

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
30 SEPTEMBER 2014**

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014**

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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 September 2014, and the related interim statements of insurance operations and accumulated surplus, shareholders’ operations, comprehensive income for the three-month and nine-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 nine-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.

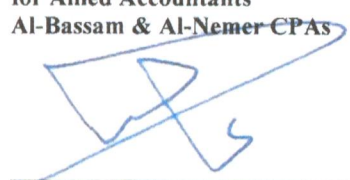
Conclusion

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

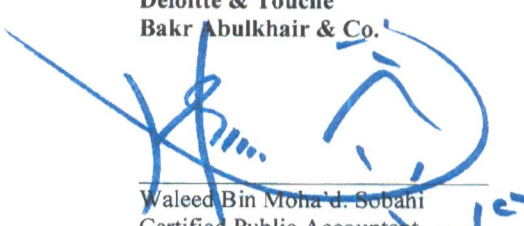
1. We draw attention to the fact that these interim condensed financial statements are prepared in accordance with IAS 34 and not in accordance with Standard on Interim Financial Information issued by SOCPA.
2. We further draw attention to note 3 to the accompanying interim condensed financial statements, which refers to the Company’s accumulated losses at 30 September 2014, amounting to SR 70.654 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.

for Allied Accountants
Al-Bassam & Al-Nemer CPAs


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



Deloitte & Touche
Bakr Abulkhair & Co.


Waleed Bin Moha'd. Sobahi
Certified Public Accountant
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Jeddah, Kingdom of Saudi Arabia
21 October 2014
27 Dhual Hijjah 1435H

SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**INTERIM STATEMENT OF FINANCIAL POSITION**

As at 30 September 2014

	<i>Notes</i>	<i>30 September 2014 (Unaudited) SR'000</i>	<i>31 December 2013 (Audited) SR'000</i>
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	26,374	36,465
Term deposits	5	30,626	10,576
Premium receivables, net	6	52,797	37,998
Reinsurance receivables, net		1,563	4,750
Deferred policy acquisition costs		5,441	2,402
Prepayments and other receivables		9,086	10,783
Amounts due from a related party	10	6,759	6,759
FVIS investments	7(a)	74,920	60,659
Reinsurers' share of unearned premiums		6,979	3,235
Reinsurers' share of outstanding claims	8	12,911	15,980
Held to maturity investments	7(b)	30,641	26,663
Furniture, fittings and office equipment		2,338	3,197
Due from Shareholders' Operations		475	-
Total Insurance Operations' assets		260,910	219,467
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	27	33
FVIS investments	7(a)	14,946	4,846
Available-for-sale investments	7(c)	7,450	6,976
Prepayments and other receivables		138	82
Due from Insurance Operations		-	4,565
Held to maturity investments	7(b)	3,712	3,719
Statutory deposit		10,941	10,886
Total Shareholders' assets		37,214	31,107
TOTAL ASSETS		298,124	250,574



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 September 2014

	<i>Notes</i>	30 September 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance Operations' liabilities			
Unearned premiums		158,550	99,732
Premium deficiency reserve		5,833	5,833
Unearned commission income		1,900	916
Outstanding claims	8	58,189	77,221
Policyholders' claims		6,427	6,441
Reinsurance payables		4,011	2,083
Accruals and other payables		17,021	14,326
Due to Shareholders' Operations		-	4,565
Employees' end of service benefits		5,672	5,336
		257,603	216,453
Insurance Operations' surplus			
Accumulated surplus from Insurance Operations		3,307	3,014
Total Insurance Operations' liabilities and surplus		260,910	219,467
SHAREHOLDERS' LIABILITIES AND EQUITY			
Liabilities			
Accruals and other payables		1,680	1,730
Accrued Zakat	9	2,974	2,174
Amount due to a related party	10	212	-
Due to Insurance Operations		475	-
Total Shareholders' liabilities		5,341	3,904
Shareholders' equity			
Share capital		100,000	100,000
Available-for-sale investments reserve		2,527	2,053
Accumulated losses		(70,654)	(74,850)
Total Shareholders' equity		31,873	27,203
Total Shareholders' liabilities and equity		37,214	31,107
TOTAL LIABILITIES, SURPLUS AND EQUITY		298,124	250,574

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 nine-month periods ended 30 September 2014

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
<i>Note</i>	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>	<i>2014 (Unaudited)</i>	<i>2013 (Unaudited)</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Revenues				
Gross premiums written	74,840	48,413	256,835	172,338
Less: Reinsurance premiums ceded	(2,747)	(1,630)	(12,571)	(10,520)
Less: Excess of loss premiums	(1,302)	(1,665)	(4,909)	(2,862)
Net premiums written	70,791	45,118	239,355	158,956
Changes in net unearned premiums	(1,250)	(963)	(55,074)	(28,465)
Net premiums earned	69,541	44,155	184,281	130,491
Net reinsurance commissions earned	1,004	978	2,611	2,812
Net revenue	70,545	45,133	186,892	133,303
Costs and expenses				
Gross claims paid	54,526	38,542	172,102	133,584
Less: Reinsurers' share	(134)	(2,238)	(6,621)	(11,629)
Net claims paid	54,392	36,304	165,481	121,955
Changes in net outstanding claims	3,592	5,057	(15,966)	2,361
Net claims incurred	57,984	41,361	149,515	124,316
Policy acquisition costs	2,455	1,324	5,890	4,144
Other operating expenses	1,501	1,156	5,166	3,416
Net costs and expenses	61,940	43,841	160,571	131,876
Net results of insurance operations	8,605	1,292	26,321	1,427
General and administrative expenses	(9,336)	(9,585)	(27,371)	(25,365)
Other income	21	-	108	13
Investment income	468	402	3,882	947
Surplus / (deficit) from Insurance Operations	(242)	(7,891)	2,940	(22,978)
Shareholders' share of insurance operations' (surplus) / deficit	2(a) 218	7,891	(2,646)	22,978
Surplus for the period	(24)	-	294	-
Accumulated surplus at the beginning of the period	3,332	3,014	3,014	3,014
Accumulated surplus at the end of the period	3,308	3,014	3,308	3,014

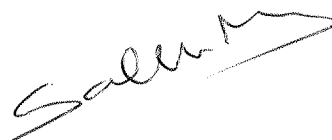



The accompanying notes 1 to 15 form part of these interim condensed financial statements.

SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**INTERIM STATEMENT OF SHAREHOLDERS' OPERATIONS**

For the three-month and nine-month periods ended 30 September 2014

		<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<i>Note</i>	<u><i>2014</i></u> <i>(Unaudited)</i> <i>SR'000</i>	<u><i>2013</i></u> <i>(Unaudited)</i> <i>SR'000</i>	<u><i>2014</i></u> <i>(Unaudited)</i> <i>SR'000</i>	<u><i>2013</i></u> <i>(Unaudited)</i> <i>SR'000</i>
REVENUES					
Shareholders' share of Insurance					
Operations' surplus / (deficit)	2 (a)	(218)	(7,891)	2,646	(22,978)
Investment income		1,069	1,432	2,841	5,908
Gain on sale of available for sale Investments		<u>-</u>	<u>-</u>	<u>-</u>	<u>170</u>
		851	(6,459)	5,487	(16,900)
EXPENSES					
General and administrative expenses		<u>(88)</u>	<u>-</u>	<u>(491)</u>	<u>(122)</u>
Net income / (loss) for the period before Zakat					
		763	(6,459)	4,996	(17,022)
Zakat	9	<u>(300)</u>	<u>(450)</u>	<u>(800)</u>	<u>(1,350)</u>
Net income / (loss) for the period					
		<u>463</u>	<u>(6,909)</u>	<u>4,196</u>	<u>(18,372)</u>
Earnings / (loss) per share – (SR)					
	14	<u>0.05</u>	<u>(0.69)</u>	<u>0.42</u>	<u>(1.84)</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 COMPREHENSIVE INCOME**

For the three-month and nine-month periods ended 30 September 2014

	<i>Three-month period ended 30 September</i>		<i>Nine-month period ended 30 September</i>	
	<u>2014</u> <i>(Unaudited)</i> SR'000	<u>2013</u> <i>(Unaudited)</i> SR'000	<u>2014</u> <i>(Unaudited)</i> SR'000	<u>2013</u> <i>(Unaudited)</i> SR'000
Net income / (loss) for the period	463	(6,909)	4,196	(18,372)
Items that are or may be reclassified subsequently to statement of Shareholders' Operations:				
Change in fair value of available-for-sale-investments (note 7(c))	121	107	474	515
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	584	(6,802)	4,670	(18,027)



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 nine-month period ended 30 September 2014

<i>For the nine-month period ended 30 September 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	-	-	4,196	4,196
<i>Other comprehensive income for the period:</i>				
Change in fair value of available-for-sale investments (note 7 (c))	-	474	-	474
Balance at 30 September 2014 (Unaudited)	100,000	2,527	(70,654)	31,873

<i>For the nine-month period ended 30 September 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	-	-	(18,372)	(18,372)
<i>Other comprehensive income for the period:</i>				
Change in fair value of available-for-sale investments (note 7 (c))	-	515	-	515
Net change in available-for-sale investments reclassified to interim statement of Shareholders' Operations (note 7 (c) (ii))	-	(170)	-	(170)
	-	345	-	345
Balance at 30 September 2013 (Unaudited)	100,000	2,004	(51,077)	50,927

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 nine-month period ended 30 September 2014

		<i>Nine-month period ended 30 September 2014 (Unaudited) SR'000</i>	<i>Nine-month period ended 30 September 2013 (Unaudited) SR'000</i>
	<i>Notes</i>		
OPERATING ACTIVITIES			
Surplus for the period from the insurance operations		294	-
Adjustments for:			
Unrealized gain on FVIS investments	7(a)	(2,886)	(4)
Realized gain on FVIS investments		(1)	-
Amortisation related to held to maturity investments	7(b)	22	22
Depreciation		1,382	1,492
Employees end of service benefits, net		336	(1,108)
		(853)	402
Changes in operating assets and liabilities:			
Premium receivables, net		(14,799)	(10,662)
Reinsurance receivables		3,187	4,198
Deferred policy acquisition costs		(3,039)	(515)
Prepayments and other receivables		1,697	2,994
Reinsurers share of unearned premiums		(3,744)	4,456
Reinsurers share of outstanding claims		3,069	(5,022)
Unearned premiums		58,818	24,010
Unearned commission income		983	111
Outstanding claims		(19,033)	7,383
Policyholders' claims		(14)	(1,098)
Reinsurance payables		1,928	(469)
Accruals and other payables		2,695	2,001
Due to/(from) Shareholders' Operations		(5,040)	(1,467)
Net cash flows from operating activities		25,855	26,322
INVESTING ACTIVITIES			
Purchase of furniture, fittings and office equipment		(523)	(769)
Purchase of FVIS investments		(15,000)	(46,591)
Purchase of held to maturity investments	7 (b)	(10,000)	(3,000)
Term deposits		(20,050)	-
Proceeds from disposal of FVIS investments	7 (a)	6,627	3,135
Proceeds from held to maturity investments	7 (b)	3,000	-
Net cash flows used in investing activities		(35,946)	(47,225)
DECREASE IN CASH AND CASH EQUIVALENTS		(10,091)	(20,903)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		36,465	37,289
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	26,374	16,386

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 nine-month period ended 30 September 2014

		<i>Nine-month period ended 30 September 2014 (Unaudited) SR'000</i>	<i>Nine-month Period ended 30 September 2013 (Unaudited) SR'000</i>
	<i>Notes</i>		
OPERATING ACTIVITIES			
Net income / (loss) for the period before Zakat		4,996	(17,022)
Adjustments for:			
Unrealized gain on FVIS investments	7(a)	(2,675)	(5,507)
Gain on disposal of available-for-sale investments	7(c)	-	(170)
Amortisation of held to maturity investments	7(b)	7	6
		2,328	(22,693)
Changes in operating assets and liabilities:			
Prepayment and other receivables		(56)	311
Due (to)/from Insurance Operations		5,040	1,467
Statutory deposit		(55)	(86)
Accruals and other payables		(50)	93
Amount due to a related party		212	(2,026)
Zakat paid	7	-	(1,182)
Net cash flows from / (used in) operating activities		7,419	(24,116)
INVESTING ACTIVITIES			
Proceeds from term deposits		-	10,000
Investment in term deposits		-	(301)
Purchase of FVIS Investments	7(a)	(7,425)	(4,700)
Proceeds from disposal of FVIS Investments		-	4,250
Proceeds from disposal of available-for-sale investments	7(c)	-	2,170
Net cash flows (used in) / from investing activities		(7,425)	11,419
DECREASE IN CASH AND CASH EQUIVALENTS		(6)	(12,697)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		33	13,371
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	4	27	674
MAJOR NON-CASH TRANSACTIONS			
Change in the fair value of available-for-sale-investments		474	515

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 NINE-MONTH PERIODS ENDED 30 SEPTEMBER 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 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 nine-month periods ended 30 September 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 periods presented. The Company's interim results may not be indicative of its annual results.

SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014

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.

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.

SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS – (UNAUDITED)
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014

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 2014:

<u>Standard/ Interpretation</u>	<u>Description</u>
IAS 1	Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
IAS 19	Revision to IAS 19 Employee Benefits
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IAS 32	Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
IAS 36	Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
IAS 39	Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
IFRS 1	Amendments to IFRS 1 Government Loans
IFRS 7	Amendments IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRIC 21	Levies

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 – Classification & Measurement	To be announced
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 16 and IAS 38	Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	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 NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014

3. GOING CONCERN

The accumulated losses of the Company amounted to SR 70.654 million as at 30 September 2014 (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. Further, as at 30 September 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 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 October 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.

Further, during the three-month period ended 30 June 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. The Company is currently in the process of submission of information and documents to Capital Market Authority (CMA) in order to obtain approval from the Capital Market Authority (CMA). 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

	<i>30 September 2014 (Unaudited) SR'000</i>	<i>31 December 2013 (Audited) SR'000</i>
<i>Insurance Operations</i>		
Cash in hand and at banks	<u>26,374</u>	<u>36,465</u>
<i>Shareholders' Operations</i>		
Cash at banks	<u>27</u>	<u>33</u>

5. TERM DEPOSITS

	<i>30 September 2014 (Unaudited) SR'000</i>	<i>31 December 2013 (Audited) SR'000</i>
<i>Insurance Operations</i>		
Term deposits	<u>30,626</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 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.

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6. PREMIUM RECEIVABLES, NET

	<i>30 September</i> <u>2014</u> <i>(Unaudited)</i> SR'000	<i>31 December</i> <u>2013</u> <i>(Audited)</i> SR'000
Due from policyholders	55,172	44,701
Due from policy holders – related parties (note 10)	21,261	17,563
Provision for doubtful debts	(23,636)	(23,636)
	<u>52,797</u>	<u>37,998</u>

Movements in allowance for doubtful premiums receivable were as follows:

	<i>30 September</i> <u>2014</u> <i>(Unaudited)</i> SR'000	<i>31 December</i> <u>2013</u> <i>(Audited)</i> SR'000
Balance at beginning of period / year	23,636	27,032
Additional allowance during the period / year	-	1,015
Allowance utilised during the period / year	-	(4,411)
Balance at the end of the period / year	<u>23,636</u>	<u>23,636</u>

7. INVESTMENTS

a) FVIS investments

Insurance operations

Movement in FVIS investments is as follows:

	<i>Nine-month period ended</i> <i>30 September</i> <u>2014</u> <i>(Unaudited)</i> SR'000	<i>Year ended</i> <i>31 December</i> <u>2013</u> <i>(Audited)</i> SR'000
Balance at the beginning of the period / year	60,659	3,131
Changes in fair value of investments	2,886	98
Transfer of FVIS investments from Shareholders' Operations	-	13,974
Transfer during the period / year	3,000	-
Purchased during the period / year	15,000	46,591
Disposals during the period / year	(6,627)	(3,135)
Balance at the end of the period / year	<u>74,920</u>	<u>60,659</u>

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

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7. INVESTMENTS (continued)

a) FVIS investments

Shareholders' operations

Movement in FVIS investments is as follows:

	<i>Nine-month period ended 30 September 2014 (Unaudited) SR'000</i>	<i>Year ended 31 December 2013 (Audited) SR'000</i>
Balance at the beginning of the period / year	4,846	14,496
Purchases during the period / year	7,425	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	2,674	6,584
Balance at the end of the period / year	<u>14,945</u>	<u>4,846</u>

b) Held to maturity investments

Insurance operations

Movement in investments held to maturity is as follows:

	<i>Nine-month period ended 30 September 2014 (Unaudited) SR'000</i>	<i>Year ended 31 December 2013 (Audited) SR'000</i>
Balance at the beginning of the period / year	26,663	13,685
Purchases during the period / year	10,000	20,000
Transfer during the period / year	(3,000)	-
Matured during the period / year	(3,000)	(7,000)
Amortised during the period / year	(22)	(22)
Balance at the end of the period / year	<u>30,641</u>	<u>26,663</u>

Shareholders' operations

Movement in investments held to maturity is as follows:

	<i>Nine-month period ended 30 September 2014 (Unaudited) SR'000</i>	<i>Year ended 31 December 2013 (Audited) SR'000</i>
Balance at the beginning of the period / year	3,719	3,731
Amortized during the period / year	(7)	(12)
Balance at the end of the period / year	<u>3,712</u>	<u>3,719</u>

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

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7. INVESTMENTS (continued)

c) Available-for-sale investments

Shareholders' operations

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

Nine-month period ended 30 September 2014 (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	5,053	1,923	6,976
Changes in fair value of investments	474	-	474
Balance at the end of the period	<u>5,527</u>	<u>1,923</u>	<u>7,450</u>

Year ended 31 December 2013 (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	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 statement of Shareholders' Operations.

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8. OUTSTANDING CLAIMS - NET

	<i>30 September 2014 (Unaudited) SR'000</i>	<i>31 December 2013 (Audited) SR'000</i>
Gross outstanding claims	22,953	42,229
Add: Incurred But Not Reported (IBNR) reserve	35,236	34,992
	58,189	77,221
Less: Reinsurance companies' share of outstanding claims	(12,911)	(15,980)
Net outstanding claims	45,278	61,241

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 nine-month period ended 30 September 2014 and for the year ended 31 December 2013 is as follows:

	<i>30 September 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	800	600
Zakat paid during the period / year	-	(1,182)
Balance at the end of the period / year	2,974	2,174

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 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.

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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>Nine-month period ended</u>		<u>Balance as</u>	<u>Balance as</u>
		<u>30</u>	<u>30</u>	<u>at 30</u>	<u>at 31</u>
		<u>September</u>	<u>September</u>	<u>September</u>	<u>December</u>
		<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
		<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<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	102,091	80,954	21,261	17,563
Chairman of the Board	Insurance policies written	95	83	19	133
Rusd Global Company	Insurance policies written	567	501	24	38
Technology Establishment	Insurance policies written	246	191	125	16
Al Awwal Financial Services	Insurance policies written	-	-	-	(20)
<u>Key management personnel</u>					
	Long-term benefits	230	165	1,118	1,257
	Short term benefits	2,904	2,093	228	33
b) Shareholders' Operations					
Board of Directors	Remuneration	19	26	-	-
Board Committees	Remuneration	8	16	-	-
<u>Related Party of key management personnel</u>					
Islamic Arab Insurance Company (UAE)	General and Administrative Expenses paid by on behalf of the Company	212	-	(212)	-

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.

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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>SR'000</u>	<u>Motor</u> <u>SR'000</u>	<u>Other</u> <u>SR'000</u>	<u>Total</u> <u>SR'000</u>
For the three-month period ended				
30 September 2014				
Gross premium written	7,183	64,434	3,223	74,840
Less: Reinsurance premiums ceded	-	(99)	(2,648)	(2,747)
Less: Excess of loss premiums	(548)	(759)	5	(1,302)
Net premium written	6,635	63,576	580	70,791
Changes in net unearned premiums	1,413	(3,215)	552	(1,250)
Net premiums earned	8,048	60,361	1,132	69,541
Net reinsurance commissions earned	-	16	988	1,004
Net revenue	8,048	60,377	2,120	70,545
Gross claims paid	5,620	48,800	106	54,526
Less: Reinsurers share	(51)	(4)	(79)	(134)
Net claims paid	5,569	48,796	27	54,392
Changes in outstanding claims	49	3,221	322	3,592
Net claims incurred	5,618	52,017	349	57,984
Policy acquisition costs	390	1,739	326	2,455
Other operating expenses	633	812	56	1,501
Net costs and expenses	6,641	54,568	731	61,940
Net results of insurance operations	1,407	5,809	1,389	8,605
Unallocated expenses				(9,336)
Unallocated other income				21
Investment income				468
Deficit from insurance operations				(242)

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11. SEGMENTAL INFORMATION (continued)

For the nine-month period ended 30 September 2014	<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>
Gross premium written	29,003	211,207	16,625	256,835
Less: Reinsurance premiums ceded	-	(117)	(12,454)	(12,571)
Less: Excess of loss premiums	(848)	(3,054)	(1,007)	(4,909)
Net premium written	28,155	208,035	3,165	239,355
Changes in net unearned premiums	(4,839)	(49,556)	(679)	(55,074)
Net premiums earned	23,316	158,479	2,486	184,281
Net reinsurance commissions earned	-	25	2,585	2,611
Net revenue	23,316	158,504	5,071	186,892
Gross claims paid	15,298	149,046	7,758	172,102
Less: Reinsurers share	(401)	(5)	(6,215)	(6,621)
Net claims paid	14,897	149,041	1,543	165,481
Changes in outstanding claims	(550)	(14,449)	(966)	(15,966)
Net claims incurred	14,347	134,592	576	149,515
Policy acquisition costs	971	4,051	868	5,890
Other operating expenses	2,255	2,776	135	5,166
Net costs and expenses	17,572	141,419	1,579	160,571
Net results of insurance operations	5,744	17,086	3,492	26,321
Unallocated expenses				(27,371)
Unallocated other income				108
Investment income				3,882
Surplus from insurance operations				2,940
	<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>
As at 30 September 2014				
Insurance operations' assets				
Reinsurer's share of unearned premiums	-	5	6,974	6,979
Reinsurer's share of outstanding claims	506	921	11,484	12,911
Deferred policy acquisition costs	824	3,974	643	5,441
Unallocated assets				235,579
Total insurance operations' assets				260,910
Insurance operations' liabilities				
Unearned premiums	16,313	133,169	9,069	158,550
Outstanding claims	9,537	32,623	16,029	58,189
Unearned commission income	-	1	1,899	1,900
Provision for premium deficiency	2,635	2,330	868	5,833
Unallocated liabilities and surplus				41,739
Total insurance operations' liabilities and surplus				260,910

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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 September 2013				
Gross premium written	5,080	41,403	1,930	48,413
Less: Reinsurance premiums ceded	(35)	(78)	(1,517)	(1,630)
Less: Excess of loss premiums	(195)	(1,264)	(206)	(1,665)
Net premium written	4,850	40,061	207	45,118
Changes in net unearned premiums	220	(2,067)	884	(963)
Net premiums earned	5,070	37,994	1,091	44,155
Net reinsurance commissions earned	-	4	974	978
Net revenue	5,070	37,998	2,065	45,133
Gross claims paid	5,949	31,852	741	38,542
Less: Reinsurers share	(1,814)	-	(424)	(2,238)
Net claims paid	4,135	31,852	741	38,542
Changes in outstanding claims	67	4,436	554	5,057
Net claims incurred	4,202	36,288	871	41,361
Policy acquisition costs	230	805	289	1,324
Other operating expenses	417	700	39	1,156
Net costs and expenses	4,849	37,793	1,199	43,841
Net results of insurance operations	221	205	866	1,292
Unallocated expenses				(9,585)
Investment income				402
Deficit from insurance operations				(7,891)

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11. SEGMENTAL INFORMATION (continued)

	<u>Medical</u>	<u>Motor</u>	<u>Other</u>	<u>Total</u>
For the nine-month period ended	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
30 September 2013				
Gross premium written	18,275	139,016	15,047	172,338
Less: Reinsurance premiums ceded	(281)	(78)	(10,161)	(10,520)
Less: Excess of loss premiums	(390)	(1,884)	(588)	(2,862)
Net premium written	17,604	137,054	4,298	158,956
Changes in net unearned premiums	(2,572)	(25,456)	(437)	(28,465)
Net premiums earned	15,032	111,598	3,861	130,491
Net reinsurance commissions earned	-	4	2,808	2,812
Net revenue	15,032	111,602	6,669	133,303
Gross claims paid	23,052	106,175	4,357	133,584
Less: Reinsurers share	(10,124)	-	(1,505)	(11,629)
Net claims paid	12,928	106,175	2,852	121,955
Changes in outstanding claims	(351)	4,916	(2,204)	2,361
Net claims incurred	12,577	111,091	648	124,316
Policy acquisition costs	949	2,355	840	4,144
Other operating expenses	1,474	1,794	148	3,416
Net costs and expenses	15,000	115,240	1,636	131,876
Net results of insurance operations	32	(3,638)	5,033	1,427
Unallocated expenses				(25,365)
Unallocated other income				13
Investment income				947
Deficit from insurance operations				(22,978)
As at 31 December 2013 – audited	<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>
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 and surplus				
Unearned premium	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

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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 September 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	-	74,920	-	74,920
Financial assets held as FVIS - Shareholders' Operations	-	14,946	-	14,946
Financial investments held as available-for-sale - Shareholders' Operations	-	5,527	-	5,527
Balance at the end of the period	-	95,393	-	95,393

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.

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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 September 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 30 September 2014 (30 September 2013: 10 million shares). Diluted income / loss 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 21 October 2014, corresponding to 27 Dhul Hijja 1435H.