419,180
Closing balance	159,413,407	(42,123,104)	117,290,303

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 11. PREPAYMENTS AND OTHER ASSETS

	2013		2012	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Advances to employees	393,390	-	297,233	-
Prepaid insurance	153,534	-	112,647	-
Prepaid rent	112,501	-	112,501	-
Advance payments	283,333	-	73,800	-
Interest received on statutory deposit	-	5,622,925	-	4,282,585
Others	126,244	115,194	371,763	-
	<b>1,069,002</b>	<b>5,738,119</b>	<b>967,944</b>	<b>4,282,585</b>

### 12. UNEARNED PREMIUMS

	2013		
	Gross SR	Retroceded share SR	Net SR
Opening balance	122,378,709	(5,755,601)	116,623,108
Premiums written during the year	420,086,336	(6,449,199)	413,637,137
Premiums earned	(327,439,978)	9,860,649	(317,579,329)
Change in unearned premiums	92,646,358	3,411,450	96,057,808
Closing balance	<b>215,025,067</b>	<b>(2,344,151)</b>	<b>212,680,916</b>

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

### 13. DEFERRED ACQUISITION COSTS

	2013 SR	2012 SR
Opening balance	32,506,462	19,842,071
Incurred during the year	105,269,648	62,450,715
Amortized during the year	(83,330,181)	(49,786,324)
Closing balance	<b>54,445,929</b>	<b>32,506,462</b>

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 14. PROPERTY AND EQUIPMENT, NET

#### a) Reinsurance operations:

	Computers and Equipment SR	Furniture and Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Work in Progress SR	Total SR
<b>Cost:</b>						
As at 31 December 2011	2,373,408	109,756	651,400	2,192,523	251,471	5,578,558
Additions during the year	632,765	3,500	-	-	3,072,936	3,709,201
Disposals during the year	-	-	(137,000)	-	-	(137,000)
<b>As at 31 December 2012</b>	<b>3,006,173</b>	<b>113,256</b>	<b>514,400</b>	<b>2,192,523</b>	<b>3,324,407</b>	<b>9,150,759</b>
Additions during the year	3,240,549	13,542	-	-	-	3,254,091
Transfers during the year	3,324,407	-	-	-	(3,324,407)	-
Disposals during the year	-	-	-	-	-	-
<b>As at 31 December 2013</b>	<b>9,571,129</b>	<b>126,798</b>	<b>514,400</b>	<b>2,192,523</b>	<b>-</b>	<b>12,404,850</b>
<b>Accumulated depreciation:</b>						
As at 31 December 2011	2,019,863	81,979	259,039	884,683	-	3,245,564
Charged for the year	296,053	21,812	113,536	219,249	-	650,650
Disposals during the year	-	-	(48,520)	-	-	(48,520)
<b>As at 31 December 2012</b>	<b>2,315,916</b>	<b>103,791</b>	<b>324,055</b>	<b>1,103,932</b>	<b>-</b>	<b>3,847,694</b>
Charged for the year	904,241	8,698	87,850	219,248	-	1,220,037
Disposals during the year	-	-	-	-	-	-
<b>As at 31 December 2013</b>	<b>3,220,157</b>	<b>112,489</b>	<b>411,905</b>	<b>1,323,180</b>	<b>-</b>	<b>5,067,731</b>
<b>Net book value</b>						
As at 31 December 2012	690,257	9,465	190,345	1,088,591	3,324,407	5,303,065
<b>As at 31 December 2013</b>	<b>6,350,972</b>	<b>14,309</b>	<b>102,495</b>	<b>869,343</b>	<b>-</b>	<b>7,337,119</b>

#### b) Shareholders' operations:

	Land SR	Building SR	Furniture and fixtures SR	Work in Progress SR	Total SR
<b>Cost:</b>					
As at 31 December 2012	18,329,960	-	-	11,454,040	29,784,000
Additions during the year	-	-	3,207,742	-	3,207,742
Transfers during the year	-	11,454,040	-	(11,454,040)	-
<b>As at 31 December 2013</b>	<b>18,329,960</b>	<b>11,454,040</b>	<b>3,207,742</b>	<b>-</b>	<b>32,991,742</b>
<b>Accumulated depreciation:</b>					
As at 31 December 2012	-	-	-	-	-
Charged for the year	-	-	-	-	-
<b>As at 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>					
As at 31 December 2012	18,329,960	-	-	11,454,040	29,784,000
<b>As at 31 December 2013</b>	<b>18,329,960</b>	<b>11,454,040</b>	<b>3,207,742</b>	<b>-</b>	<b>32,991,742</b>

The Company acquired the land and started the construction of a new head office building during 2012. This building was completed in December 2013.

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 15. TIME DEPOSITS

Time deposits represent deposits with banks with maturity period of more than three months from the date of original placement. Such deposits earn special commission at an average rate of 2.5% per annum as at 31 December 2013 (31 December 2012: 2.3% per annum).

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

### 16. HELD TO MATURITY INVESTMENTS

The held to maturity investments represent debt instruments with a 4 to 10 year time horizon yielding an average special commission of 4.35% per annum (2012: 4.37% per annum). The fair value of held to maturity investments amounted to SR 183,878,544 (2012: SR 226,009,171) as at the statement of financial position date and is classified under level 2 of fair value hierarchy.

### 17. UNEARNED COMMISSION INCOME

	2013 SR	2012 SR
Opening balance	1,580,555	6,926,491
Commission received on retroceded business during the year	2,667,764	776,954
Commission earned on retroceded business during the year	(3,437,425)	(6,122,890)
Closing balance	<u>810,894</u>	<u>1,580,555</u>

### 18. ACCRUED EXPENSES AND OTHER LIABILITIES

	2013		2012	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Employees bonus	3,827,484	-	3,123,568	-
Withholding tax payable	503,401	-	3,402,809	-
Board of directors' remunerations	-	-	1,277,130	-
Professional fees payable	283,501	770,116	927,489	-
Meeting fees and expenses	-	248,128	188,500	-
Interest received on statutory deposit	-	5,622,925	-	4,282,585
Others	1,309,003	-	1,105,867	-
	<u>5,923,389</u>	<u>6,641,169</u>	<u>10,025,363</u>	<u>4,282,585</u>



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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 19. CLAIMS DEVELOPMENT TABLE

The following table shows the estimates of cumulative incurred claims, including both claims notified and incurred but not reported for each successive underwriting year at each reporting date, together with cumulative payments to date. The development of reinsurance liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims. The Company aims to maintain adequate reserves in respect of its reinsurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier underwriting years. In order to maintain adequate reserves, the Company will transfer much of this release to the current underwriting year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Gross reinsurance contract outstanding claims provision for 2013:

Underwriting year	2008	2009	2010	2011	2012	2013	Total
	SR	SR	SR	SR	SR	SR	SR
At end of underwriting year	-	15,258,285	42,967,114	61,283,330	73,362,761	152,283,479	-
One year later	610,902	28,009,369	105,750,091	87,300,880	242,416,589	-	-
Two years later	1,677,268	32,800,264	105,347,096	128,811,660	-	-	-
Three years later	1,229,116	35,269,761	110,275,599	-	-	-	-
Four years later	2,186,602	40,742,018	-	-	-	-	-
Five years later	2,128,570	-	-	-	-	-	-
<b>Current estimate of cumulative claims incurred</b>	<b>2,128,570</b>	<b>40,742,018</b>	<b>110,275,599</b>	<b>128,811,660</b>	<b>242,416,589</b>	<b>152,283,479</b>	<b>676,657,915</b>
<b>Cumulative payments to date</b>	<b>(1,416,530)</b>	<b>(28,256,759)</b>	<b>(90,814,968)</b>	<b>(63,640,155)</b>	<b>(73,003,025)</b>	<b>4,750,026</b>	<b>(252,381,411)</b>
<b>Total gross insurance outstanding claims provision per the statement of financial position</b>	<b>712,040</b>	<b>12,485,259</b>	<b>19,460,631</b>	<b>65,171,505</b>	<b>169,413,564</b>	<b>157,033,505</b>	<b>424,276,504</b>



# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 20. ZAKAT AND INCOME TAX

#### a) Zakat

Zakat charge for the year of SR 17,549,462 (2012: SR 19,713,367) is based on the following:

	2013 SR	2012 SR
Share Capital	1,000,000,000	1,000,000,000
Statutory reserve – beginning of the year	6,070,924	6,070,924
Accumulated deficit – beginning of the year	(67,095,277)	(76,079,451)
Adjusted net (loss) income for the year	(98,904,407)	30,832,614
Provisions	19,072,913	12,238,189
	859,144,153	973,062,276
<b>Deduct:</b>		
Property and equipment, net	(40,328,861)	(35,087,065)
Held to maturity investments	(173,995,409)	(209,047,506)
Statutory deposit	(100,000,000)	(100,000,000)
<b>Zakat base</b>	<b>544,819,883</b>	<b>628,927,705</b>

#### b) Income tax

Income tax for the year of SR Nil (2012: SR 254,232) is based on the following:

	2013 SR	2012 SR
Net (loss)/income for the year	(99,654,162)	28,951,773
Portion of net taxable (loss)/income for non-Saudi shareholders @ 2.34% (2012: 5.9%)	(2,334,100)	1,694,880
Portion of accumulated losses for non-Saudi shareholders (25%)	-	423,720
Income tax base	(2,334,100)	1,271,160

#### c) The movement of the provision for zakat and income tax is as follows:

	2013 SR	2012 SR
Opening balance	30,086,812	25,163,344
Income tax provision for the year	-	254,232
Zakat provision for the year	17,549,462	19,713,367
Paid during the year	(14,451,676)	(15,044,131)
Closing balance	33,184,598	30,086,812

#### d) Status of assessment

The Company has filed its zakat return for the years ended 31 December 2009 to 2012 with the Department of Zakat and Income Tax (DZIT) and has not yet received related final assessments.

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 21. 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.

### 22. 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.

### 23. GENERAL AND ADMINISTRATIVE EXPENSES

	2013		2012	
	Reinsurance operations SR	Shareholders' operations SR	Reinsurance operations SR	Shareholders' operations SR
Salaries and related benefits	16,588,272	7,090,059	13,450,862	6,255,643
Travelling expenses	1,292,244	460,692	1,158,373	288,527
Depreciation (Note 14)	580,956	639,081	227,728	422,922
Rent and premises expenses	586,114	570,949	346,460	643,425
Advertising	404,190	909,605	138,581	464,943
Professional fees	245,064	1,033,754	153,902	1,320,874
Withholding tax	157,419	-	-	-
Consulting fees	-	2,175,626	-	630,190
Provision for doubtful debts	-	-	931,809	-
Licensing fees	-	429,000	-	402,998
Others	1,704,005	-	1,128,655	849,467
	<b>21,558,264</b>	<b>13,308,766</b>	<b>17,536,370</b>	<b>11,278,989</b>

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

	2013 SR	2012 SR
Board of directors' remunerations	-	1,020,000
Meeting fees and expenses	335,465	307,135
	<b>335,465</b>	<b>1,327,135</b>

### 25. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Nature of transactions	Amount of transactions for the year ended 31 December		Balance as at 31 December	
		2013 SR	2012 SR	2013 SR	2012 SR
Board of directors	Consulting fees	326,829	360,671	-	-
	Remunerations	-	1,020,000	248,129	1,277,130
	Meeting fees and expenses	335,465	307,135	-	188,500
Key management personnel	Short term benefits	7,644,521	8,297,472	2,173,000	2,000,000
	End of service benefits	205,489	250,301	446,650	299,043

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

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

Basic and diluted (loss) earnings per share for the years ended 31 December 2013 and 2012 have been calculated by dividing net (loss)/ income for the year by the average ordinary issued and outstanding shares at the end of the year.

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 27. 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.

#### 28. NET (DEFICIT) SURPLUS FROM REINSURANCE OPERATIONS

Net surplus (deficit) surplus from reinsurance operations has been charged to the statement of shareholders' operations. The total net deficit from date of incorporation of the Company to 31 December 2013 is as follows:

	SR
For the period from 1 May 2008 to 31 December 2008	(11,925,491)
For the year ended 31 December 2009	(20,545,633)
For the year ended 31 December 2010	(21,935,456)
For the year ended 31 December 2011	(37,083,139)
For the year ended 31 December 2012	8,388,698
For the year ended 31 December 2013	(139,604,488)
	<u>(231,094,207)</u>

#### 29. NET CLAIMS PAID

	2013 SR	2012 SR
Gross claims paid	108,321,996	89,496,456
Retroceded share of claims paid	(10,162,801)	(54,677,210)
<b>Net claims paid</b>	<u>98,159,195</u>	<u>34,819,246</u>

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

#### 30. SEGMENTAL INFORMATION

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

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

Segment results do not include realized and unrealized gains on investments held at fair value through income statement, other income, investment management expenses and all general and administrative expenses except depreciation.

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

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

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 30. SEGMENTAL INFORMATION (Continued)

##### 30.1 Business segments

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

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Others SR	Total SR
<b>For the year ended 31 December 2013</b>							
<b>Reinsurance operations' results</b>							
Gross written premiums	76,638,325	159,958,612	45,638,048	50,625,872	51,314,090	35,911,389	420,086,336
Retroceded premiums	(5,076,426)	(360,083)	(607,123)	-	(277,526)	(128,041)	(6,449,199)
Excess of loss expenses	(4,361,535)	(18,709,936)	(2,454,048)	(352,128)	(637,923)	(1,301,192)	(27,816,762)
<b>Net written premiums</b>	<b>67,200,364</b>	<b>140,888,593</b>	<b>42,576,877</b>	<b>50,273,744</b>	<b>50,398,641</b>	<b>34,482,156</b>	<b>385,820,375</b>
Change in net unearned premiums	(27,786,432)	(18,892,871)	(7,254,915)	(19,690,726)	(17,286,135)	(5,146,729)	(96,057,808)
<b>Net earned premiums</b>	<b>39,413,932</b>	<b>121,995,722</b>	<b>35,321,962</b>	<b>30,583,018</b>	<b>33,112,506</b>	<b>29,335,427</b>	<b>289,762,567</b>
Net claims paid	(5,265,761)	(45,493,728)	(8,451,655)	(6,440,756)	(10,969,156)	(21,538,139)	(98,159,195)
Change in net outstanding claims	(32,343,835)	(125,492,746)	(11,541,116)	(14,436,345)	(9,161,463)	(9,122,121)	(202,097,626)
<b>Net claims incurred</b>	<b>(37,609,596)</b>	<b>(170,986,474)</b>	<b>(19,992,771)</b>	<b>(20,877,101)</b>	<b>(20,130,619)</b>	<b>(30,660,260)</b>	<b>(300,256,821)</b>
Premium deficiency reserve	-	(22,775,640)	-	(3,391,360)	-	-	(26,167,000)
Gross acquisition costs	(18,726,487)	(37,766,576)	(11,601,366)	(7,270,845)	(1,680,801)	(6,284,106)	(83,330,181)
Commissions on retroceded business	2,831,752	399,699	227,494	-	7,919	(29,439)	3,437,425
Supervision and inspection fees	(383,191)	(799,794)	(228,190)	(253,129)	(256,571)	(179,557)	(2,100,432)
<b>Net underwriting results</b>	<b>(14,473,590)</b>	<b>(109,933,063)</b>	<b>3,727,129</b>	<b>(1,209,417)</b>	<b>11,052,434</b>	<b>(7,817,935)</b>	<b>(118,654,442)</b>

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

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

As at 31 December 2013

**30. SEGMENTAL INFORMATION (Continued)**

**30.1 Business segments (Continued)**

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Others SR	Total SR
<b>For the year ended 31 December 2012</b>							
<b>Reinsurance operations' results</b>							
Gross written premiums	62,183,179	95,622,641	30,314,301	12,216,912	15,757,985	28,934,929	245,031,947
Retroceded premiums	(3,072,296)	(256,376)	(360,342)	-	393	369,831	(3,318,790)
Excess of loss expenses	(6,016,513)	(11,429,142)	(2,993,523)	(167,659)	-	(1,820,641)	(22,427,478)
<b>Net written premiums</b>	<b>53,094,370</b>	<b>83,937,123</b>	<b>26,960,436</b>	<b>12,051,253</b>	<b>15,758,378</b>	<b>27,484,119</b>	<b>219,285,679</b>
Change in net unearned premiums	(23,576,813)	(16,923,429)	(4,880,111)	(2,934,529)	(7,107,330)	(4,688,159)	(60,108,371)
<b>Net earned premiums</b>	<b>29,517,557</b>	<b>67,013,694</b>	<b>22,080,325</b>	<b>9,116,724</b>	<b>8,651,048</b>	<b>22,797,960</b>	<b>159,177,308</b>
Net claims paid	(2,200,197)	(23,146,699)	(3,484,274)	(4,620,068)	(1,094,944)	(273,064)	(34,819,246)
Change in net outstanding claims	(10,260,271)	(23,940,854)	(2,451,186)	(1,364,344)	(396,183)	(19,006,342)	(57,419,180)
<b>Net claims incurred</b>	<b>(12,460,468)</b>	<b>(47,087,553)</b>	<b>(5,935,460)</b>	<b>(5,984,412)</b>	<b>(1,491,127)</b>	<b>(19,279,406)</b>	<b>(92,238,426)</b>
Gross acquisition costs	(13,435,903)	(21,659,706)	(8,830,840)	(1,588,737)	(442,017)	(3,619,121)	(49,786,324)
Commissions on retroceded business	2,926,185	2,280,914	684,122	-	(12)	231,681	6,122,890
Supervision and inspection fees	(310,916)	(478,113)	(151,572)	(61,095)	(78,790)	(144,674)	(1,225,160)
<b>Net underwriting results</b>	<b>6,236,455</b>	<b>(130,764)</b>	<b>7,846,575</b>	<b>1,472,480</b>	<b>6,639,102</b>	<b>(13,560)</b>	<b>22,050,288</b>

	Engineering SR	Fire SR	Marine SR	Motor SR	Life SR	Others SR	Total SR
<b>As at 31 December 2013</b>							
Segment assets	103,527,160	166,836,664	41,668,488	36,199,379	45,316,934	19,208,781	412,757,406
Segment liabilities	157,268,596	355,912,832	41,327,375	55,423,795	31,057,348	45,552,034	686,541,980

<b>As at 31 December 2012</b>							
Segment assets	65,466,362	81,898,531	24,459,570	10,348,435	15,970,291	13,343,258	211,486,447
Segment liabilities	80,078,184	133,781,066	22,589,021	15,685,919	10,364,449	33,151,268	295,649,907

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 30. SEGMENTAL INFORMATION (Continued)

#### 30.2 Geographical segments

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Total SR
<b>For the year ended 31 December 2013</b>					
<b>Reinsurance operations' results</b>					
Gross written premiums	221,272,461	75,849,503	63,565,155	59,399,217	420,086,336
Retroceded premiums	(4,584,680)	(1,726,397)	(138,122)	-	(6,449,199)
Excess of loss expenses	(19,470,266)	(4,157,760)	(2,833,284)	(1,355,452)	(27,816,762)
<b>Net written premiums</b>	<b>197,217,515</b>	<b>69,965,346</b>	<b>60,593,749</b>	<b>58,043,765</b>	<b>385,820,375</b>
Change in net unearned premiums	(48,655,807)	(11,106,177)	(13,434,031)	(22,861,793)	(96,057,808)
<b>Net earned premiums</b>	<b>148,561,708</b>	<b>58,859,169</b>	<b>47,159,718</b>	<b>35,181,972</b>	<b>289,762,567</b>
Net claims paid	(61,407,178)	(8,498,910)	(12,818,118)	(15,434,989)	(98,159,195)
Change in net outstanding claims	(131,372,799)	(30,332,147)	(25,226,232)	(15,166,448)	(202,097,626)
<b>Net claims incurred</b>	<b>(192,779,977)</b>	<b>(38,831,057)</b>	<b>(38,044,350)</b>	<b>(30,601,437)</b>	<b>(300,256,821)</b>
Premium deficiency reserve	(17,871,292)	(1,215,233)	(3,687,497)	(3,392,978)	(26,167,000)
Gross acquisition costs	(46,539,050)	(14,274,060)	(13,439,316)	(9,077,755)	(83,330,181)
Commissions on retroceded business	2,776,167	585,490	75,768	-	3,437,425
Supervision and inspection fees	(1,106,363)	(379,247)	(317,826)	(296,996)	(2,100,432)
<b>Net underwriting results</b>	<b>(106,958,807)</b>	<b>4,745,062</b>	<b>(8,253,503)</b>	<b>(8,187,194)</b>	<b>(118,654,442)</b>

#### For the year ended 31 December 2012

<b>Reinsurance operations' results</b>					
Gross written premiums	146,950,528	47,726,279	15,262,564	35,092,576	245,031,947
Retroceded premiums	(2,563,234)	(713,838)	(41,718)	-	(3,318,790)
Excess of loss expenses	(14,422,007)	(4,959,255)	(306,361)	(2,739,855)	(22,427,478)
<b>Net written premiums</b>	<b>129,965,287</b>	<b>42,053,186</b>	<b>14,914,485</b>	<b>32,352,721</b>	<b>219,285,679</b>
Change in net unearned premiums	(25,352,006)	(12,760,716)	(9,116,788)	(12,878,861)	(60,108,371)
<b>Net earned premiums</b>	<b>104,613,281</b>	<b>29,292,470</b>	<b>5,797,697</b>	<b>19,473,860</b>	<b>159,177,308</b>
Net claims paid	(31,251,845)	(1,793,838)	(2,180,235)	406,672	(34,819,246)
Change in net outstanding claims	(18,394,197)	(21,116,347)	4,935,466	(22,844,102)	(57,419,180)
<b>Net claims incurred</b>	<b>(49,646,042)</b>	<b>(22,910,185)</b>	<b>2,755,231</b>	<b>(22,437,430)</b>	<b>(92,238,426)</b>
Gross acquisition costs	(34,870,850)	(9,237,487)	(1,262,430)	(4,415,557)	(49,786,324)
Commissions on retroceded business	5,062,603	997,039	63,248	-	6,122,890
Supervision and inspection fees	(734,753)	(238,631)	(76,313)	(175,463)	(1,225,160)
<b>Net underwriting results</b>	<b>24,424,239</b>	<b>(2,096,794)</b>	<b>7,277,433</b>	<b>(7,554,590)</b>	<b>22,050,288</b>

	Kingdom of Saudi Arabia SR	Other Middle Eastern Countries SR	Africa SR	Asia SR	Total SR
<b>As at 31 December 2013</b>					
Segment assets	282,957,953	59,283,701	33,769,136	36,746,616	412,757,406
Segment liabilities	475,410,789	109,832,941	39,632,655	61,665,595	686,541,980
<b>As at 31 December 2012</b>					
Segment assets	132,448,697	44,343,118	14,653,667	20,040,965	211,486,447
Segment liabilities	178,139,075	61,756,619	18,880,674	36,873,539	295,649,907



# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 31. RISK MANAGEMENT

#### Risk governance

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

#### Risk Management structure

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

#### Board of directors

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

#### Senior Management

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

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

#### 31.1 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.

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

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 31. RISK MANAGEMENT (Continued)

#### 31.1 Reinsurance risk (Continued)

##### Geographical concentration of risk

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

	For the year ended 31 December 2013	
	Amount SR	Percentage
Kingdom of Saudi Arabia	221,272,461	53%
Other Middle Eastern Countries	75,849,503	18%
Africa	63,565,155	15%
Asia	59,399,218	14%
	<b>420,086,337</b>	<b>100%</b>

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

##### 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 2013

	Change in assumptions	Net Impact on net liabilities SR	Impact on net income SR
Ultimate loss ratio	+10%	28,976,257	28,976,257
	-10%	(28,976,257)	(28,976,257)

#### 31 December 2012

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



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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 31. RISK MANAGEMENT (Continued)

##### 31.2 Retrocession risk

In order to minimize its financial exposure arising from large claims, the Company in the normal course of business, enters into retrocession agreements with other parties. Amounts recoverable from retrocessionare are estimated and recognized in a manner consistent with the amounts associated with the underlying accepted policy benefits and in accordance with the terms of the respective retrocession treaties and are presented in the statement of financial position as reinsurance assets

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

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

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

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

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

##### 31.3 Credit risk

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

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

37% of the Company's receivables is due from four ceding companies as at 31 December 2013 (31 December 2012: 37%)

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

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

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 31. RISK MANAGEMENT (Continued)

##### 31.3 Credit risk (Continued)

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

	31 December 2013		31 December 2012	
	Reinsurance operations	Shareholders' operations	Reinsurance operations	Shareholders' operations
Cash and cash equivalents	5,268,638	85,673,516	582,850	615,353
Time deposits	-	37,500,000	-	187,500,000
Premiums receivable	70,492,623	-	27,607,624	-
Deferred excess of loss premiums	-	-	11,592,791	-
Prepaid expenses and other assets	1,069,002	5,738,119	967,944	-
Due from shareholders' operations	173,315,949	-	6,385,126	-
Retroceded share of outstanding claims	104,888,918	-	42,123,104	-
Accrued special commission income from time deposits	-	1,040,241	-	477,740
Accrued special commission income from bonds and sukuk	-	3,295,158	-	3,279,972
Investments held at fair value through income statement	95,329,159	595,179,554	83,244,130	445,743,014
Held to maturity investments	-	173,995,409	-	209,047,506
Statutory deposit	-	100,000,000	-	100,000,000
	<b>450,364,289</b>	<b>1,002,421,997</b>	<b>172,503,569</b>	<b>946,663,585</b>

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

	31 December 2013	31 December 2012
	SR	SR
Standard and Poors "AA-" to "AA"	56,760,435	57,002,149
Standard and Poors "A-" to "A+"	112,756,632	138,074,373
Standard and Poors "BBB"	4,478,343	4,475,517
Moody's "A3"	-	-
Moody's "Aa2"	-	9,495,467
	<b>173,995,409</b>	<b>209,047,506</b>

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

#### 31.4 Liquidity risk

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

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

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 31 RISK MANAGEMENT (Continued)

#### 31.4 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. Maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and premium deficiency reserves have been excluded from the analysis as they are not contractual obligations. Employees' end of service benefits did not have any fixed maturity.

	31 December 2013					
	Reinsurance' Operations			Shareholders' Operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
<b>LIABILITIES</b>						
Accounts payable	8,143,048	-	8,143,048	500,000	-	500,000
Retrocession balances payable	7,615,423	-	7,615,423	-	-	-
Accrued retroceded premiums	4,463,127	-	4,463,127	-	-	-
Gross outstanding claims	424,276,504	-	424,276,504	-	-	-
Accrued expenses and other liabilities	5,923,389	-	5,923,389	6,641,169	-	6,641,169
Provision for zakat and income tax	-	-	-	33,184,598	-	33,184,598
Due to reinsurance operations	-	-	-	173,315,949	-	173,315,949
	<b>450,421,491</b>	<b>-</b>	<b>450,421,491</b>	<b>213,641,716</b>	<b>-</b>	<b>213,641,716</b>

	31 December 2012					
	Reinsurance Operations			Shareholders' Operations		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
<b>LIABILITIES</b>						
Accounts payable	4,768,189	-	4,768,189	1,000,000	-	1,000,000
Retrocession balances payable	3,265,617	-	3,265,617	-	-	-
Accrued retroceded premiums	4,243,430	-	4,243,430	-	-	-
Gross outstanding claims	159,413,407	-	159,413,407	-	-	-
Accrued expenses and other liabilities	10,025,363	-	10,025,363	4,282,585	-	4,282,585
Provision for zakat and income tax	-	-	-	30,086,812	-	30,086,812
Due to reinsurance operations	-	-	-	6,385,126	-	6,385,126
	<b>181,716,006</b>	<b>-</b>	<b>181,716,006</b>	<b>41,754,523</b>	<b>-</b>	<b>41,754,523</b>

##### Liquidity profile

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

# Saudi Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

### 31 RISK MANAGEMENT (Continued)

#### 31.4 Liquidity risk (Continued)

Maturity analysis on expected maturity bases

	31 December 2013					
	Reinsurance' Operations			Shareholders' Operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
<b>ASSETS</b>						
Cash and bank balances	5,268,638	-	5,268,638	85,673,516	-	85,673,516
Premium receivables, net	70,492,623	-	70,492,623	-	-	-
Investments held at fair value through income statement	95,329,159	-	95,329,159	595,179,554	-	595,179,554
Accrued insurance premiums	164,869,180	-	164,869,180	-	-	-
Retroceded share of outstanding Claims	104,888,575	-	104,888,575	-	-	-
Prepaid expenses and other assets	1,069,002	-	1,069,002	5,738,119	-	5,738,119
Due from shareholders' operations	173,315,949	-	173,315,949	-	-	-
Retroceded share of unearned Premiums	2,344,151	-	2,344,151	-	-	-
Deferred acquisition costs	54,445,929	-	54,445,929	-	-	-
Deferred excess of loss premiums	15,716,948	-	15,716,948	-	-	-
Property and equipment, net	-	7,337,119	7,337,119	-	32,991,742	32,991,742
Time deposits	-	-	-	-	37,500,000	37,500,000
Held to maturity investments	-	-	-	28,427,662	145,567,747	173,995,409
Accrued special commission income from time deposits	-	-	-	-	1,040,241	1,040,241
Accrued special commission income from bonds and sukuk	-	-	-	-	3,295,158	3,295,158
Statutory deposit	-	-	-	-	100,000,000	100,000,000
	<b>687,740,154</b>	<b>7,337,119</b>	<b>695,077,273</b>	<b>715,018,851</b>	<b>320,394,888</b>	<b>1,035,413,739</b>
<b>LIABILITIES</b>						
Accounts payable	8,143,048	-	8,143,048	500,000	-	500,000
Retrocession balances payable	7,615,523	-	7,615,523	-	-	-
Accrued retroceded premiums	4,463,127	-	4,463,127	-	-	-
Gross unearned premiums	215,025,067	-	215,025,067	-	-	-
Gross outstanding claims	424,276,504	-	424,276,504	-	-	-
Premium deficiency reserve	26,167,000	-	26,167,000	-	-	-
Unearned commission income	810,894	-	810,894	-	-	-
Accrued expenses and other liabilities	5,923,389	-	5,923,389	6,641,169	-	6,641,169
Employees' end of service benefits	-	1,720,644	1,720,644	-	-	-
Provision for zakat and income tax	-	-	-	33,184,598	-	33,184,598
Due to reinsurance operations	-	-	-	173,315,949	-	173,315,949
	<b>692,424,552</b>	<b>1,720,644</b>	<b>694,145,196</b>	<b>213,641,716</b>	<b>-</b>	<b>213,641,716</b>

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 31 RISK MANAGEMENT (Continued)

##### 31.4 Liquidity risk (Continued)

##### Maturity analysis on expected maturity bases (Continued)

	31 December 2012					
	Reinsurance Operations			Shareholders' Operations		
	Current SR	Non-current SR	Total SR	Current SR	Non-current SR	Total SR
<b>ASSETS</b>						
Cash and bank balances	582,850	-	582,850	615,353	-	615,353
Premium receivables, net	27,607,624	-	27,607,624	-	-	-
Investments held at fair value through income statement	83,244,130	-	83,244,130	445,743,014	-	445,743,014
Accrued insurance premiums	91,900,865	-	91,900,865	-	-	-
Retroceded share of outstanding Claims	42,123,104	-	42,123,104	-	-	-
Prepaid expenses and other assets	967,944	-	967,944	4,282,585	-	4,282,585
Due from shareholders' operations	6,385,126	-	6,385,126	-	-	-
Retroceded share of unearned Premiums	5,755,601	-	5,755,601	-	-	-
Deferred acquisition costs	32,506,462	-	32,506,462	-	-	-
Deferred excess of loss premiums	11,592,791	-	11,592,791	-	-	-
Property and equipment, net	-	5,303,065	5,303,065	-	29,784,000	29,784,000
Time deposits	-	-	-	-	187,500,000	187,500,000
Held to maturity investments	-	-	-	9,495,468	199,552,038	209,047,506
Accrued special commission income from time deposits	-	-	-	-	477,740	477,740
Accrued special commission income from bonds and sukuk	-	-	-	-	3,279,972	3,279,972
Statutory deposit	-	-	-	-	100,000,000	100,000,000
	<b>302,666,497</b>	<b>5,303,065</b>	<b>307,969,562</b>	<b>460,136,420</b>	<b>520,593,750</b>	<b>980,730,170</b>
<b>LIABILITIES</b>						
Accounts payable	4,768,189	-	4,768,189	1,000,000	-	1,000,000
Retrocession balances payable	3,265,617	-	3,265,617	-	-	-
Accrued retroceded premiums	4,243,430	-	4,243,430	-	-	-
Gross unearned premiums	122,378,709	-	122,378,709	-	-	-
Gross outstanding claims	159,413,407	-	159,413,407	-	-	-
Unearned commission income	1,580,555	-	1,580,555	-	-	-
Accrued expenses and other liabilities	10,025,363	-	10,025,363	4,282,585	-	4,282,585
Employees' end of service benefits	-	1,362,215	1,362,215	-	-	-
Provision for zakat and income tax	-	-	-	30,086,812	-	30,086,812
Due to reinsurance operations	-	-	-	6,385,126	-	6,385,126
	<b>305,675,270</b>	<b>1,362,215</b>	<b>307,037,485</b>	<b>41,754,523</b>	<b>-</b>	<b>41,754,523</b>

##### 31.5 Currency risk

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

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

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

As at 31 December 2013

**31. RISK MANAGEMENT (Continued)**

**31.5 Currency risk (Continued)**

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

31 December 2013	SR	USD	QAR	AED	EUR	KWD	INR	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<b>ASSETS</b>									
<b>Reinsurance operations</b>									
Cash and cash equivalents	4,445,635	674,427	-	6,167	142,409	-	-	-	5,268,638
Premiums receivable	33,945,666	971,120	4,142,343	5,740,841	(4,935)	5,387,259	12,999,585	7,310,744	70,492,623
Investments held at fair value through income statement	58,097,639	37,231,520	-	-	-	-	-	-	95,329,159
Accrued insurance premiums	77,395,490	29,295,334	6,918,781	7,324,315	56,672	1,991,907	4,451,721	37,434,960	164,869,180
Retrieved share of outstanding Claims	82,092,977	13,317,030	233,955	1,816,775	202	3,542,056	-	3,885,560	104,888,575
Prepaid expenses and other assets	1,069,002	-	-	-	-	-	-	-	1,069,002
Due from shareholders' operations	173,315,949	-	-	-	-	-	-	-	173,315,949
Retrieved share of unearned Premiums	2,344,151	-	-	-	-	-	-	-	2,344,151
Deferred acquisition costs	54,445,929	-	-	-	-	-	-	-	54,445,929
Deferred excess of loss premiums	15,716,948	-	-	-	-	-	-	-	15,716,948
Property and equipment, net	7,337,119	-	-	-	-	-	-	-	7,337,119
<b>Shareholders</b>									
Cash and cash equivalents	2,405,790	56,242,874	-	-	27,024,852	-	-	-	85,673,516
Time deposits	-	37,500,000	-	-	-	-	-	-	37,500,000
Accrued special commission income from time deposits	-	1,040,241	-	-	-	-	-	-	1,040,241
Accrued special commission income from bonds and sukuk	656,514	2,638,644	-	-	-	-	-	-	3,295,158
Investments held at fair value through income statement	350,898,863	244,280,691	-	-	-	-	-	-	595,179,554
Held to maturity investments	745,409	173,250,000	-	-	-	-	-	-	173,995,409
Statutory deposit	100,000,000	-	-	-	-	-	-	-	100,000,000
Property and equipment	32,991,742	-	-	-	-	-	-	-	32,991,742
Other assets	5,738,119	-	-	-	-	-	-	-	5,738,119
	<b>1,003,642,942</b>	<b>596,441,881</b>	<b>11,295,079</b>	<b>14,888,098</b>	<b>27,219,200</b>	<b>10,921,222</b>	<b>17,451,306</b>	<b>48,631,284</b>	<b>1,730,491,012</b>



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

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

As at 31 December 2013

**31. RISK MANAGEMENT (Continued)**

**31.5 Currency risk (Continued)**

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

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

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

As at 31 December 2013

31. RISK MANAGEMENT (Continued)

31.5 Currency risk (Continued)

31 December 2013	SR	USD	QAR	AED	EUR	KWD	INR	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
<b>LIABILITIES</b>									
Reinsurance operations									
Accounts payable	8,143,048	-	-	-	-	-	-	-	8,143,048
Retrocession balances payable	7,615,523	-	-	-	-	-	-	-	7,615,523
Accrued retrocession premiums	4,463,127	-	-	-	-	-	-	-	4,463,127
Gross unearned premiums	121,820,303	21,305,718	8,276,506	6,524,643	330,060	3,592,776	9,063,223	44,111,838	215,025,067
Gross outstanding claims	315,960,413	28,483,767	13,678,609	12,833,904	348,609	8,855,910	7,150,996	36,964,296	424,276,504
Premium Deficiency Reserve	26,167,000	-	-	-	-	-	-	-	26,167,000
Unearned commission income	810,894	-	-	-	-	-	-	-	810,894
Surplus distribution payable	932,077	-	-	-	-	-	-	-	932,077
Accrued expenses and other liabilities	5,923,389	-	-	-	-	-	-	-	5,923,389
Employees' end of service benefits	1,720,644	-	-	-	-	-	-	-	1,720,644
<b>Shareholders</b>									
Accounts payable									500,000
Provision for zakat and income tax									33,184,598
Due to reinsurance operations									173,315,949
Other liabilities									6,641,169
	707,198,134	49,789,485	21,955,115	19,358,547	678,669	12,448,686	16,214,219	81,076,134	908,718,989



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

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

As at 31 December 2013

**31. RISK MANAGEMENT (Continued)**

**31.5 Currency risk (Continued)**

31 December 2012

**LIABILITIES**

**Reinsurance operations**

	SR	USD	QAR	AED	EUR	KWD	INR	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR	SR
Accounts payable	4,768,189	-	-	-	-	-	-	-	4,768,189
Retrocession balances payable	3,265,617	-	-	-	-	-	-	-	3,265,617
Accrued retrocession premiums	2,673,555	566,442	27,931	198,253	11,723	-	-	765,526	4,243,430
Gross unearned premiums	122,378,709	-	-	-	-	-	-	-	122,378,709
Gross outstanding claims	93,615,221	10,174,722	9,021,200	7,555,040	158,761	-	-	38,888,463	159,413,407
Unearned commission income	1,580,555	-	-	-	-	-	-	-	1,580,555
Surplus distribution payable	932,077	-	-	-	-	-	-	-	932,077
Accrued expenses and other liabilities	10,025,363	-	-	-	-	-	-	-	10,025,363
Employees' end of service benefits	1,362,215	-	-	-	-	-	-	-	1,362,215
<b>Shareholders</b>									
Accounts payable	1,000,000	-	-	-	-	-	-	-	1,000,000
Provision for zakat and income tax	30,086,812	-	-	-	-	-	-	-	30,086,812
Due to reinsurance operations	6,385,126	-	-	-	-	-	-	-	6,385,126
Other liabilities	4,282,585	-	-	-	-	-	-	-	4,282,585
	282,356,024	10,741,164	9,049,131	7,753,293	170,484	-	-	39,653,989	349,724,085

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

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

As at 31 December 2013

#### 31. RISK MANAGEMENT (Continued)

##### 31.6 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.

##### 31.7 Fund Price Risk

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

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

A 5% change in the net asset value of funds, with all other variables held constant, would impact net income by increase / decrease of SR 12,199,060 (31 December 2012: SR 7,863,981).

##### 31.8 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:

	2013 SR	2012 SR
Total capital held	821,772,023	938,975,647
Minimum regulatory capital	200,000,000	200,000,000

In the opinion of the management, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

##### 31.9 Fair value of financial instruments

Financial instruments consist of financial assets and financial liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The Company's financial assets consist of cash and cash equivalents, receivables, investments and accrued income and its financial liabilities consist of payables, accrued expenses and gross outstanding claims. The fair values of financial assets and liabilities are not materially different from their carrying values at the statement of financial position.

##### 31.10 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.

#### 32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on Rabi Thani, 20 1435H corresponding to February 20, 2014.