SAUDI REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2008

ERNST & YOUNG

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

SCOPE OF AUDIT:

We have audited the accompanying balance sheet of Saudi Reinsurance Company – A Saudi Joint Stock Company (the 'Company') as at 31 December 2008 and the related statements of reinsurance operations, shareholders' operations, reinsurance operations and shareholders' cash flows and changes in shareholders' equity for the period then ended and the notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the 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. Except for the matter explained in the following paragraph, 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.

QUALIFICATION:

As described in Note 2, management have prepared these financial statements in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Based on evidence and information available to us, we have been unable to conclude whether the basis used in the preparation of these financial statements is appropriate.

QUALIFIED OPINION:

In our opinion, subject to the matter referred to above, the financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as at 31 December 2008 and the results of its operations and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

- Comply with the requirements of the Regulations for Companies and the Company's bye-laws with respect to the preparation and presentation of the financial statements.

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29 Safar 1430H
24 February 2009

PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

Deloitte & Touche Bakr Abulkhair & Company

Saudi Reinsurance Company (A Saudi Joint Stock Company)

BALANCE SHEET

As at 31 December 2008

	Notes	SR
REINSURANCE OPERATIONS' ASSETS		
Cash and cash equivalents	5	33,604
Premiums receivable	6	2,257,167
Retroceded share of unearned premiums	7	2,357,805
Retroceded share of outstanding claims	8	158,616
Deferred acquisition costs	9	612,007
Prepayments and other assets	10	426,427
Due from shareholders' operations		196,048
Property and equipment, net	11	3,689,719
TOTAL REINSURANCE OPERATIONS' ASSETS		9,731,393
SHAREHOLDERS' ASSETS		
Cash and cash equivalents	5	412,330,351
Time deposit	12	600,000,000
Accrued special commission income from time deposits		13,720,726
TOTAL SHAREHOLDERS' ASSETS		1,026,051,077
TOTAL ASSETS		1,035,782,470
REINSURANCE OPERATIONS' LIABILITIES		
Retrocession balances payable		1,913,175
Gross unearned premiums	7	2,891,122
Gross outstanding claims	8	202,623
Unearned commission income	13	612,814
Accrued expenses and other liabilities	14	3,745,127
Employees end of service benefits		366,532
TOTAL REINSURANCE OPERATIONS' LIABILITIES		9,731,393
SHAREHOLDERS' LIABILITIES AND EQUITY		
SHAREHOLDERS' LIABILITIES		
Provision for income tax	15	329,606
Due to reinsurance operations		196,048
TOTAL SHAREHOLDERS' LIABILITIES		525,654
SHAREHOLDERS' EQUITY		
Share capital	16	1,000,000,000
Statutory reserve	17	5,105,085
Retained earnings		20,420,338
TOTAL SHAREHOLDERS' EQUITY		1,025,525,423
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		1,026,051,077
TOTAL LIABILITIES & EQUITY		1,035,782,470

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF REINSURANCE OPERATIONS

For the Period From 1 May 2008 to 31 December 2008

	Notes	SR
Gross premiums written	7	3,217,946
Retroceded premiums	7	(2,613,851)
Net premiums written		604,095
Change in net unearned premiums	7	(533,317)
Net premiums earned		70,778
Change in net outstanding claims	8	(44,007)
Acquisition costs	9	(90,604)
Commission on retroceded business	13	87,862
Excess of loss expenses		(293,506)
Net underwriting results		(269,477)
General and administrative expenses	18	(10,520,651)
Board of directors remuneration and expenses	20	(1,135,363)
Net deficit from reinsurance operations		(11,925,491)
Net deficit transferred to statement of shareholders' operations		11,925,491
Net result for the period		-

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' OPERATIONS

For the Period From 1 May 2008 to 31 December 2008

	Notes	SR
Special commission income from time deposits		29,538,749
Pre-incorporation income, net	19	8,241,771
Net deficit transferred from reinsurance operations		(11,925,491)
Net income for the period		25,855,029
Earnings per share	22	0.26

The accompanying notes 1 to 28 form an integral part of these financial statements.

Saudi Reinsurance Company (A Saudi Joint Stock Company)

STATEMENT OF REINSURANCE OPERATIONS CASH FLOWS

For the Period From 1 May 2008 to 31 December 2008

	Notes	SR
OPERATING ACTIVITIES		
Net result for the period		-
Adjustments for:		
Employees end of service benefits		366,532
Depreciation		818,044
Operating profit before changes in operating assets and liabilities:		1,184,576
Premiums receivable		(2,257,167)
Retroceded share of unearned premiums		(2,357,805)
Retroceded share of outstanding claims		(158,616)
Deferred acquisition costs		(612,007)
Prepayments and other assets		(426,427)
Due from shareholders' operations		(196,048)
Retrocession balances payable		1,913,175
Gross unearned premiums		2,891,122
Gross outstanding claims		202,623
Unearned commission income		612,814
Accrued expenses and other liabilities		3,745,127
Net cash from operating activities		**4,541,367**
INVESTING ACTIVITIES		
Purchase of property and equipment		(4,507,763)
Net cash used in investing activities		**(4,507,763)**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	**33,604**

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the Period From 1 May 2008 to 31 December 2008

	Notes	SR
OPERATING ACTIVITIES		
Net income for the period		25,855,029
Changes in operating assets and liabilities:		
Time deposit		(600,000,000)
Accrued special commission income from time deposits		(13,720,726)
Due to reinsurance operations		196,048
Net cash used in operating activities		(587,669,649)
FINANCING ACTIVITIES		
Issue of share capital		1,000,000,000
Net cash from financing activities		1,000,000,000
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	412,330,351

The accompanying notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Period From 1 May 2008 to 31 December 2008

	Notes	Share capital SR	Statutory reserve SR	Retained earnings SR	Total SR
Issue of shares	16	1,000,000,000	-	-	1,000,000,000
Net income for the period		-	-	25,855,029	25,855,029
Provision for income tax	15	-	-	(329,606)	(329,606)
Transfer to statutory reserve	17	-	5,105,085	(5,105,085)	-
Balance at 31 December 2008		**1,000,000,000**	**5,105,085**	**20,420,338**	**1,025,525,423**

The accompanying notes 1 to 28 form an integral part of these financial statements.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudi Reinsurance Company (the "Company") is a Saudi joint stock company registered in the Kingdom of Saudi Arabia under commercial registration number 1010250125 dated 12 Jumad Awal 1429H (corresponding to 17 May 2008). The Company's registered office is at P.O. Box 30025, Riyadh 11372, 6th Floor, Arch Towers, King Fahd Road, Kingdom of Saudi Arabia, Riyadh.

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

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

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement
The financial statements are prepared under the historical cost convention.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New standards and interpretations issued but not yet effective
The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for these financial statements:

- IFRS 8 Operating Segments
- IAS 1 - Presentation of financial statements (Revised)

The application of the above is not expected to have a material impact on the financial statements as and when they become effective. However, the application of these standards will result in amendments to the presentation of the financial statements.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. 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.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

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

Deferred acquisition costs (DAC)
Those direct and indirect costs incurred during the financial period arising from the writing or renewing of reinsurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized on a straight-line basis based on the term of expected future premiums, except for marine cargo where the deferred portion shall be the premium written during the last quarter. Amortization is recorded in the statement of reinsurance operations.

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

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

Property and equipment
Property and equipment are stated at cost less accumulated depreciation.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

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

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

Premiums earned and commission income
Premiums and commission income are taken into income over the terms of the policies to which they relate on a pro-rata basis. 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:

- Last quarter for marine cargo business
- Actual number of days for other lines of business

The change in the provision for unearned premiums and commission income is taken to the statement of reinsurance operations in order that revenue is recognized over the period of risk.

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statements of reinsurance operations or shareholders' operations.

As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant and have not been disclosed separately.

Zakat and income tax
Zakat and income tax are provided for in accordance with Saudi Arabian Fiscal Regulations. Zakat is charged to Saudi shareholders equity account while the income tax is charged to the foreign shareholders' equity account.

Provisions
Provisions are recognized when the Company has an obligation (legal or constructive) as a result of past events, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

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

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

- Engineering provides coverage for builder's risks, construction, mechanical, electrical, electronic, and machinery breakdown, and any other insurance included under this class of insurance.
- Fire provides coverage against fire, and any other insurance included under this class of insurance.
- Marine Insurance provides coverage for goods in transit and the vehicles of transportation on waterways, and any other insurance included under this class of insurance.
- Motor Insurance provides coverage against losses and liability related to motor vehicles, excluding transport insurance.
- Shareholders' Funds is a non-operating segment. Special commission income earned from time deposits is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The losses or surplus from the reinsurance operations are allocated to this segment on an appropriate basis.

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

Deferred acquisition costs
Certain acquisition costs related to the sale of new policies are recorded as deferred acquisition costs (DAC) and are amortized in the statement of reinsurance operations over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of reinsurance operations.

Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, time deposits and premiums receivables and its financial liabilities consist of reinsurance balances payable and other liabilities.

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

5. CASH AND CASH EQUIVALENTS

	2008	
	Reinsurance SR	Shareholders SR
Cash on hand	-	28,045
Cash at banks	33,604	302,306
Time deposits	-	412,000,000
	33,604	**412,330,351**

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

Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. All deposits are subject to an average variable commission rate of 4.75%.

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date.

6. PREMIUMS RECEIVABLE

As at 31 December 2008, the ageing of unimpaired policyholder balances is as follows:

	Total SR	Neither past due nor impaired SR	Past due but not impaired SR
31 December 2008	2,257,167	2,257,167	-

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

7. UNEARNED PREMIUMS

	Gross SR	Retroceded share SR	Net SR
Premiums written during the period	3,217,946	(2,613,851)	604,095
Premiums earned	(326,824)	256,046	(70,778)
	2,891,122	**(2,357,805)**	**533,317**

8. GROSS OUTSTANDING CLAIMS

	Gross SR	Retroceded share SR	Net SR
Outstanding claims provided during the period	6,529	(4,988)	1,541
Claims incurred but not reported provided during the period	196,094	(153,628)	42,466
	202,623	**(158,616)**	**44,007**

9. DEFERRED ACQUISITION COSTS

	2008 SR
Incurred during the period	702,611
Amortized during the period	(90,604)
	612,007

10. PREPAYMENTS AND OTHER ASSETS

	2008 SR
Prepaid rent	228,596
Deferred excess of loss premiums	164,823
Prepaid insurance	24,758
Other	8,250
	426,427

11. PROPERTY AND EQUIPMENT, NET

	Computers and Equipment SR	Furniture And Fixtures SR	Motor Vehicles SR	Leasehold Improvements SR	Total SR
Cost:					
Additions during the period	1,632,768	189,472	493,000	2,192,523	4,507,763
At 31 December 2008	1,632,768	189,472	493,000	2,192,523	4,507,763
Accumulated depreciation:					
Charged for the period	312,623	15,979	267,690	221,752	818,044
At 31 December 2008	312,623	15,979	267,690	221,752	818,044
Net book value					
31 December 2008	**1,320,145**	**173,493**	**225,310**	**1,970,771**	**3,689,719**

12. TIME DEPOSIT

The time deposit represents a deposit with a local bank with a maturity of more than three months from the date of original acquisition and earns special commission income at a rate of 6.16%.

The time deposit is placed with a counterparty that has an investment grade credit rating.

The carrying amount of the time deposit reasonably approximates fair value at the balance sheet date.

13. UNEARNED COMMISSION INCOME

	2008 SR
Commission received on retroceded business during the period	700,676
Commission earned on retroceded business during the period	(87,862)
	612,814

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	2008 SR
Board of directors remuneration	900,000
Employees bonus	900,000
Professional fees payable	852,000
Payable to suppliers	712,677
Withholding tax payable	142,588
Meeting fees and expenses	140,000
Other	97,862
	3,745,127

15. ZAKAT AND INCOME TAX

a) Zakat

As the company has not yet completed one year of its operations, no zakat provision has been made in these financial statements.

b) Income tax

	2008 SR
Provision for the period charged to retained earnings and balance at 31 December 2008	**329,606**

16. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 1 billion divided into 100 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid SR 600 million for 60 million shares with a nominal value of SR 10 each, which represents 60% of the shares of the Company and the remaining SR 400 million for 40 million shares with a nominal value of SR 10 each have been subscribed for by the public. The following summarizes the share capital as at 31 December 2008.

	Share	Amount SR
Share capital – founding shareholders	60,000,000	600,000,000
Share capital – general public	40,000,000	400,000,000
	100,000,000	**1,000,000,000**

17. STATUTORY RESERVE

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

18. GENERAL AND ADMINISTRATIVE EXPENSES

	From 1 May 2008 To 31 December 2008 SR
Salaries and related benefits	5,409,073
Consulting fees	1,264,858
Professional fees	1,151,342
Depreciation	818,044
Travelling expenses	482,272
Rent and premises	408,833
Advertising	224,053
Licensing Fees	216,102
Other	546,074
	10,520,651

19. PRE-INCORPORATION INCOME, NET

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

20. BOARD OF DIRECTORS REMUNERATION AND EXPENSES

	From 1 May 2008 To 31 December 2008 SR
Board of directors remuneration	900,000
Meeting fees and expenses	235,363
	1,135,363

21. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related party	Nature of transactions	Amount of transactions for the period from 1 May 2008 to 31 Dec 2008 SR	Amount of transactions for the period from 16 April 2005 to 30 April 2008 SR	Balances SR
Directors	Consulting fees	2,084,000	2,000,000	1,040,000
Key management personnel	Short term benefits	2,921,000	10,159,340	700,000
	End of service benefits	51,853	183,495	235,348
Others	Consulting fees	150,000	-	150,000

Balances with related parties are shown on the balance sheet and in note 14.

22. EARNINGS PER SHARE

Earnings per share for the period ended 31 December 2008 has been calculated by dividing net income for the period by the ordinary issued and outstanding shares at the period-end.

23. STATUTORY DEPOSIT

Subsequent to the balance sheet date, 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.

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, time deposits and premiums receivables and its financial liabilities consist of reinsurance balances payable and other liabilities.

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

25. SEGMENTAL INFORMATION

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

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

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

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

25.1 Business segments

	Period from 1 May 2008 to 31 December 2008					
	Engineering SR	**Fire SR**	**Marine SR**	**Motor SR**	**Shareholders SR**	**Total SR**
Reinsurance operations						
Gross premiums written	2,469,105	669,491	79,350	-	-	3,217,946
Retroceded premiums	(2,061,229)	(496,710)	(55,912)	-	-	(2,613,851)
Net premiums written	407,876	172,781	23,438	-	-	604,095
Change in net unearned premiums	(377,359)	(138,727)	(17,231)	-	-	(533,317)
Net premiums earned	30,517	34,054	6,207	-	-	70,778
Change in net outstanding claims	(18,663)	(21,620)	(3,724)	-	-	(44,007)
Acquisition costs	(58,295)	(29,313)	(2,996)	-	-	(90,604)
Commissions on retroceded business	57,911	27,679	2,272	-	-	87,862
Excess of loss expenses	-	(142,813)	(36,829)	(113,864)	-	(293,506)
Net underwriting results	**11,470**	**(132,013)**	**(35,070)**	**(113,864)**	**-**	**(269,477)**
Shareholders						
Special commission income from time deposits	-	-	-	-	29,538,749	29,538,749
Pre-incorporation income, net	-	-	-	-	8,241,771	8,241,771
Net deficit transferred from reinsurance operations	-	-	-	-	(11,925,491)	(11,925,491)
Net income for the period	**-**	**-**	**-**	**-**	**25,855,029**	**25,855,029**
As at 31 December 2008						
Segment assets	**4,306,150**	**950,900**	**128,545**	**-**	**1,026,051,077**	**1,031,436,672**
Segment liabilities	**4,407,531**	**1,085,425**	**126,778**	**-**	**525,654**	**6,145,388**

25. SEGMENTAL INFORMATION (continued)

25.2 Geographical segments

	Period from 1 May 2008 to 31 December 2008			
	Saudi Arabia SR	**Other Middle Eastern countries SR**	**Africa SR**	**Total SR**
Reinsurance operations				
Gross premiums written	2,355,655	392,280	470,011	3,217,946
Retroceded premiums	(1,971,994)	(274,627)	(367,230)	(2,613,851)
Net premiums written	383,661	117,653	102,781	604,095
Change in net unearned premiums	(350,415)	(102,228)	(80,674)	(533,317)
Net premiums earned	33,246	15,425	22,107	70,778
Change in net outstanding claims	(21,137)	(9,606)	(13,264)	(44,007)
Acquisition costs	(53,756)	(14,783)	(22,065)	(90,604)
Commissions in retroceded business	53,396	13,012	21,454	87,862
Excess of loss expenses	(293,506)	-	-	(293,506)
Net underwriting results	**(281,757)**	**4,048**	**8,232**	**(269,477)**
As at 31 December 2008				
Segment assets	**4,190,064**	**580,690**	**614,841**	**5,385,595**
Segment liabilities	**4,210,392**	**634,312**	**775,030**	**5,619,734**
Shareholders'				
Special commission income from time deposits	29,538,749	-	-	29,538,749
Pre-incorporation income, net	8,241,771	-	-	8,241,771
Net deficit transferred from reinsurance operations	(11,925,491)	-	-	(11,925,491)
	25,855,029	-	-	**25,855,029**
As at 31 December 2008				
Segment assets	**1,026,051,077**	-	-	**1,026,051,077**
Segment liabilities	**525,654**	-	-	**525,654**

26. 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. 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.

26. RISK MANAGEMENT (continued)

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 summarized below.

26.1 Insurance risk

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

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

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

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

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

Geographical concentration of risk

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

	Amount SR	%
Saudi Arabia	2,355,655	73
Other Middle Eastern Countries	392,280	12
Africa	470,011	15

Key assumptions

The principal assumption underlying the liability estimates is 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:

26. RISK MANAGEMENT (continued)

31 December 2008

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

26.2 Retrocession risk

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

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

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

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

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

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

26.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation 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 balance sheet.

75 % of the Company's receivables are due from three ceding companies as at 31 December 2008.

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, is restricts its dealings to commercial banks with strong balance sheets and credit ratings.

26. RISK MANAGEMENT (continued)

26.3 Credit risk (continued)

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

	31 December 2008 SR	
	Reinsurance Operations	Shareholders
Cash and cash equivalents	33,604	412,330,351
Time deposit	-	600,000,000
Premiums receivable	2,257,167	-
Prepayments and other assets	426,427	-
Due from shareholders operations	196,048	-
Retroceded share of outstanding claims	158,616	-
Accrued special commission income from time deposits	-	13,720,726
	3,071,862	**1,026,051,077**

26.4 Liquidity risk

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

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

All time deposits held by the Company at the balance sheet date had original maturity periods between one day and six months.

Maturity profiles

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

	31 December 2008					
	Reinsurance operations			Shareholders		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
LIABILITIES						
Retrocession balances payable	1,913,175		1,913,175	-	-	-
Gross outstanding claims	202,623		202,623	-	-	-
Accrued expenses and other liabilities	3,745,127		3,745,127	-	-	-
Employees end of service benefits	-	366,532	366,532	-	-	-
Income tax payable	-	-	-	329,606	-	329,606
Due to reinsurance operations	-	-	-	196,048	-	196,048
	5,860,925	**366,532**	**6,227,457**	**525,654**		**525,654**

Liquidity profile

None of the liabilities on the balance sheets are based on discounted cash flows and are all payable on a basis as set out above.

26. RISK MANAGEMENT (continued)

26.5 Currency risk

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

The table below represents the Company's assets and liabilities denominated in major currencies as at 31 December 2008:

31 December 2008	SAR	US Dollar	Other	Total
	SR	SR	SR	SR
ASSETS				
Reinsurance operations				
Cash and cash equivalents	-	33,604	-	33,604
Premiums receivable	1,796,936	198,664	261,567	2,257,167
Retroceded share of unearned premiums	1,833,140	160,927	363,738	2,357,805
Retroceded share of outstanding claims	158,616	-	-	158,616
Deferred acquisition costs	472,868	42,817	96,322	612,007
Prepayments and other assets	426,427	-	-	426,427
Due from shareholders' operations	196,048	-	-	196,048
Property and equipment, net	2,966,901	722,818	-	3,689,719
Shareholders				
Cash and cash equivalents	412,330,351	-	-	412,330,351
Time deposit	600,000,000	-	-	600,000,000
Accrued special commission income from time deposits	13,720,726	-	-	13,720,726
	1,033,902,013	**1,158,830**	**721,627**	**1,035,782,470**
LIABILITIES				
Reinsurance operations				
Retrocession balances payable	-	1,913,175	-	1,913,175
Gross unearned premiums	2,183,558	215,272	492,292	2,891,122
Gross outstanding claims	202,623	-	-	202,623
Unearned commission income	-	612,814	-	612,814
Accrued expenses and other liabilities	3,745,127	-	-	3,745,127
Employees end of service benefits	366,532	-	-	366,532
Shareholders				
Provision for income tax	329,606	-	-	329,606
Due to reinsurance operations	196,048	-	-	196,048
	7,023,494	**2,741,261**	**492,292**	**10,257,047**

26.6 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 is subject to special commission rate risk on its special commission bearing term deposits. The Company limits special commission rate risk by monitoring changes in special commission rates in the currencies in which its time deposits are denominated.

The following table demonstrates the sensitivity of statement of shareholders' operations and the shareholders' equity to reasonably possible changes in special commission rates of the Company's term deposits, with all other variables held constant.

31 December 2008

Currency	Change in variable	Impact on net income
Saudi Riyal	+ 50 basis points	SR 5,065,000
	- 50 basis points	SR (5,065,000)

26. RISK MANAGEMENT (continued)

26.7 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:

	2008 SR
Total Capital held	1,025,410,969
Minimum regulatory capital	200,000,000

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

26.8 Regulatory framework risk

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

27. CONTINGENT LIABILITY

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

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 27 Safar, 1430 H corresponding to 22 February 2009.