

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED  
30 JUNE 2015**

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

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<b>INDEX</b>	<b>PAGE</b>
Independent Auditors' Review Report	1
Interim Statement of Financial Position	2 – 3
Interim Statement of Insurance Operations and Accumulated Surplus	4
Interim Statement of Shareholders' Operations	5
Interim Statement of Comprehensive Income	6
Interim Statement of Changes in Shareholders' Equity	7
Interim Statement of Insurance Operations' Cash Flows	8
Interim Statement of Shareholders' Operations Cash Flows	9
Notes to the Interim Condensed Financial Statements	10 – 24

**INDEPENDENT AUDITORS' REVIEW REPORT**

**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 30 June 2015, and the related interim statements of insurance operations and accumulated surplus, shareholders’ operations, comprehensive income for the three-month and six-month periods then ended, and the related interim statements of changes in shareholders’ equity, insurance operations’ cash flows and shareholders’ operations cash flows for the six-month period then ended and notes 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.

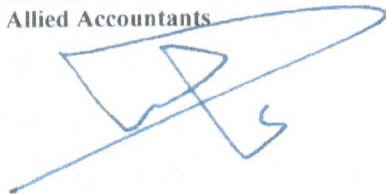
**Conclusion**

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 matters**

1. 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 Information issued by SOCPA.
2. We draw attention to note 3 that 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 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.

for PKF Al-Bassam & Al-Nemer  
Allied Accountants



Abdul Mohsen M. Al Nemer  
Certified Public Accountant  
Licence No. 399

for Moore Stephens  
El Sayed El Ayouuty & Co.  
Certified Public Accountants



Mohamed El Ayouuty  
Certified Public Accountant  
Licence No. 211

Jeddah, Kingdom of Saudi Arabia  
27 July 2015  
11 Shawaal 1436H



**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**INTERIM STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2015

	<u>Note</u>	<b>30 June 2015 (Unaudited) SR'000</b>	<b>31 December 2014 (Audited) SR'000</b>
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	4	12,642	23,573
Term deposits	5	51,125	30,739
Premium receivables, net	6	81,518	48,619
Reinsurance receivables, net		827	3,023
Deferred policy acquisition costs		5,371	4,739
Prepayments and other receivables		14,681	15,276
Amounts due from a related party	10	6,759	6,759
FVIS investments	7(a)	90,824	85,484
Reinsurers' share of unearned premiums		7,613	4,927
Reinsurers' share of outstanding claims	8	7,672	6,082
Held to maturity investments	7(b)	40,842	30,641
Furniture, fittings and office equipment		1,942	2,163
Due from Shareholders' Operations		-	1,287
<b>Total Insurance Operations' assets</b>		<b>321,816</b>	<b>263,312</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	4	499	5,524
FVIS investments	7(a)	14,653	14,072
Available-for-sale investments	7(c)	1,923	1,923
Prepayments and other receivables		2,165	555
Held to maturity investments	7(b)	5,558	-
Statutory deposit		11,009	10,976
Due from Insurance Operations		537	-
<b>Total Shareholders' assets</b>		<b>36,344</b>	<b>33,050</b>
<b>TOTAL ASSETS</b>		<b>358,160</b>	<b>296,362</b>





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

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**

**INTERIM STATEMENT OF FINANCIAL POSITION (continued)**

As at 30 June 2015

	<i>Note</i>	<b>30 June 2015 (Unaudited) SR'000</b>	<b>31 December 2014 (Audited) SR'000</b>
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
<b>Insurance Operations' liabilities</b>			
Unearned premiums		196,553	143,371
Premium deficiency reserve		4,531	4,531
Unearned commission income		2,384	1,291
Outstanding claims	8	79,283	79,726
Policyholders' claims		5,179	5,359
Reinsurance payables		5,265	2,883
Accruals and other payables		18,263	17,186
Employees' end of service benefits		6,332	5,951
Due to Shareholders' Operations		537	-
		<b>318,327</b>	<b>260,298</b>
<b>Insurance Operations' surplus</b>			
Accumulated surplus from Insurance Operations		3,489	3,014
<b>Total Insurance Operations' liabilities and surplus</b>		<b>321,816</b>	<b>263,312</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accruals and other payables		1,710	1,676
Accrued Zakat	9	3,708	3,108
Amount due to a related party		3	-
Due to Insurance Operations		-	1,287
<b>Total Shareholders' liabilities</b>		<b>5,421</b>	<b>6,071</b>
<b>Shareholders' equity</b>			
Share capital		100,000	100,000
Accumulated losses		(69,077)	(73,021)
<b>Total Shareholders' equity</b>		<b>30,923</b>	<b>26,979</b>
<b>Total Shareholders' liabilities and equity</b>		<b>36,344</b>	<b>33,050</b>
<b>TOTAL LIABILITIES, SURPLUS AND EQUITY</b>		<b>358,160</b>	<b>296,362</b>





The accompanying notes 1 to 15 form 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 and six-month periods ended 30 June 2015

	<i>Three-month period ended 30 June</i>		<i>Six-month period ended 30 June</i>	
<i>Note</i>	<i>2015 (Unaudited)</i>	<i>2014 (Unaudited)</i>	<i>2015 (Unaudited)</i>	<i>2014 (Unaudited)</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b>Revenues</b>				
Gross premiums written	113,089	93,996	226,770	181,995
Less: Reinsurance premiums ceded	(3,457)	(5,141)	(8,983)	(9,824)
Less: Excess of loss premiums	(2,828)	(2,116)	(4,102)	(3,607)
Net premiums written	106,804	86,739	213,685	168,564
Changes in net unearned premiums	(23,860)	(25,669)	(50,496)	(53,824)
Net premiums earned	82,944	61,070	163,189	114,740
Net reinsurance commissions earned	1,050	801	1,734	1,606
Net revenue	83,994	61,871	164,923	116,346
<b>Costs and expenses</b>				
Gross claims paid	71,818	69,786	136,913	117,576
Less: Reinsurers' share	(276)	(6,161)	(1,293)	(6,487)
Net claims paid	71,542	63,625	135,620	111,089
Changes in net outstanding claims	(3,881)	(16,711)	(2,032)	(19,558)
Net claims incurred	67,661	46,914	133,588	91,531
Policy acquisition costs	2,838	1,937	5,595	3,435
Other operating expenses	2,390	1,683	4,278	3,664
Net costs and expenses	72,889	50,534	143,461	98,630
Net results of insurance operations	11,105	11,337	21,462	17,716
General and administrative expenses	(10,586)	(9,289)	(20,007)	(18,035)
Other income	481	87	483	87
Investment income	1,047	977	2,809	3,414
<b>Surplus from Insurance Operations</b>	<b>2,047</b>	<b>3,112</b>	<b>4,747</b>	<b>3,182</b>
Shareholders' share of insurance operations' surplus	2(a) (1,842)	(2,801)	(4,272)	(2,864)
<b>Surplus for the period</b>	<b>205</b>	<b>311</b>	<b>475</b>	<b>318</b>
<b>Accumulated surplus at the beginning of the period</b>	<b>3,284</b>	<b>3,021</b>	<b>3,014</b>	<b>3,014</b>
<b>Accumulated surplus at the end of the period</b>	<b>3,489</b>	<b>3,332</b>	<b>3,489</b>	<b>3,332</b>





The accompanying notes 1 to 15 form 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 and six-month periods ended 30 June 2015

		Three-month period ended 30 June		Six-month period ended 30 June	
	<i>Note</i>	<u>2015</u> <i>(Unaudited)</i> <i>SR'000</i>	<u>2014</u> <i>(Unaudited)</i> <i>SR'000</i>	<u>2015</u> <i>(Unaudited)</i> <i>SR'000</i>	<u>2014</u> <i>(Unaudited)</i> <i>SR'000</i>
<b>REVENUES</b>					
Shareholders' share of Insurance					
Operations' surplus	2 (a)	1,842	2,801	4,272	2,864
Investment income		235	1,012	648	1,772
		<u>2,077</u>	<u>3,813</u>	<u>4,920</u>	<u>4,636</u>
<b>EXPENSES</b>					
General and administrative expenses		<u>(90)</u>	<u>(377)</u>	<u>(376)</u>	<u>(403)</u>
<b>Net income for the period before Zakat</b>		<b>1,987</b>	<b>3,436</b>	<b>4,544</b>	<b>4,233</b>
Zakat	9	<u>(300)</u>	<u>(300)</u>	<u>(600)</u>	<u>(500)</u>
<b>Net income for the period</b>		<b><u>1,687</u></b>	<b><u>3,136</u></b>	<b><u>3,944</u></b>	<b><u>3,733</u></b>
<b>Earnings per share – (SR)</b>	14	<b>0.17</b>	<b>0.31</b>	<b>0.39</b>	<b>0.37</b>

*Salama*

*[Signature]*

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**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**

**INTERIM STATEMENT OF COMPREHENSIVE INCOME**

For the three-month and six-month periods ended 30 June 2015

	<i>Three-month period ended 30 June</i>		<i>Six-month period ended 30 June</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	SR'000	SR'000	SR'000	SR'000
Net income for the period	1,687	3,136	3,944	3,733
<b>Items that are or may be reclassified subsequently to statement of Shareholders' Operations:</b>				
Change in fair value of available-for-sale-investments (note 7(c))	-	11	-	353
<b>Total comprehensive income for the period</b>	<u>1,687</u>	<u>3,147</u>	<u>3,944</u>	<u>4,086</u>



The accompanying notes 1 to 15 form 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 six-month period ended 30 June 2015

	<i>For the six-month period ended 30 June 2015</i>			
	<i>Available-for-sale</i>			<i>Total</i>
	<i>Share capital</i>	<i>investments</i>	<i>Accumulated</i>	
	<i>SR'000</i>	<i>reserve</i>	<i>losses</i>	<i>SR'000</i>
Balance as at 31 December 2014 (Audited)	100,000	-	(73,021)	26,979
Net income for the period	-	-	3,944	3,944
<b>Balance at 30 June 2015 (Unaudited)</b>	<b>100,000</b>	<b>-</b>	<b>(69,077)</b>	<b>30,923</b>

	<i>For the six-month period ended 30 June 2014</i>			
	<i>Available-for-sale</i>			<i>Total</i>
	<i>Share capital</i>	<i>investments</i>	<i>Accumulated</i>	
	<i>SR'000</i>	<i>reserve</i>	<i>losses</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	-	-	3,733	3,733
<i>Other comprehensive income for the period:</i>				
Change in fair value of available-for-sale investments (note 7 (c))	-	353	-	353
<b>Balance at 30 June 2014 (unaudited)</b>	<b>100,000</b>	<b>2,406</b>	<b>(71,117)</b>	<b>31,289</b>







The accompanying notes 1 to 15 form 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 six-month period ended 30 June 2015

	<i>Notes</i>	<i>Six-month period ended 30 June 2015 (Unaudited) SR'000</i>	<i>Six-month period ended 30 June 2014 (Unaudited) SR'000</i>
<b>OPERATING ACTIVITIES</b>			
Surplus for the period from the insurance operations		475	318
Adjustments for:			
Unrealized gain on FVIS investments	7(a)	(400)	(2,785)
Realized gain on FVIS investments		(1,762)	(1)
Amortisation related to held to maturity investments	7(b)	11	11
Depreciation		750	887
Employees end of service benefits, net		381	28
		(545)	(1,542)
Changes in operating assets and liabilities:			
Premium receivables		(32,899)	(26,158)
Reinsurance receivables		2,196	3,460
Deferred policy acquisition costs		(632)	(2,892)
Prepayments and other receivables		595	1,229
Reinsurers share of unearned premiums		(2,686)	(4,412)
Reinsurers share of outstanding claims		(1,590)	4,399
Unearned premiums		53,182	58,236
Unearned commission income		1,093	1,479
Outstanding claims		(443)	(23,957)
Policyholders' claims		(180)	(484)
Reinsurance payables		2,382	991
Accruals and other payables		1,077	4,446
Due (from) / to Shareholders' Operations		1,824	(4,708)
Net cash from operating activities		23,374	10,087
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and office equipment		(529)	(400)
Purchase of FVIS investments		(20,000)	(15,000)
Purchase of held to maturity investments	7 (b)	(10,212)	(10,000)
Term deposits		(20,386)	(20,050)
Proceeds from disposal of FVIS investments	7 (a)	16,822	6,627
Net cash used in investing activities		(34,305)	(38,823)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		(10,931)	(28,736)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		23,573	36,465
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	4	12,642	7,729






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

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**INTERIM STATEMENT OF SHAREHOLDERS' OPERATIONS CASH FLOWS**  
For the six-month period ended 30 June 2015

		<i>Six-month period ended 30 June 2015 (Unaudited) SR'000</i>	<i>Six-month period ended 30 June 2014 (Unaudited) SR'000</i>
	<i>Notes</i>		
<b>OPERATING ACTIVITIES</b>			
Net income for the period before Zakat		4,544	4,233
Adjustments for:			
Unrealized gain on FVIS investments	7(a)	(581)	(1,660)
Amortization of held to maturity investments	7(b)	28	7
		<u>3,991</u>	<u>2,580</u>
Changes in operating assets and liabilities:			
Prepayment and other receivables		(1,610)	1
Due from / (to) Insurance Operations		(1,824)	4,708
Statutory deposit		(33)	(55)
Accruals and other payables		34	(30)
Amount due to a related party		3	212
		<u>561</u>	<u>7,416</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of FVIS Investments	7(a)	-	(7,425)
Proceeds from maturity of held to maturity investments	7(b)	(5,586)	-
		<u>(5,586)</u>	<u>(7,425)</u>
Net cash used in investing activities			
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(5,025)</u>	<u>(9)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<u>5,524</u>	<u>33</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	4	<u>499</u>	<u>24</u>
<b>MAJOR NON-CASH TRANSACTIONS</b>			
Change in the fair value of available-for-sale-investments	7(c)	<u>-</u>	<u>353</u>







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

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

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**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 1121K dated 29 Rabi Al-Thani 1428H (corresponding to 16 May 2007). The Company is registered in Jeddah under Commercial Registration No. 4030169661 dated 6 Jamad Al-Awal 1428H (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 and six-month periods ended 30 June 2015 (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 2014.

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 2014 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 2014.

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 periods presented. The Company's interim results may not be indicative of its annual results.

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**a) Basis of presentation (continued)**

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.

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

Shareholders	90%
Policyholders	10%
	<hr/>
	100%
	<hr/>

If the insurance operations results in a deficit, the entire deficit is transferred to shareholders' operations.

In accordance with article 70 of the Saudi Arabian Monetary Agency ("SAMA") implementing regulations, the Company must obtain SAMA approval before distribution of policyholders surplus directly to policyholders at a time, and according to criteria set by its board of directors, provided that the customer contract is active and paid up to date at the time of settlement of the cooperative distribution account.

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



**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company**

The Company has adopted the following 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 2015:

<u>Standard/ Interpretation</u>	<u>Description</u>
IAS 19	Amendments to IAS 19 Defined Benefit Plans: Employees Contributions
IFRS 2	Share based payment
IFRS 3	Business combination
IFRS 8	Operating segments
IFRS 13	Fair value measurement
IAS 16 & 38	Property, plant and equipment and intangible assets
IAS 24	Related party disclosures
IAS 40	Investment property

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these interim condensed financial statements.

**c) Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Company 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	1 January 2018
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Inventor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
IFRS 10 and IFRS 12	Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Applying the consolidated exception	1 January 2016
IFRS 11	Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 1	Amendments to IAS 1 – disclosure initiative	1 January 2016
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27	Amendment to IAS 27 Equity Method in Separate Financial Statements	1 January 2016
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants	1 January 2016

The Company is currently assessing the implications of adopting the above mentioned standards, amendments or interpretations on the Company's financial statements.

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**3. GOING CONCERN**

The accumulated losses of the Company amounted to SR 69.077 million as at 30 June 2015 (31 December 2014: SR 73.021 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 30 June 2015, 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 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 27 July 2015, 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.

Further, during 2014, the Board of directors has recommended an increase in the Company's capital through offering a rights issue with a total value of SR 150 million.

On 25 September 2014 (corresponding to 01 Dhul Hijjah 1435H), the Company received an approval from SAMA for increasing its ordinary share capital by SAR 150 million, by way of issuance of right shares to its existing shareholders. On 28 April 2015, the Company got the approval from Capital Market Authority (CMA) for its increase in share capital by SAR 150 million by way of right issue. On 30 June 2015 corresponding to 13 Ramadan 1436H, the Company hold its extra ordinary general assembly and got the approval of shareholders for increase in share capital of 150 million by way of right issue. As a result of this rights issue, the share capital of the Company will increase to SR 250 million comprising of 25 million shares of SR 10 each in issued and fully paid up shares.

**4. CASH AND CASH EQUIVALENTS**

	<b>30 June 2015 (Unaudited) SR'000</b>	<b>31 December 2014 (Audited) SR'000</b>
<b><i>Insurance Operations</i></b>		
Cash in hand and at banks	<u><b>12,642</b></u>	<u><b>23,573</b></u>
<b><i>Shareholders' Operations</i></b>		
Cash at banks	<u><b>499</b></u>	<u><b>5,524</b></u>

**5. TERM DEPOSITS**

	<b>30 June 2015 (Unaudited) SR'000</b>	<b>31 December 2014 (Audited) SR'000</b>
<b><i>Insurance Operations</i></b>		
Term deposits	<u><b>51,125</b></u>	<u><b>30,739</b></u>

The term deposits are held with the commercial banks. These term deposits are denominated in Saudi Arabian Riyals and have been an original 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.

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**6. PREMIUM RECEIVABLES, NET**

	<i>30 June</i> <u>2015</u> (Unaudited) SR'000	<i>31 December</i> <u>2014</u> (Audited) SR'000
Due from policyholders	45,484	48,425
Due from policy holders – related parties (note 10)	58,687	22,847
Provision for doubtful debts	(22,653)	(22,653)
	<u>81,518</u>	<u>48,619</u>

Movements in allowance for doubtful premiums receivable were as follows:

	<i>30 June</i> <u>2015</u> (Unaudited) SR'000	<i>31 December</i> <u>2014</u> (Audited) SR'000
Balance at beginning of period / year	22,653	23,636
Release of provision during the period / year	-	(983)
Balance at the end of the period / year	<u>22,653</u>	<u>22,653</u>

**7. INVESTMENTS**

**a) FVIS investments**

*Insurance operations*

Movement in FVIS investments is as follows:

	<i>Six-month period</i> <i>ended</i> <i>30 June</i> <u>2015</u> (Unaudited) SR'000	<i>Year ended</i> <i>31 December</i> <u>2014</u> (Audited) SR'000
Balance at the beginning of the period / year	85,484	60,659
Changes in fair value of investments	2,162	3,452
Transfer during the period / year	-	3,000
Purchased during the period / year	20,000	25,000
Disposals during the period / year	(16,822)	(6,627)
Balance at the end of the period / year	<u>90,824</u>	<u>85,484</u>

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**7. INVESTMENTS (continued)**

**a) FVIS investments**

*Shareholders' operations*

Movement in FVIS investments is as follows:

	<i>Six-month period ended</i>	<i>Year ended</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at the beginning of the period / year	14,072	4,846
Purchases during the period / year	-	7,425
Changes in fair value of investments	581	1,801
Balance at the end of the period / year	<u>14,653</u>	<u>14,072</u>

**b) Held to maturity investments**

*Insurance operations*

Movement in investments held to maturity is as follows:

	<i>Six-month period ended</i>	<i>Year ended</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at the beginning of the period / year	30,641	26,663
Purchases during the period / year	10,212	10,000
Transfer during the period / year	-	(3,000)
Matured during the period / year	-	(3,000)
Amortised during the period / year	(11)	(22)
Balance at the end of the period / year	<u>40,842</u>	<u>30,641</u>

*Shareholders' operations*

Movement in investments held to maturity is as follows:

	<i>Six-month period ended</i>	<i>Year ended</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2015</i>	<i>2014</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>SR'000</i>	<i>SR'000</i>
Balance at the beginning of the period / year	-	3,719
Purchases during the period / year	5,586	-
Matured during the period / year	-	(3,712)
Amortized during the period / year	(28)	(7)
Balance at the end of the period / year	<u>5,558</u>	<u>-</u>

The fair values of held to maturity investments are not expected to be materially different from their carrying values.

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**7. INVESTMENTS (continued)**

**c) Available-for-sale investments**

*Shareholders' operations*

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

*Six-month period ended 30 June 2015 (Unaudited)*

	<i><u>Quoted securities</u> SR'000</i>	<i><u>Unquoted securities</u> SR'000</i>	<i><u>Total</u> SR'000</i>
Balance at the beginning of the period	-	1,923	1,923
Balance at the end of the period	-	1,923	1,923

*Year ended 31 December 2014 (Audited)*

	<i><u>Quoted securities</u> SR'000</i>	<i><u>Unquoted securities</u> SR'000</i>	<i><u>Total</u> SR'000</i>
Balance at the beginning of the year	5,053	1,923	6,976
Disposed during the year	(5,497)	-	(5,497)
Changes in fair value of investments	444	-	444
Balance at the end of the year	-	1,923	1,923

- i. Unquoted available-for-sale investment, having a carrying value of SR 1,923 thousand (31 December 2014: 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.



**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**8. OUTSTANDING CLAIMS - NET**

	<b>30 June 2015 (Unaudited) SR'000</b>	<b>31 December 2014 (Audited) SR'000</b>
Gross outstanding claims	<b>12,890</b>	17,690
Add: Incurred But Not Reported (IBNR) reserve	<b>66,393</b>	62,036
	<b>79,283</b>	79,726
Less: Reinsurance companies' share of outstanding claims	<b>(7,672)</b>	(6,082)
Net outstanding claims	<b>71,611</b>	73,644

**9. ZAKAT**

The Zakat payable by the Company has been calculated based on the best estimates of the management. Movement in Zakat payable during the six-month period ended 30 June 2015 and for the year ended 31 December 2014 is as follows:

	<b>30 June 2015 (Unaudited) SR'000</b>	<b>31 December 2014 (Audited) SR'000</b>
Balance at the beginning of the period / year	<b>3,108</b>	2,174
Charge for the period / year	<b>600</b>	934
Balance at the end of the period / year	<b>3,708</b>	3,108

**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 2013 and obtained restricted zakat certificates. The Company has submitted its zakat return for the year ended 31 December 2014 awaiting DZIT.

The Department of Zakat and Income Tax (DZIT) raised assessment for the period from 16 May 2007 to 31 December 2008 and demanded additional Zakat liability of SR 619 thousand. The Company filed an objection against this demand and is confident of a favorable outcome. Zakat assessments for years ended 31 December 2009 through 2013 have not yet been raised. However during the year 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 confident of a favorable outcome.

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**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>Six-month period ended</u>		<u>Balance as</u> <u>at 30 June</u> <u>2015</u> <u>(Unaudited)</u> <u>SR'000</u>	<u>Balance</u> <u>as at 31</u> <u>December</u> <u>2014</u> <u>(Audited)</u> <u>SR'000</u>
		<u>30 June</u>	<u>30 June</u>		
		<u>2015</u>	<u>2014</u>		
		<u>(Unaudited)</u>	<u>(Unaudited)</u>		
<hr/>					
<b>a) Insurance Operations</b>					
<b><u>Major Shareholder</u></b>					
Islamic Arab Insurance Company (B.S.C)	General and Administrative Expenses directly paid on behalf of the Company	-	-	<b>6,759</b>	6,759
<b><u>Related Parties of key management personnel</u></b>					
Tajeer Co. (Affiliate)	Insurance policies written	<b>89,613</b>	70,484	<b>45,484</b>	22,847
Chairman of the Board	Insurance policies written	<b>256</b>	94	<b>11</b>	15
Rusd Global Company	Insurance policies written	<b>561</b>	544	<b>422</b>	28
Technology Establishment	Insurance policies written	<b>277</b>	246	<b>142</b>	6
Al Firdous Group Co.	Insurance policies written	<b>1,246</b>	-	<b>377</b>	-
<b><u>Key management personnel</u></b>		<b>118</b>	160	<b>(1,381)</b>	(1,263)
	Long-term benefits	<b>2,279</b>	1,861	<b>81</b>	151
	Short term benefits				
<b>b) Shareholders' Operations</b>					
Board of Directors	Remuneration	<b>43</b>	19	-	-
Board Committees	Remuneration	<b>95</b>	8	-	-
<b><u>Related Party of key management personnel</u></b>					
Islamic Arab Insurance Company (UAE)	Insurance premium	<b>3</b>	-	<b>3</b>	-

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 – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**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, due from shareholders operations, prepayments and other receivables, amount due from a related party, investments, furniture, fittings and office equipment. Segment liabilities do not include policyholders' claims, reinsurance payables, accruals and other payables, due to shareholders' operations and employees' end of service 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:

	<u>Medical</u>	<u>Motor</u>	<u>Other</u>	<u>Total</u>
<b>For the three-month period ended</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>	<b>SR'000</b>
<b>30 June 2015</b>				
Gross premium written	9,810	98,400	4,879	<b>113,089</b>
Less: Reinsurance premiums ceded	-	-	(3,457)	<b>(3,457)</b>
Less: Excess of loss premiums	-	(2,600)	(228)	<b>(2,828)</b>
Net premium written	9,810	95,800	1,194	<b>106,804</b>
Changes in net unearned premiums	(742)	(22,915)	(203)	<b>(23,860)</b>
Net premiums earned	9,068	72,885	991	<b>82,944</b>
Net reinsurance commissions earned	-	-	1,050	<b>1,050</b>
Net revenue	9,068	72,885	2,041	<b>83,994</b>
Gross claims paid	5,600	65,816	402	<b>71,818</b>
Less: Reinsurers share	-	-	(276)	<b>(276)</b>
Net claims paid	5,600	65,816	126	<b>71,542</b>
Changes in outstanding claims	(390)	(3,430)	(61)	<b>(3,881)</b>
Net claims incurred	5,210	62,386	65	<b>67,661</b>
Policy acquisition costs	435	2,060	343	<b>2,838</b>
Other operating expenses	814	1,531	45	<b>2,390</b>
Net costs and expenses	6,459	65,977	453	<b>72,889</b>
Net results of insurance operations	2,609	6,908	1,588	<b>11,105</b>
Unallocated expenses				<b>(10,586)</b>
Unallocated other income				<b>481</b>
Investment income				<b>1,047</b>
Surplus from insurance operations				<b>2,047</b>

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**11. SEGMENTAL INFORMATION (continued)**

	<u>Medical</u> <u>SR'000</u>	<u>Motor</u> <u>SR'000</u>	<u>Other</u> <u>SR'000</u>	<u>Total</u> <u>SR'000</u>
<b>For the Six-month period ended 30 June 2015</b>				
Gross premium written	20,426	193,409	12,935	<b>226,770</b>
Less: Reinsurance premiums ceded	-	(74)	(8,909)	<b>(8,983)</b>
Less: Excess of loss premiums	(488)	(3,158)	(456)	<b>(4,102)</b>
Net premium written	19,938	190,177	3,570	<b>213,685</b>
Changes in net unearned premiums	(2,378)	(47,871)	(247)	<b>(50,496)</b>
Net premiums earned	17,560	142,306	3,323	<b>163,189</b>
Net reinsurance commissions earned	-	88	1,646	<b>1,734</b>
Net revenue	17,560	142,394	4,969	<b>164,923</b>
Gross claims paid	11,279	123,827	1,807	<b>136,913</b>
Less: Reinsurers share	51	(1)	(1,343)	<b>(1,293)</b>
Net claims paid	11,330	123,826	464	<b>135,620</b>
Changes in outstanding claims	(763)	(1,240)	(29)	<b>(2,032)</b>
Net claims incurred	10,567	122,586	435	<b>133,588</b>
Policy acquisition costs	882	4,148	565	<b>5,595</b>
Other operating expenses	1,524	2,669	85	<b>4,278</b>
Net costs and expenses	12,973	129,403	1,085	<b>143,461</b>
Net results of insurance operations	4,587	12,991	3,884	<b>21,462</b>
Unallocated expenses				<b>(20,007)</b>
Unallocated other income				<b>483</b>
Investment income				<b>2,809</b>
Surplus from insurance operations				<b>4,747</b>
	<u>Medical</u> <u>SR'000</u>	<u>Motor</u> <u>SR'000</u>	<u>Other</u> <u>SR'000</u>	<u>Total</u> <u>SR'000</u>
<b>As at 30 June 2015</b>				
<b>Insurance operations' assets</b>				
Reinsurer's share of unearned premiums	-	-	7,613	<b>7,613</b>
Reinsurer's share of outstanding claims	-	-	7,672	<b>7,672</b>
Deferred policy acquisition costs	838	3,940	593	<b>5,371</b>
Unallocated assets				<b>301,160</b>
<b>Total insurance operations' assets</b>				<b>321,816</b>
<b>Insurance operations' liabilities</b>				
Unearned premiums	17,822	168,015	10,716	<b>196,553</b>
Outstanding claims	5,688	62,950	10,645	<b>79,283</b>
Unearned commission income	-	-	2,384	<b>2,384</b>
Provision for premium deficiency	-	4,331	200	<b>4,531</b>
Unallocated liabilities and surplus				<b>39,065</b>
<b>Total insurance operations' liabilities and surplus</b>				<b>321,816</b>

**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
**FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015**

**11. SEGMENTAL INFORMATION (continued)**

	<u>Medical</u>	<u>Motor</u>	<u>Other</u>	<u>Total</u>
For the three-month period ended	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
30 June 2014				
Gross premium written	10,260	76,701	7,035	93,996
Less: Reinsurance premiums ceded	-	-	(5,141)	(5,141)
Less: Excess of loss premiums	-	(1,535)	(581)	(2,116)
Net premium written	10,260	75,166	1,313	86,739
Changes in net unearned premiums	(1,854)	(23,112)	(703)	(25,669)
Net premiums earned	8,406	52,054	610	61,070
Net reinsurance commissions earned	-	4	797	801
Net revenue	8,406	52,058	1,407	61,871
Gross claims paid	5,054	57,249	7,483	69,786
Less: Reinsurers share	(95)	(1)	(6,065)	(6,161)
Net claims paid	4,959	57,248	1,418	63,625
Changes in outstanding claims	110	(13,923)	(2,898)	(16,711)
Net claims incurred	5,069	43,325	(1,480)	46,914
Policy acquisition costs	335	1,331	271	1,937
Other operating expenses	707	941	35	1,683
Net costs and expenses	6,111	45,597	(1,174)	50,534
Net results of insurance operations	2,295	6,461	2,581	11,337
Unallocated expenses				(9,289)
Unallocated other income				87
Investment income				977
Surplus from insurance operations				<u>3,112</u>



**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)**  
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2015

**11. SEGMENTAL INFORMATION (continued)**

	<u>Medical</u>	<u>Motor</u>	<u>Other</u>	<u>Total</u>
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
For the six-month period ended 30 June 2014				
Gross premium written	21,820	146,773	13,402	181,995
Less: Reinsurance premiums ceded	-	(18)	(9,806)	(9,824)
Less: Excess of loss premiums	(300)	(2,296)	(1,011)	(3,607)
Net premium written	21,520	144,459	2,585	168,564
Changes in net unearned premiums	(6,252)	(46,341)	(1,231)	(53,824)
Net premiums earned	15,268	98,118	1,354	114,740
Net reinsurance commissions earned	-	10	1,596	1,606
Net revenue	15,268	98,128	2,950	116,346
Gross claims paid	9,678	100,246	7,652	117,576
Less: Reinsurers share	(351)	(1)	(6,135)	(6,487)
Net claims paid	9,327	100,245	1,517	111,089
Changes in outstanding claims	(599)	(17,670)	(1,289)	(19,558)
Net claims incurred	8,728	82,575	228	91,531
Provision for premium deficiency	-	-	-	-
Policy acquisition costs	581	2,312	542	3,435
Other operating expenses	1,622	1,964	78	3,664
Net costs and expenses	10,931	86,851	848	98,630
Net results of insurance operations	4,337	11,277	2,102	17,716
Unallocated expenses				(18,035)
Unallocated other income				87
Investment income				3,414
Surplus from insurance operations				3,182
As at 31 December 2014				
Insurance operations' assets				
Reinsurer's share of unearned premiums	-	385	4,542	4,927
Reinsurer's share of outstanding claims	-	-	6,082	6,082
Deferred policy acquisition costs	890	3,448	401	4,739
Unallocated assets				247,564
Total insurance operations' assets				263,312
Insurance operations' liabilities and surplus				
Unearned premium	15,444	120,529	7,398	143,371
Outstanding claims	6,451	64,191	9,084	79,726
Unearned commission income	-	75	1,216	1,291
Provision for premium deficiency	-	4,331	200	4,531
Unallocated liabilities and surplus				34,393
Total insurance operations' liabilities and surplus				263,312

## **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 30 June 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Financial assets held as FVIS - Insurance Operations	-	90,824	-	90,824
Financial assets held as FVIS - Shareholders' Operations	-	14,653	-	14,653
Balance at the end of the period	<u>-</u>	<u>105,477</u>	<u>-</u>	<u>105,477</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial assets</b>				
Financial assets held as FVIS - Insurance Operations	-	85,484	-	85,484
Financial assets held as FVIS - Shareholders' Operations	-	14,072	-	14,072
Balance at the end of the year	<u>-</u>	<u>99,556</u>	<u>-</u>	<u>99,556</u>

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 30 June 2015, 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 PER SHARE**

Earnings per share for the period have been calculated by dividing the net income for the period by the weighted average number of issued and outstanding shares (10 million shares) as at 30 June 2015 (31 December 2014: 10 million shares). Diluted earnings per share is not applicable for the Company.

**15. BOARD OF DIRECTORS' APPROVAL**

These financial statements have been approved by the Board of Directors on 27 July 2015, corresponding to 11 Shawaal 1436H.