

**SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2014**

**SALAMA COOPERATIVE INSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
31 MARCH 2014**

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INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

THE SHAREHOLDERS SALAMA COOPERATIVE INSURANCE COMPANY (A SAUDI JOINT STOCK COMPANY)

Scope of review

We have reviewed the accompanying interim statement of financial position of Salama Cooperative Insurance Company – a Saudi Joint Stock Company – (the “Company”) as at 31 March 2014, and the related interim statements of insurance operations and accumulated surplus, shareholders’ operations, comprehensive income, changes in shareholders’ equity, insurance operations’ cash flows and shareholders’ cash flows for the three-month period then ended and related notes from 1 to 15 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company’s management and have been prepared by them in accordance with International Accounting Standard 34 – Interim Financial Reporting (“IAS 34”) and submitted to us together with all the information and explanations which we required. We conducted our review in accordance with the Standard on Review of Interim Financial Statements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”). A review consists principally of analytical procedures applied to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with IAS 34.

Emphasis of matter

We draw attention to the fact that these interim condensed financial statements are prepared in accordance with IAS 34 and not in accordance with Standard on Interim Financial Reporting issued by SOCPA.

We further draw attention to:

- Note 3 to the accompanying interim condensed financial statements, which refers to the Company’s accumulated losses at 31 March 2014, amounting to SR 74.253 million at that date (31 December 2013: SR 74.850 million). The Company’s ability to continue as a going concern is dependent upon future profitable operations and continued financial support from shareholders in order to enable it to cover its losses and settle its liabilities. The accompanying interim condensed financial statements have been prepared on the assumption that the Company will continue in business as a going concern, and do not include any adjustments that might result from the outcome of this uncertainty.



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- Note 13 to the Company's interim condensed financial statements, which refer to the breach of the solvency margin requirement with possibility of SAMA invoking the requirements of the Article 68 (2) (d) of the Insurance Implementing Regulations.

for **KPMG Al Fozan & Al Sadhan**

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for **Al Bassam**

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Jeddah, Kingdom of Saudi Arabia
21 April 2014
21 Jumada Al Thani 1435H



Salama Cooperative Insurance Company – A Saudi Joint Stock Company

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 March 2014

| | | 31 March 2014 (Unaudited) SR'000 | 31 December 2013 (Audited) SR'000 |
|--|-------|---|--|
| INSURANCE OPERATIONS ASSETS | | | |
| Cash and cash equivalents | 4 | 13,399 | 36,465 |
| Term deposits | 5 | 30,576 | 10,576 |
| Premium receivables, net | 6 | 52,341 | 37,998 |
| Reinsurance receivables, net | | 1,933 | 4,750 |
| Deferred policy acquisition costs | | 3,784 | 2,402 |
| Prepayments and other receivables | | 8,120 | 10,783 |
| Amount due from a related party | | 6,759 | 6,759 |
| FVIS investments | 7 (a) | 77,214 | 60,659 |
| Reinsurers' share of unearned premiums | | 5,166 | 3,235 |
| Reinsurers' share of outstanding claims | 8 | 18,408 | 15,980 |
| Held to maturity investments | 7 (b) | 31,652 | 26,663 |
| Furniture, fittings and office equipment | | 2,996 | 3,197 |
| Total Insurance Operations assets | | 252,348 | 219,467 |
| SHAREHOLDERS' ASSETS | | | |
| Cash and cash equivalents | 4 | 669 | 33 |
| FVIS investments | 7 (a) | 5,549 | 4,846 |
| Available-for-sale investments | 7 (c) | 7,318 | 6,976 |
| Prepayments and other receivables | | 139 | 82 |
| Due from Insurance Operations | | 3,933 | 4,565 |
| Held to maturity investments | 7 (b) | 3,719 | 3,719 |
| Statutory deposit | | 10,886 | 10,886 |
| Total Shareholders' assets | | 32,213 | 31,107 |
| TOTAL ASSETS | | 284,561 | 250,574 |



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company


INTERIM STATEMENT OF FINANCIAL POSITION (continued)

As at 31 March 2014


| | Notes | 31 March 2014 (Unaudited) SR'000 | 31 December 2013 (Audited) SR'000 |
|---|-------|---|--|
| INSURANCE OPERATIONS LIABILITIES AND SURPLUS | | | |
| Insurance Operations liabilities | | | |
| Unearned premiums | | 129,818 | 99,732 |
| Provision for premium deficiency | | 5,833 | 5,833 |
| Unearned commission income | | 1,560 | 916 |
| Outstanding claims | 8 | 76,804 | 77,221 |
| Policyholders' claims | | 6,631 | 6,441 |
| Reinsurance payables | | 4,081 | 2,083 |
| Accruals and other payables | | 15,170 | 14,326 |
| Due to Shareholders' Operations | | 3,933 | 4,565 |
| Employees' end of service benefits | | 5,497 | 5,336 |
| | | <u>249,327</u> | <u>216,453</u> |
| Insurance Operations surplus | | | |
| Accumulated surplus from Insurance Operations | | 3,021 | 3,014 |
| | | <u>252,348</u> | <u>219,467</u> |
| SHAREHOLDERS' LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Accruals and other payables | | 1,697 | 1,730 |
| Accrued Zakat | 9 | 2,374 | 2,174 |
| | | <u>4,071</u> | <u>3,904</u> |
| Shareholders' equity | | | |
| Share capital | | 100,000 | 100,000 |
| Available-for-sale investments reserve | | 2,395 | 2,053 |
| Accumulated losses | | (74,253) | (74,850) |
| | | <u>28,142</u> | <u>27,203</u> |
| Total Shareholders' liabilities and equity | | <u>32,213</u> | <u>31,107</u> |
| TOTAL LIABILITIES, SURPLUS AND EQUITY | | <u>284,561</u> | <u>250,574</u> |



 Chief Financial Officer



 Chairman



 Chief Executive Officer

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company
INTERIM STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

For the three-month period ended 31 March 2014

| | <i>Note</i> | 2014 (Unaudited) SR'000 | 2013 (Unaudited) SR'000 |
|---|-------------|--|--|
| Revenues | | | |
| Gross premiums written | | 87,999 | 60,459 |
| Less: Reinsurance premiums ceded | | (4,683) | (5,077) |
| Less: Excess of loss premiums | | (1,491) | (696) |
| Net premiums written | | <u>81,825</u> | <u>54,686</u> |
| Changes in net unearned premiums | | (28,155) | (9,574) |
| Net premiums earned | | 53,670 | 45,112 |
| Reinsurance commissions earned | | <u>805</u> | <u>930</u> |
| Net revenue | | <u>54,475</u> | <u>46,042</u> |
| Costs and expenses | | | |
| Gross claims paid | | 47,790 | 51,563 |
| Less: Reinsurers' share | | (326) | (5,190) |
| Net claims paid | | 47,464 | 46,373 |
| Changes in net outstanding claims and IBNR | | (2,847) | (4,481) |
| Net claims incurred | | 44,617 | 41,892 |
| Policy acquisition costs | | 1,498 | 1,468 |
| Other operating expenses | | 1,981 | 954 |
| Net costs and expenses | | <u>48,096</u> | <u>44,314</u> |
| Net results of Insurance Operations | | 6,379 | 1,728 |
| General and administrative expenses | | (8,746) | (7,984) |
| Investment income | | 2,437 | 334 |
| Surplus / (deficit) from Insurance Operations | | 70 | (5,922) |
| Shareholders' share of Insurance Operations'(surplus) / deficit | 2(a) | <u>(63)</u> | <u>5,922</u> |
| Surplus for the period | | 7 | - |
| Accumulated surplus at the beginning of the period | | 3,014 | 3,014 |
| Accumulated surplus at the end of the period | | <u>3,021</u> | <u>3,014</u> |



Chief Financial Officer



Chairman



Chief Executive Officer

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

INTERIM STATEMENT OF SHAREHOLDERS' OPERATIONS

For the three-month period ended 31 March 2014

| | <i>Notes</i> | 2014 (Unaudited) SR'000 | 2013 (Unaudited) SR'000 |
|---|--------------|--|--|
| REVENUES | | | |
| Shareholders' share of Insurance Operations' surplus / (deficit) | 2(a) | 63 | (5,922) |
| Investment income | | 760 | 3,538 |
| Gain on sale of available-for-sale investments | | - | 170 |
| | | <u>823</u> | <u>(2,214)</u> |
| EXPENSES | | | |
| General and administrative | | (26) | (43) |
| Net income / (loss) for the period before Zakat | | <u>797</u> | <u>(2,257)</u> |
| Zakat | 9 | (200) | (450) |
| Net income / (loss) for the period | | <u>597</u> | <u>(2,707)</u> |
| Earnings / (loss) per share - (SR) | 14 | <u>0.06</u> | <u>(0.27)</u> |



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three-month period ended 31 March 2014

| | <u>2014</u> <i>(Unaudited)</i> SR'000 | <u>2013</u> <i>(Unaudited)</i> SR'000 |
|--|---|---|
| Net income / (loss) for the period | 597 | (2,707) |
| Items that are or may be reclassified subsequently to statement of Shareholders' Operation: | | |
| Change in fair value of available-for-sale investments (Note 7 (c)) | 342 | 127 |
| Net change in available-for-sale investments reclassified to interim statement of Shareholders' Operations (Note 7 (c) (ii)) | - | (170) |
| Total comprehensive income / (loss) for the period | <u><u>939</u></u> | <u><u>(2,750)</u></u> |



Chief Financial Officer



Chairman



Chief Executive Officer

The accompanying notes 1 to 15 form and integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three-month period ended 31 March 2014

| | <i>For the three-month period ended 31 March 2014</i> | | | |
|---|---|---|---------------------------|---------------|
| | <i>Share capital</i> | <i>Available-for-sale investments reserve</i> | <i>Accumulated losses</i> | <i>Total</i> |
| | <i>SR'000</i> | <i>SR'000</i> | <i>SR'000</i> | <i>SR'000</i> |
| Balance as at 31 December 2013 (audited) | 100,000 | 2,053 | (74,850) | 27,203 |
| Net income for the period | - | - | 597 | 597 |
| <i>Other comprehensive income for the period</i> | | | | |
| Change in fair value of available-for-sale investments (Note 7 (c)) | - | 342 | - | 342 |
| Balance at 31 March 2014 (unaudited) | 100,000 | 2,395 | (74,253) | 28,142 |

| | <i>For the three-month period ended 31 March 2013</i> | | | |
|--|---|---|---------------------------|---------------|
| | <i>Share capital</i> | <i>Available-for-sale investments reserve</i> | <i>Accumulated losses</i> | <i>Total</i> |
| | <i>SR'000</i> | <i>SR'000</i> | <i>SR'000</i> | <i>SR'000</i> |
| Balance as at 31 December 2012 (audited) | 100,000 | 1,659 | (32,705) | 68,954 |
| Net loss for the period | - | - | (2,707) | (2,707) |
| <i>Other comprehensive income for the period</i> | | | | |
| Change in fair value of available-for-sale investments (Note 7 (c)) | - | 127 | - | 127 |
| Net change in available-for-sale investments reclassified to interim statement of Shareholders' Operations (Note 7 (c) (ii)) | - | (170) | - | (170) |
| | - | (43) | - | (43) |
| Balance at 31 March 2013 (unaudited) | 100,000 | 1,616 | (35,412) | 66,204 |



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 15 form and integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

INTERIM STATEMENT OF INSURANCE OPERATIONS CASH FLOWS

For the three-month period ended 31 March 2014

| | <i>Notes</i> | 2014 <i>(Unaudited)</i> SR'000 | 2013 <i>(Unaudited)</i> SR'000 |
|---|--------------|--------------------------------------|--------------------------------------|
| OPERATING ACTIVITIES | | | |
| Surplus for the period from the Insurance Operations | | 7 | - |
| Adjustments for: | | | |
| Unrealized gain on FVIS investments | 7(a) | (2,181) | (4) |
| Amortization related to held to maturity investments | 7(b) | 11 | 11 |
| Gain on disposal of available-for-sale investments | | (1) | - |
| Depreciation | | 435 | 510 |
| | | <u>(1,729)</u> | <u>517</u> |
| Changes in operating assets and liabilities: | | | |
| Premium receivables, net | | (14,343) | (10,369) |
| Reinsurance receivables, net | | 2,817 | 3,745 |
| Deferred policy acquisition costs | | (1,382) | (521) |
| Prepayments and other receivables | | 2,663 | 23 |
| Reinsurers share of unearned premiums | | (1,931) | 1,394 |
| Reinsurers share of outstanding claims | | (2,428) | 3,672 |
| Unearned premiums | | 30,086 | 8,181 |
| Unearned commission income | | 644 | 476 |
| Outstanding claims | | (417) | (8,153) |
| Policyholders' claims | | 190 | (1,308) |
| Reinsurance payables | | 1,998 | (120) |
| Accruals and other payables | | 844 | 1,228 |
| Due to Shareholders' Operations | | (632) | 8,739 |
| Employees' end of service benefits, net | | 161 | (935) |
| | | <u>16,541</u> | <u>6,569</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of furniture, fittings and office equipment | | (234) | (329) |
| Purchase of FVIS investments | 7 (a) | (15,000) | - |
| Purchase of held to maturity investments | 7 (b) | (5,000) | (3,000) |
| Investment in term deposits | | (20,000) | - |
| Proceeds from disposal of FVIS investments | | 627 | - |
| | | <u>(39,607)</u> | <u>(3,329)</u> |
| Net cash flows from operating activities | | <u>16,541</u> | <u>6,569</u> |
| Net cash flows used in investing activities | | <u>(39,607)</u> | <u>(3,329)</u> |
| (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | | (23,066) | 3,240 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | | <u>36,465</u> | <u>37,289</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | 4 | <u><u>13,399</u></u> | <u><u>40,529</u></u> |



Chief Financial Officer



Chairman



Chief Executive Officer

The accompanying notes 1 to 15 form and integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

INTERIM STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the three-month period ended 31 March 2014

| | <i>Notes</i> | 2014 (Unaudited) SR'000 | 2013 (Unaudited) SR'000 |
|---|--------------|--|--|
| OPERATING ACTIVITIES | | | |
| Net income / (loss) for the period before Zakat | | 797 | (2,257) |
| Adjustments for: | | | |
| Unrealized gain on FVIS investments | 7(a) | (703) | (1,101) |
| Gain on disposal of available-for-sale investments | 7(c)(ii) | - | (170) |
| | | <u>94</u> | <u>(3,528)</u> |
| Changes in operating assets and liabilities: | | | |
| Prepayment and other receivables | | (57) | 113 |
| Due from Insurance Operations | | 632 | (8,739) |
| Statutory deposit | | - | (37) |
| Accruals and other payables | | (33) | 45 |
| | | <u>636</u> | <u>(12,146)</u> |
| INVESTING ACTIVITIES | | | |
| Proceeds from maturity of term deposits | | - | 10,000 |
| Proceeds from disposal of available-for-sale investments | 7(c) | - | 2,170 |
| | | <u>-</u> | <u>12,170</u> |
| Net cash flows from investing activities | | - | 12,170 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | <u>636</u> | <u>24</u> |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | | | |
| | | <u>33</u> | <u>13,371</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | | | |
| | 4 | <u><u>669</u></u> | <u><u>13,395</u></u> |
| MAJOR NON-CASH TRANSACTIONS | | | |
| Change in fair value of available-for-sale investments | 7(c) | <u><u>342</u></u> | <u><u>127</u></u> |



Chief Financial Officer



Chief Executive Officer



Chairman

The accompanying notes 1 to 15 form and integral part of these interim condensed financial statements.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

At 31 March 2014

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Salama Cooperative Insurance Company ("the Company") is a Saudi joint stock company incorporated in the Kingdom of Saudi Arabia as per the Ministry of Commerce and Industry's Resolution number 112/K dated 29 Rabi Al-Thani (corresponding to 16 May 2007). In 2012, as per the shareholders' resolution dated 23 June 2012, the name of the Company was changed from Saudi IAIC Cooperative Insurance Company to Salama Cooperative Insurance Company. Legal formalities to change the name of the Company were completed during 2012. The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awal I428H (corresponding to 23 May 2007).

The Registered Office address of the Company is:

Al Amir Muhammed bin Abdulaziz Street,
Bin Hamran Center, P.O. Box 122392,
Jeddah 21332,
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi Stock Exchange on 23 May 2007. The Company started its operations on 1 January 2008. The Company is fully owned by the general public and Saudi shareholders.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting ("IAS 34"). The interim condensed financial statements for the three-month period ended 31 March 2014 (the "period") do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements as at 31 December 2013.

The accounting policies adopted by the Company for the preparation of these interim condensed financial statements are in accordance with International Financial Reporting Standards (IFRS) and are consistent with those used for the preparation of the annual financial statements of the Company for the year ended 31 December 2013 except for adoption of new and amended IFRS and International Financial Reporting Interpretations Committee Interpretations (IFRIC) as mentioned in note 2(b) which had no impact on the financial position or financial performance of the Company. The Company's risk management objectives and policies are consistent with those disclosed in the annual financial statements for year ended 31 December 2013.

The preparation of interim condensed financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the interim condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. In the Company's Board of Directors opinion, the interim condensed financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim period presented.

The Company follows a fiscal year ending 31 December. The interim condensed financial statements are expressed in Saudi Riyals, being the functional currency of the Company and have been rounded off to the nearest thousand, unless otherwise specified.

As required by Saudi Arabian Insurance Regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. The physical custody and title of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues 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 the management and Board of Directors.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
 At 31 March 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of presentation (continued)

As per the by-laws of the Company and Insurance Implantation Regulations, surplus arising from the Insurance Operations is distributed as follows:

| | |
|---------------|------|
| Shareholders | 90% |
| Policyholders | 10% |
| | 100% |

If the Insurance Operations results in a deficit, the entire deficit is transferred to Shareholders' Operations.

The Company presents its interim statement of financial position broadly in order of liquidity. All financial assets and liabilities except for investments held to maturity, available-for-sale investments and statutory deposit are expected to be recovered and settled respectively, within twelve months after the interim reporting date.

b) New IFRS, IFRIC and amendments thereof, adopted by the Company

The Company has adopted the following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) with a date of initial application of 1 January 2014:

| <u>Standard/ Interpretation</u> | <u>Description</u> |
|-------------------------------------|--|
| IFRS 10 | Amendment to IFRS 10 - Consolidated Financial Statements – Investment entities |
| IFRS 12 | Amendment to IFRS 12 - Disclosure of Interest in Other Parties – Investment entities |
| IAS 27 | Amendment to IAS 27 - Separate Financial Statements – Investment entities |
| IAS 32 | Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities |
| IAS 36 | Amendment to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets |

c) Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's interim financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they are effective.

| <u>Standard/ Interpretation</u> | <u>Description</u> | <u>Effective date</u> |
|-------------------------------------|--|-----------------------|
| IFRS 9 | Financial Instruments – Classification & Measurement | 1 January 2018 |
| IFRS 14 | Regulatory Deferral Accounts | 1 January 2016 |
| IAS 19 | Defined Benefit Plans – Employee Contributions | 1 July 2014 |

3 GOING CONCERN

The accumulated losses of the Company amounted to SR 74.253 million as at 31 March 2013 (31 December 2013: SR 74.85 million). The Company's ability to continue as a going concern is dependent upon future profitable operations and continued financial support from shareholders in order to enable it to cover its losses and settle its liabilities. Further, as at 31 March 2014, the Company is not in full compliance with Article 66 of SAMA Insurance Implementing Regulations in relation to its solvency requirements (refer note 13).

The above mentioned conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. However, whilst approving these interim condensed financial statements on 21 April 2014, the Board of Directors reconsidered the financial position and the matters disclosed in the preceding paragraphs and continue to believe that the going concern basis of preparation of the interim condensed financial statements is appropriate.

Accordingly, these interim condensed financial statements have been prepared on the assumption that the Company will continue in business as a going concern, and do not include any adjustments that might result from the outcome of uncertainties from above mentioned conditions.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2014

4 CASH AND CASH EQUIVALENTS

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|---------------------------------|---|--|
| <i>Insurance Operations</i> | | |
| Cash in hand and at banks | <u>13,399</u> | <u>36,465</u> |
| <i>Shareholders' Operations</i> | | |
| Cash at banks | <u>669</u> | <u>33</u> |

5 TERM DEPOSITS

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|-----------------------------|---|--|
| <i>Insurance Operations</i> | | |
| Term deposits | <u>30,576</u> | <u>10,576</u> |

The term deposits are held with the commercial banks. These term deposits are denominated in Saudi Arabian Riyals and have a maturity of more than three months and less than twelve months. The carrying amounts of these term deposits reasonably approximate their fair values at the reporting date.

6 PREMIUM RECEIVABLES, NET

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|---|---|--|
| Due from policyholders | 54,426 | 44,071 |
| Due from policy holders – related parties | 21,551 | 17,563 |
| Provision for doubtful debts | <u>(23,636)</u> | <u>(23,636)</u> |
| | <u>52,341</u> | <u>37,998</u> |

Movements in provision for doubtful debts receivable during the quarter ended 31 March 2014 and the year ended 31 December 2013 is as follows:

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|---|---|--|
| Balance at beginning of the period/year | 23,636 | 27,032 |
| Additional allowance during the period/year | - | 1,015 |
| Written-off during the period/year | - | (4,411) |
| Balance at the end of the period/year | <u>23,636</u> | <u>23,636</u> |

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2014

7 INVESTMENTS

a) FVIS investments

Insurance Operations

Movement in FVIS investments during the quarter ended 31 March 2014 and the year ended 31 December 2013 is as follows:

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|--|---|--|
| Balance at the beginning of the period/year | 60,659 | 3,131 |
| Changes in fair value of investments | 2,181 | 98 |
| Transfer of FVIS investments from Shareholders' Operations | - | 13,974 |
| Purchased during the period / year | 15,000 | 46,591 |
| Disposals during the period/year | (626) | (3,135) |
| | <u>77,214</u> | <u>60,659</u> |

During the year ended 31 December 2013, the management of the Company transferred certain FVIS investments from Shareholders' Operations to Insurance Operations.

Shareholders' Operations

Movement in FVIS investments during the quarter ended 31 March 2014 and the year ended 31 December 2013 is as follows:

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|---|---|--|
| Balance at the beginning of the period/year | 4,846 | 14,496 |
| Purchases during the period/year | - | 4,702 |
| Transfer of FVIS investments to Insurance Operations (refer note 7(a) – Insurance Operations) | - | (13,974) |
| Disposals during the period/year | - | (6,962) |
| Changes in fair value of investments | 703 | 6,584 |
| | <u>5,549</u> | <u>4,846</u> |

b) Held to maturity investments

Insurance Operations

Movement in investments held to maturity during the quarter ended 31 March 2014 and the year ended 31 December 2013 is as follows:

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|---|---|--|
| Balance at the beginning of the period/year | 26,663 | 13,685 |
| Purchases during the period/year | 5,000 | 20,000 |
| Matured during the period/year | - | (7,000) |
| Amortized during the period/year | (11) | (22) |
| | <u>31,652</u> | <u>26,663</u> |

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2014

7 INVESTMENTS (continued)

b) FVIS investments (continued)

Shareholders' Operations

Movement in investments held to maturity during the quarter ended 31 March 2014 and the year ended 31 December 2013 is as follows:

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|---|---|--|
| Balance at the beginning of the period/year | 3,719 | 3,731 |
| Amortized during the period/year | - | (12) |
| Balance at the end of the period/year | <u>3,719</u> | <u>3,719</u> |

c) Available-for-sale investments

Shareholders' Operations

Movement in available-for-sale investments are as follows:

| <i>Three-month period ended 31 March 2014 (Unaudited)</i> | <i>Quoted securities SR'000</i> | <i>Unquoted securities SR'000</i> | <i>Total SR'000</i> |
|---|---|---|-------------------------|
| Balance at the beginning of the period | 5,053 | 1,923 | 6,976 |
| Changes in fair value of investments | 342 | - | 342 |
| Balance at the end of the period | <u>5,395</u> | <u>1,923</u> | <u>7,318</u> |
| <i>Year ended 31 December 2013 (Audited)</i> | | | |
| Balance at the beginning of the year | 6,659 | 1,923 | 8,582 |
| Disposed during the year (see note (ii) below) | (2,170) | - | (2,170) |
| Changes in fair value of investments | 564 | - | 564 |
| Balance at the end of the year | <u>5,053</u> | <u>1,923</u> | <u>6,976</u> |

- (i) Unquoted available-for-sale investment, having a carrying value of SR 1,923 thousand (31 December 2013: SR 1,923 thousand) are measured at cost as its fair value cannot be reliably measured due to the absence of active market and unavailability of observable market prices for similar instruments.
- (ii) During 2013, the Company sold its investment with a cost price of SR 2,000 thousand for SR 2,170 thousand. The realized gain of SR 170 thousand was transferred from available-for-sale investment reserve to interim statement of Shareholders' Operations.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2014

8 OUTSTANDING CLAIMS - NET

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|--|---|--|
| Gross outstanding claims | 40,493 | 42,229 |
| Add: Incurred But Not Reported (IBNR) reserve | 36,311 | 34,992 |
| | <u>76,804</u> | <u>77,221</u> |
| Less: Reinsurance companies' share of outstanding claims | (18,408) | (15,980) |
| Net outstanding claims | <u><u>58,396</u></u> | <u><u>61,241</u></u> |

9 ZAKAT

The Zakat payable by the Company has been calculated based on the best estimates of the management. Movements in Zakat payable during the three-month period ended 31 March 2014 and for the year ended 31 December 2013 are as follows:

| | <i>31 March 2014 (Unaudited) SR'000</i> | <i>31 December 2013 (Audited) SR'000</i> |
|---|---|--|
| Balance at the beginning of the period/year | 2,174 | 2,756 |
| Charge for the period/year | 200 | 600 |
| Zakat paid during the period/year | - | (1,182) |
| Balance at the end of the period/year | <u><u>2,374</u></u> | <u><u>2,174</u></u> |

Zakat status

The Company has filed its Zakat declarations for the period from 16 May 2007 to 31 December 2008 and for the years ended 31 December 2009 through 2012 and obtained restricted Zakat certificates.

The Department of Zakat and Income Tax (DZIT) raised initial assessment for the period from 16 May 2007 to 31 December 2008 and demanded additional Zakat liability of SR 619 thousands. The Company filed an appeal against this demand and is confident of a favorable outcome. Zakat assessments for years ended 31 December 2009 through 2012 have not yet been raised. However the DZIT issued initial assessment for the year 2011, disallowing investments and statutory deposit from Zakat base and requested additional Zakat of SR 1.3 million. The Company has filed an appeal against DZIT's initial assessment and is confident of a favorable outcome.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2014

10 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of significant related party transactions during the period.

| <u>Related party</u> | <u>Nature of transaction</u> | <u>Amount of transaction</u> | | <u>Balance as at 31 March 2014</u> <i>(Unaudited)</i> <u>SR'000</u> | <u>Balance as at 31 December 2013</u> <i>(Audited)</i> <u>SR'000</u> |
|---|--|---|---|---|--|
| | | <u>31 March 2014</u> <i>(Unaudited)</i> <u>SR'000</u> | <u>31 March 2013</u> <i>(Unaudited)</i> <u>SR'000</u> | | |
| a) Insurance Operations | | | | | |
| <u>Major Shareholder</u> | | | | | |
| Islamic Arab Insurance Company (B.S.C) | General and Administrative Expenses directly paid on behalf of the Company | - | - | 6,759 | 6,759 |
| <u>Related Parties of key management personnel</u> | | | | | |
| Tajeer Co. (Affiliate) | Insurance policies written | 32,863 | 25,513 | 21,551 | 17,563 |
| Chairman of the Board | Insurance policies written | 36 | 42 | 169 | 133 |
| Rusd Global Company | Insurance policies written | - | - | - | 38 |
| Technology Establishment | Insurance policies written | - | 1 | - | 16 |
| Al Awwal Financial Services | Insurance policies written | - | - | - | (20) |
| Al Shaer Company | Insurance policies written | - | - | 159 | 159 |
| <u>Key management personnel</u> | | | | | |
| | Long-term benefits | 41 | 35 | 929 | 888 |
| | Short term benefits | 826 | 450 | 21 | 33 |
| b) Shareholders' Operations | | | | | |
| <u>Major Shareholder</u> | | | | | |
| Board of Directors | Remuneration | 19 | 26 | - | - |
| Board Committees | Remuneration | 8 | 16 | - | - |

Terms of transactions with related parties are approved by the management of the Company. The period end balances of transactions with related parties are disclosed in the interim statement of financial position.

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2014

11 SEGMENTAL INFORMATION

All the Insurance Operations of the Company are carried out in the Kingdom of Saudi Arabia. For management purposes, the operations are monitored in three major lines of business. Segment results do not include general and administration expenses and investment income. Segment assets do not include cash and cash equivalents, term deposits, net premiums receivable, net reinsurance receivable, prepayments and other receivables, amount due from a related party, investments and furniture, fittings and office equipment. Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables, due to shareholders' operations and employees' terminal benefits. Consistent with the Company's internal reporting process, operating segments have been approved by the management in respect of the Company's activities, assets and liabilities as stated below:

| | <i>Medical</i> <i>SR'000</i> | <i>Motor</i> <i>SR'000</i> | <i>Other</i> <i>SR'000</i> | <i>Total</i> <i>SR'000</i> |
|---|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
| For the three-month period ended 31 March 2014 (Unaudited) | | | | |
| Gross premiums written | 11,560 | 70,071 | 6,368 | 87,999 |
| Less: Reinsurance premiums ceded | - | (18) | (4,665) | (4,683) |
| Less: Excess of loss premiums | (300) | (760) | (431) | (1,491) |
| Net premiums written | 11,260 | 69,293 | 1,272 | 81,825 |
| Changes in net unearned premiums | (4,398) | (23,230) | (527) | (28,155) |
| Net premiums earned | 6,862 | 46,063 | 745 | 53,670 |
| Reinsurance commissions earned | - | 6 | 799 | 805 |
| Net revenue | 6,862 | 46,069 | 1,544 | 54,475 |
| Gross claims paid | 4,624 | 42,997 | 169 | 47,790 |
| Less: Reinsurers share | (256) | - | (70) | (326) |
| Net claims paid | 4,368 | 42,997 | 99 | 47,464 |
| Changes in net outstanding claims and IBNR | (710) | (3,748) | 1,611 | (2,847) |
| Net claims incurred | 3,658 | 39,249 | 1,710 | 44,617 |
| Policy acquisition costs | 246 | 980 | 272 | 1,498 |
| Other operating expenses | 915 | 1,024 | 42 | 1,981 |
| Net costs and expenses | 4,819 | 41,253 | 2,024 | 48,096 |
| Net results of Insurance Operations | 2,043 | 4,816 | (480) | 6,379 |
| Unallocated expenses | | | | (8,746) |
| Investment income | | | | 2,437 |
| Surplus from Insurance Operations | | | | 70 |
| As at 31 March 2014 (Unaudited) | | | | |
| Insurance Operations assets | | | | |
| Reinsurer's share of unearned premiums | - | 31 | 5,135 | 5,166 |
| Reinsurer's share of outstanding claims | 640 | 921 | 16,847 | 18,408 |
| Deferred policy acquisition costs | 674 | 2,604 | 506 | 3,784 |
| Unallocated assets | - | - | - | 224,990 |
| Total Insurance Operations assets | | | | 252,348 |
| Insurance Operations liabilities | | | | |
| Unearned premiums | 15,871 | 106,868 | 7,079 | 129,818 |
| Outstanding claims | 9,512 | 43,325 | 23,967 | 76,804 |
| Unearned commission income | - | 7 | 1,553 | 1,560 |
| Provision for premium deficiency | 2,635 | 2,330 | 868 | 5,833 |
| Unallocated liabilities and surplus | - | - | - | 38,333 |
| Total Insurance Operations liabilities and surplus | | | | 252,348 |

Salama Cooperative Insurance Company – A Saudi Joint Stock Company

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

At 31 March 2014

11 SEGMENTAL INFORMATION (continued)

| | <i>Medical</i> <i>SR'000</i> | <i>Motor</i> <i>SR'000</i> | <i>Other</i> <i>SR'000</i> | <i>Total</i> <i>SR'000</i> |
|---|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
| For the three-month period ended 31 March 2013 (Unaudited) | | | | |
| Gross premiums written | 6,232 | 47,529 | 6,698 | 60,459 |
| Less: Reinsurance premiums ceded | (109) | - | (4,968) | (5,077) |
| Less: Excess of loss premiums | (195) | (310) | (191) | (696) |
| Net premiums written | 5,928 | 47,219 | 1,539 | 54,686 |
| Changes in net unearned premiums | (379) | (9,263) | 68 | (9,574) |
| Net premiums earned | 5,549 | 37,956 | 1,607 | 45,112 |
| Reinsurance commissions earned | - | - | 930 | 930 |
| Net revenue | 5,549 | 37,956 | 2,537 | 46,042 |
| Gross claims paid | 9,821 | 39,232 | 2,510 | 51,563 |
| Less: Reinsurers share | (4,907) | - | (283) | (5,190) |
| Net claims paid | 4,914 | 39,232 | 2,227 | 46,373 |
| Changes in net outstanding claims and IBNR | (744) | (579) | (3,158) | (4,481) |
| Net claims incurred | 4,170 | 38,653 | (931) | 41,892 |
| Policy acquisition costs | 359 | 832 | 277 | 1,468 |
| Other operating expenses | 527 | 364 | 63 | 954 |
| Net costs and expenses | 5,056 | 39,849 | (591) | 44,314 |
| Net results of Insurance Operations | 493 | (1,893) | 3,128 | 1,728 |
| Unallocated expenses | | | | (7,984) |
| Investment income | | | | 334 |
| Deficit from Insurance Operations | | | | (5,922) |
| As at 31 December 2013 (Audited) | <i>Medical</i> <i>SR'000</i> | <i>Motor</i> <i>SR'000</i> | <i>Other</i> <i>SR'000</i> | <i>Total</i> <i>SR'000</i> |
| Insurance Operations assets | | | | |
| Reinsurer's share of unearned premiums | - | 37 | 3,198 | 3,235 |
| Reinsurer's share of outstanding claims | 881 | 921 | 14,178 | 15,980 |
| Deferred policy acquisition costs | 454 | 1,670 | 278 | 2,402 |
| Unallocated assets | - | - | - | 197,850 |
| Total Insurance Operations assets | | | | 219,467 |
| Insurance Operations liabilities | | | | |
| Unearned premiums | 11,474 | 83,645 | 4,613 | 99,732 |
| Outstanding claims | 10,462 | 47,071 | 19,688 | 77,221 |
| Unearned commission income | - | 8 | 908 | 916 |
| Provision for premium deficiency | 2,635 | 2,330 | 868 | 5,833 |
| Unallocated liabilities and surplus | - | - | - | 35,765 |
| Total Insurance Operations liabilities and surplus | | | | 219,467 |

Salama Cooperative Insurance Company – A Saudi Joint Stock Company
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
 At 31 March 2014

12 FAIR VALUE 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 values of on-balance sheet financial instruments, except for investments held to maturity, are not significantly different from the carrying values included in the interim condensed financial statements. The fair values of held to maturity investments are not expected to be materially different from their book values.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the identical assets or liabilities (i.e. without modification or repacking).

Level 2: quoted prices in active markets for similar financial assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

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

The table below presents the financial instruments at their fair values as at 31 March 2014.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Financial assets | | | | |
| Financial assets held as FVIS - Insurance Operations | - | 77,214 | - | 77,214 |
| Financial assets held as FVIS - Shareholders' Operations | - | 5,549 | - | 5,549 |
| Financial investments held as available-for-sale - Shareholders' Operations | - | 5,395 | - | 5,395 |
| Balance at the end of the period | - | 88,158 | - | 88,158 |

The table below presents the financial instruments at their fair values as at 31 December 2013.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Financial assets | | | | |
| Financial assets held as FVIS - Insurance Operations | - | 60,659 | - | 60,659 |
| Financial assets held as FVIS - Shareholders' Operations | - | 4,846 | - | 4,846 |
| Financial investments held as available-for-sale - Shareholders' Operations | - | 5,053 | - | 5,053 |
| Balance at the end of the year | - | 70,558 | - | 70,558 |

The Company determines Level 2 fair values for trading investments based on the net assets value of the respective funds as at the end of the reporting period.

13 REGULATORY REQUIREMENT

As required by Saudi Arabian Insurance Regulations (Article 66 of Implementation Regulations issued by SAMA), the Company is required to maintain minimum Solvency Margin equivalent to the highest of minimum capital requirement, premium solvency margin or claims solvency margin. As at 31 March 2014, the Company's solvency level is less than the minimum solvency margin required by the Implementation Regulations and is in the purview of the above-mentioned article of the Implementation Regulations. The Company has submitted its action plan to SAMA to achieve the solvency margin.

14 EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share for the period have been calculated by dividing the net income / (loss) for the period by the weighted average number of issued and outstanding shares (10 million shares) as at 31 March 2014 (31 March 2013: 10 million shares). Diluted income / loss per share is not applicable for the Company.

15 BOARD OF DIRECTORS' APPROVAL

These interim condensed financial statements have been approved by the Board of Directors on 21 April 2014, corresponding to 21 Jumada Al Thani 1435H.