

**THE COMPANY FOR COOPERATIVE INSURANCE**  
**(A SAUDI JOINT STOCK COMPANY)**

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

**THE COMPANY FOR COOPERATIVE INSURANCE  
(A SAUDI JOINT STOCK COMPANY)**

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

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KPMG Al Fozan & Al Sadhan



**INDEPENDENT AUDITORS' REVIEW REPORT TO THE SHAREHOLDERS OF  
THE COMPANY FOR COOPERATIVE INSURANCE  
(A SAUDI JOINT STOCK COMPANY)**

**SCOPE OF REVIEW:**

We have reviewed the accompanying statement of financial position of The Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at March 31, 2014, and the related statement of income – insurance operations and accumulated surplus, statement of comprehensive income – shareholders, statement of changes in shareholders' equity and statements of cash flows for insurance operations and shareholders for the three month period then ended and notes 1 to 14 which form an integral part of these condensed interim financial statements. These condensed interim 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 limited review in accordance with the Standard on Limited Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures 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 auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

**CONCLUSION:**

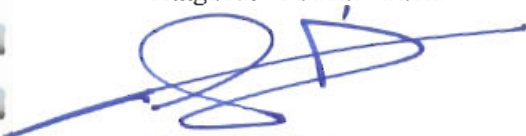
Based on our limited review, we are not aware of any material modifications that should be made to the accompanying condensed interim financial statements for them to be in conformity with IAS 34.

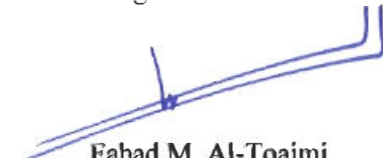
**EMPHASIS OF MATTER:**

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

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Jumada II 16, 1435H  
April 16, 2014



**THE COMPANY FOR COOPERATIVE INSURANCE**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**STATEMENT OF FINANCIAL POSITION**

	Notes	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
<b>SR '000</b>			
<b><u>ASSETS - INSURANCE OPERATIONS</u></b>			
Due from shareholders operation		516,420	489,625
Property and equipment, net		247,775	265,816
Investment property		9,861	9,861
Investments in associates		6,195	5,377
Available for sale investments	4(i)	2,453,769	1,968,124
Prepaid expenses and other assets		259,478	315,228
Deferred policy acquisition costs		169,100	163,680
Reinsurers' share of outstanding claims	5	1,513,407	1,699,886
Reinsurers' share of unearned premium		469,448	489,328
Receivables, net	3	1,536,898	1,531,469
Cash and cash equivalents		537,385	792,078
<b>Total assets - Insurance operations</b>		<b>7,719,736</b>	<b>7,730,472</b>
<b><u>ASSETS - SHAREHOLDERS</u></b>			
Investments in associates		66,344	64,048
Available for sale investments	4(ii)	2,157,279	1,866,910
Accrued investment income		4,742	5,146
Statutory deposit	8	100,000	100,000
Cash and cash equivalents		12,713	198,766
<b>Total assets - Shareholders</b>		<b>2,341,078</b>	<b>2,234,870</b>
<b>TOTAL ASSETS</b>		<b>10,060,814</b>	<b>9,965,342</b>

The accompanying notes 1 to 14 form an integral part of these condensed interim financial statements.

**THE COMPANY FOR COOPERATIVE INSURANCE**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**STATEMENT OF FINANCIAL POSITION (Continued)**

	Notes	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
SR '000			
<b><u>LIABILITIES AND SURPLUS –</u></b>			
<b><u>INSURANCE OPERATIONS</u></b>			
Liabilities - Insurance operations:			
Accrued expenses and other liabilities		1,113,926	1,288,843
Reserve for takaful activities		13,630	13,642
Reserve for discontinued operations		11,018	11,410
Outstanding claims and reserves	5	2,943,587	3,094,127
Unearned commission income		48,777	50,697
Unearned premiums		2,954,010	2,847,389
Reinsurers' balances payable		539,202	345,793
<b>Total liabilities - Insurance operations</b>		<b>7,624,150</b>	<b>7,651,901</b>
Surplus - Insurance operations:			
Accumulated surplus		2,766	-
Fair value reserve on investments		92,820	78,571
<b>Total liabilities and surplus - Insurance operations</b>		<b>7,719,736</b>	<b>7,730,472</b>
<b><u>LIABILITIES AND EQUITY – SHAREHOLDERS</u></b>			
Shareholders' liabilities:			
Due to insurance operations		516,420	489,625
Accrued expenses and other liabilities		1,204	1,127
Dividends payable		5,146	5,151
Zakat		105,244	98,399
<b>Total liabilities - Shareholders</b>		<b>628,013</b>	<b>594,302</b>
Shareholders' equity:			
Share capital	6	1,000,000	1,000,000
Legal reserve	9	651,756	651,756
Fair value reserve on investments		327,845	288,183
Accumulated loss		(266,536)	(299,371)
<b>Total Shareholders' equity</b>		<b>1,713,065</b>	<b>1,640,568</b>
<b>Total Shareholders' liabilities and equity</b>		<b>2,341,078</b>	<b>2,234,870</b>
<b>TOTAL LIABILITIES, INSURANCE OPERATIONS'</b>			
<b>    SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>10,060,814</b>	<b>9,965,342</b>

The accompanying notes 1 to 14 form an integral part of these condensed interim financial statements.

**THE COMPANY FOR COOPERATIVE INSURANCE**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**

	Three months March 31, 2014 (Unaudited)	Three months ended March 31, 2013 (Unaudited)
	SR '000	
<b>REVENUES</b>		
Gross premiums written	1,493,702	1,211,259
Less: Reinsurance ceded	(235,920)	(175,078)
Net premiums written	1,257,782	1,036,181
Changes in unearned premiums	(126,501)	95,990
Net premiums earned	1,131,281	1,132,171
Reinsurance commissions	27,717	33,014
Investment income, net	7,003	38,396
Other income, net	27,951	2,994
<b>Total revenues</b>	<b>1,193,952</b>	<b>1,206,575</b>
<b>COSTS AND EXPENSES</b>		
Gross claims paid	1,155,575	1,186,520
Less: Reinsurance share	(205,051)	(256,684)
Net claims paid	950,524	929,836
Changes in outstanding claims and reserves	35,939	153,209
Net claims incurred	986,463	1,083,045
Policy acquisition costs	96,353	104,866
Excess of loss expenses	7,699	26,900
Changes in reserves for takaful activities	(12)	140
Other underwriting expenses	17,960	18,258
Operating and selling expenses	46,430	74,412
Other general and administrative expenses	11,397	9,337
<b>Total costs and expenses</b>	<b>1,166,290</b>	<b>1,316,958</b>
Surplus / (deficit) from insurance operations	27,662	(110,383)
Shareholders' appropriation from (surplus) / deficit	(24,896)	110,383
Surplus from insurance operations after shareholders' appropriation	2,766	-
Accumulated surplus, beginning of period	-	-
<b>ACCUMULATED SURPLUS, END OF PERIOD</b>	<b>2,766</b>	<b>-</b>

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**THE COMPANY FOR COOPERATIVE INSURANCE**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS**

	Three months ended March 31, 2014 (Unaudited)	Three months ended March 31, 2013 (Unaudited)
	SR '000	
Notes		
Appropriation of surplus / (deficit) from insurance operations	24,896	(110,383)
Investment income, net	14,783	49,297
Other expenses, net	-	450
Income / (loss) from operations before zakat	39,679	(60,636)
Zakat	(6,844)	(7,777)
Net income / (loss) for the period	32,835	(68,413)
<b>Other comprehensive income:</b>		
Will be reclassified subsequently to profit or loss when specific conditions are met:		
- Change in fair value of investments	39,662	21,975
<b>Comprehensive income / (loss) for the period</b>	<b>72,497</b>	<b>(46,438)</b>
<b>Earnings / (loss) per share:</b>		
Basic and diluted earnings / (loss) per share (SR)	0.33	(0.68)
Weighted average number of shares in issue	6 & 13 100,000,000	100,000,000

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**THE COMPANY FOR COOPERATIVE INSURANCE**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital	Legal reserve	Fair value reserve on investments	Retained earnings / (Accumulated losses)	Total
	SR '000				
<b>Unaudited</b>					
Balance at January 1, 2013	750,000	651,756	198,418	542,764	2,142,938
Net loss for the period	-	-	-	(68,413)	(68,413)
Changes in fair value of investments	-	-	21,975	-	21,975
Total comprehensive income	-	-	21,975	(68,413)	46,438
Balance at March 31, 2013	750,000	651,756	220,393	474,351	2,096,500
<b>Unaudited</b>					
Balance at January 1, 2014	1,000,000	651,756	288,183	(299,371)	1,640,568
Net income for the period	-	-	-	32,835	32,835
Changes in fair value of investments	-	-	39,662	-	39,662
Total comprehensive income	-	-	39,662	32,835	72,497
Balance at March 31, 2014	1,000,000	651,756	327,845	(266,536)	1,713,065

The accompanying notes 1 to 14 form an integral part of these condensed interim financial statements.



**THE COMPANY FOR COOPERATIVE INSURANCE**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS**

	Three months ended March 31, 2014 (Unaudited)	Three months ended March 31, 2013 (Unaudited)
	SR '000	
<b>Operating activities:</b>		
Surplus from insurance operations after shareholders' appropriation	2,766	-
Adjustments to reconcile surplus from insurance operations to net cash from operating activities:		
Shareholders' appropriation from surplus / (deficit)	24,896	(110,383)
Depreciation	2,489	3,474
Gain on sale of property and equipment	(24,016)	-
Gain on sale of investments available for sale	(82)	(28,942)
Share of profit from investments in associates, net	(818)	(2,475)
Operating surplus / (deficit) before changes in operating assets and liabilities	5,235	(138,326)
Changes in operating assets and liabilities:		
Prepaid expenses and others assets	55,750	(4,210)
Deferred policy acquisition costs	(5,420)	2,003
Reinsurers' share of outstanding claims	186,479	(207,957)
Reinsurers' share of unearned premiums	19,880	109,522
Receivables, net	(5,429)	417,174
Reinsurers' balances payable	193,409	(240,516)
Unearned premium income	106,621	(205,512)
Unearned commission income	(1,920)	(4,843)
Outstanding claims and reserves	(150,540)	361,166
Reserve for discontinued operations	(392)	(1)
Reserve for takaful activities	(12)	140
Accrued expenses and other liabilities	(174,917)	13,583
Due to shareholders	(51,691)	84,041
Net cash from operating activities	<u>177,053</u>	<u>186,264</u>
<b>Investing activities:</b>		
Proceeds from sale of investments	908	320,900
Purchase of investments	(472,222)	(362,530)
Proceeds for sale of property and equipment	61,172	60
Purchase of property and equipment	(21,604)	(5,567)
Dividends received from investments in associates	-	9,000
Net cash used in investing activities	<u>(431,746)</u>	<u>(38,137)</u>
<b>Financing activity</b>		
Surplus paid to policyholders	-	(1,010)
Net cash used in financing activity	<u>-</u>	<u>(1,010)</u>
<b>Net change in cash and cash equivalents</b>	<u>(254,693)</u>	<u>147,117</u>
Cash and cash equivalents, beginning of period	<u>792,078</u>	<u>473,239</u>
<b>Cash and cash equivalents, end of period</b>	<u>537,385</u>	<u>620,356</u>
<b>Non-cash supplemental information:</b>		
Changes in fair value of investments	<u>14,249</u>	<u>(8,829)</u>

The accompanying notes 1 to 14 form an integral part of these condensed interim financial statements.

**THE COMPANY FOR COOPERATIVE INSURANCE**  
(A SAUDI JOINT STOCK COMPANY)

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**STATEMENT OF CASH FLOWS - SHAREHOLDERS**

	Note	Three months ended March 31, 2014 (Unaudited)	Three months ended March 31, 2013 (Unaudited)
<b>SR '000</b>			
<b>Operating activities:</b>			
Net income / (loss) for the period		32,835	(68,413)
Adjustments to reconcile net income / (loss) to net cash (used in) / provided by operating activities:			
Appropriation of (surplus) / deficit from insurance operations		(24,896)	110,383
Gain on sale of investments		(353)	(34,023)
Share of income from investments in associates, net		(6,024)	(3,687)
Operating profit / (loss) before changes in operating assets and liabilities		1,562	4,260
Changes in operating assets and liabilities:			
Accrued investment income		404	3,837
Due from insurance operations		51,691	(84,041)
Accrued expenses and other liabilities		77	55
Zakat, net		6,844	7,777
Net cash from / (used in) from operating activities		60,578	(68,112)
<b>Investing activities:</b>			
Proceeds from sale and matured investments		178,307	408,215
Purchase of investments		(428,661)	(450,557)
Dividends received from investment in associates		3,728	-
Net cash used in investing activities		(246,626)	(42,342)
<b>Financing activities:</b>			
Dividends paid		(5)	(20)
Net cash used in financing activities		(5)	(20)
<b>Net change in cash and cash equivalents</b>		<b>(186,053)</b>	<b>(110,474)</b>
Cash and cash equivalents, beginning of period		198,766	122,781
<b>Cash and cash equivalents, end of period</b>		<b>12,713</b>	<b>12,307</b>
<b>Non-cash supplemental information:</b>			
Changes in fair value of investments		39,662	21,975

The accompanying notes 1 to 14 form an integral part of these condensed interim financial statements.

**THE COMPANY FOR COOPERATIVE INSURANCE  
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014**

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**1. GENERAL**

The Company for Cooperative Insurance (the "Company") is a Saudi joint stock company established in Riyadh, Kingdom of Saudi Arabia by Royal Decree Number M/5 and incorporated on January 18, 1986 corresponding to Jumad Awal 8, 1406H under Commercial Registration No. 1010061695. The Company's head office is located on King Fahad Road, P.O. Box 86959, Riyadh 11632, Kingdom of Saudi Arabia.

The purpose of the Company is to transact cooperative insurance operations and all related activities including reinsurance and agency activities. Its principal lines of business include medical, motor, marine, fire, engineering, energy, aviation, takaful and casualty insurance.

On July 31, 2003 corresponding to Jumad Thani 2, 1424H the Law on the Supervision of Cooperative Insurance Companies ("Insurance Law") was promulgated by Royal Decree Number (M/32). On December 1, 2004 corresponding to Shawwal 18, 1425H, the Saudi Arabian Monetary Agency ("SAMA") as the principal agency responsible for the application and administration of the Insurance Law and its implementing regulations, granted the Company a license to transact insurance activities in Saudi Arabia.

The Company conducts the business and advances funds to the insurance operations as required. On January 20, 2004 the Company amended its Articles of Association giving authority to the Board of Directors to determine the disposition of the surplus from insurance operations.

On March 20, 2004, the Board of Directors approved the disposition of the surplus from insurance operations in accordance with the implementing regulations issued by the SAMA, whereby the shareholders of the Company are to receive 90% of the annual surplus from insurance operations and the policyholders are to receive the remaining 10%. Any deficit arising on insurance operations is transferred to the shareholders' operation in full.

**2. BASIS OF PREPARATION**

**(a) Basis of presentation**

The condensed interim financial statements for the three months period ended March 31, 2014 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2013.

The condensed interim financial statements are prepared under the going concern basis and the historical cost convention except for the measurement at fair value of available for sale investments.

As required by SAMA implementation regulation, the Company maintains separate accounts for Insurance and Shareholders' operations. Income and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by management and the Board of Directors.

THE COMPANY FOR COOPERATIVE INSURANCE  
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014

2. BASIS OF PREPARATION (continued)

(b) Critical accounting judgments, estimates and assumptions

The preparation of the condensed interim financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim 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.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial reporting period. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimate and judgments used by management in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2013. Following are the accounting judgments and estimates that were critical in preparation of these condensed interim financial statements:

**Estimation of Insurance contract reserves:**

Following are the critical areas of estimation and judgments for medical business for which the Company acquires services of independent actuary to determine such reserves.

*i) Incurred but not reported claims*

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The actuary calculates the claims reserves using a methodology that involves blending of the following two reserving methods:

- Lag development method (Chain ladder method)
- Projection of Ultimate Incurred Method (Projection method)

The estimates are blend from the above two methods using credibility factors developed from the data. The claims reserves are sensitive to assumptions made about the number of months used to average the completion factors for the chain ladder method and the claims trend used in the projection method.

Based on the actuary's assessment, the Company believes that reserves for medical business are very sensitive which could be subject to changes in assumptions used. Following range depicts the sensitivity of medical reserves resulting from changes in assumptions:

	Medical Claims Reserves	
	Gross	Net
Higher	+11%	+12%
Lower	-14%	-16%

THE COMPANY FOR COOPERATIVE INSURANCE  
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014

2. BASIS OF PREPARATION (continued)

(b) Critical accounting judgments, estimates and assumptions (continued)

ii) Premium deficiency reserve

Estimation of the premium deficiency for medical business is highly sensitive to a number of assumption as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to apply on month to month basis. Such analysis is used to project loss ratios based on 'Per Member Per Month' (PMPM) claims against related earned premiums for different cohort of medical policies.

Based on actuary's suggestion, the management has used different possibilities for projecting the expected trends in loss ratio. The key assumption used by the management is that claims and earned premium are expected to increase at the same rate (Scenario 3). The following table, however, represents sensitivity of trend in loss ratio based on variability of relationships between claims and earned premiums:

Assumptions	Scenario 1	Scenario 2	Scenario 3
Expected trend in earned premium Per Life Per Month	16 %	18.4%	16%
Expected trend in claims Per Life Per Month	21%	17.8%	16%
Expected trend in loss ratio	4.3%	-0.47%	0%
Loss ratio to use for annual PDR calculation	126.1%	120.4%	121 %

Currently the management has based the working of premium deficiency reserve on the loss ratio of 121%. The incremental impact of the sensitivity to the changes in loss ratio is as indicated below on the profit and loss of the Company, while keeping all other assumptions constant.

Loss ratio	110%	115%	125%	130%
Incremental impact on profit / (loss) – SR'000	143,477	78,260	(52,174)	(117,391)

iii) Stop loss recovery

Stop loss recovery is based on the underlying arrangement with the reinsurer. As per the terms of the treaty till underwriting years 2012-2013, reinsurer will cover 55% of the claims of an underwriting year if they exceed the loss ratio of 100% (to a maximum cap of 120%). Estimation of stop loss recovery at the reporting period is highly sensitive to the underlying loss ratios used for the calculations of medical reserves. It is based on the written premium and using an estimate of the monthly loss ratios (taking a 12 month rolling average, using projections of the monthly claims and earned premium on a seasonally adjusted basis). The expected gross claims are generated by these premiums on the basis of loss ratio.

The Company believes that loss ratio applicable to estimate the recovery of stop losses will be lower than that of the above reserve estimates due to volatility of assumptions used in the calculation of loss ratio.

**THE COMPANY FOR COOPERATIVE INSURANCE**  
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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014**

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**2. BASIS OF PREPARATION (continued)**

**(c) Significant accounting policies**

The accounting and risk management policies adopted in the preparation of these condensed interim financial statements are consistent with the Company's audited financial statements for the year ended 31 December 2013, except for the adoption of the following amendments to existing standards mentioned below which had no financial impact on the financial statements of the Company:

*Amendments to existing standards*

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investments funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.
- IAS 32 amendment applicable from 1 January 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.
- IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

The Company has not early adopted any other standard, interpretation or amendment that has been issued for early adoption but is not yet effective.

In management's opinion, the condensed interim financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the three month period presented.

**THE COMPANY FOR COOPERATIVE INSURANCE  
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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014**

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**2. BASIS OF PREPARATION (continued)**

**(d) Segmental reporting**

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments. For management purposes, the Company is organized into business units based on their products and services and has three reportable segments as follows:

- Medical - coverage for health insurance.
- Motor insurance.
- Property and Casualty - coverage for property, engineering, marine, aviation, energy and general accidents insurance.

Operating segments do not include shareholders' operations of the Company.

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

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

**(e) Seasonality of operations**

There are no seasonal changes that affect insurance operations.

**THE COMPANY FOR COOPERATIVE INSURANCE**  
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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014**

**3. RECEIVABLES, NET**

Receivables of insurance operations are comprised of net amounts due from the following:

	March 31, 2014 SR'000 (Unaudited)	December 31, 2013 SR'000 (Audited)
Policyholders	1,054,107	1,130,339
Agents	217,245	198,855
Related parties (Note 10)	15,998	13,542
	<u>1,287,350</u>	<u>1,342,736</u>
Receivable from reinsurers	317,978	271,787
Administrative Service Plan	30,517	23,007
	<u>1,635,845</u>	<u>1,637,530</u>
Provision for doubtful receivables	(98,947)	(106,061)
Receivables, net	<u><u>1,536,898</u></u>	<u><u>1,531,469</u></u>

**4. AVAILABLE FOR SALE INVESTMENTS**

**i) Insurance operations:**

Available for sale investments of the insurance operations are comprised of following:

	March 31, 2014 SR'000 (Unaudited)	December 31, 2013 SR'000 (Audited)
Local / regional money market and fixed income investments	2,202,813	1,729,639
Local / regional equity and equity funds	159,563	148,421
Foreign equity and equity funds	91,393	90,064
Total	<u><u>2,453,769</u></u>	<u><u>1,968,124</u></u>

**ii) Shareholders:**

Shareholders' available for sale investments are comprised of the following:

	March 31, 2014 SR'000 (Unaudited)	December 31, 2013 SR'000 (Audited)
Local / regional money market and fixed income investments	1,127,219	853,503
Local / regional equity and equity funds	264,565	263,220
Foreign money market and fixed income investments	458,205	296,321
Foreign equity and equity funds	307,290	453,866
Total	<u><u>2,157,279</u></u>	<u><u>1,866,910</u></u>



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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)**  
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**5. OUTSTANDING CLAIMS AND RESERVES, NET**

Outstanding claims and reserves, net are comprised of the following:

	<b>March 31, 2014 SR'000 (Unaudited)</b>	<b>December 31, 2013 SR'000 (Audited)</b>
Gross outstanding claims	1,913,905	2,118,797
Less: Realizable value of salvage and subrogation	(74,791)	(77,995)
Add: Incurred but not reported claims	830,507	779,359
Add: Premium deficiency reserve	273,966	273,966
Outstanding claims and reserves	<u>2,943,587</u>	<u>3,094,127</u>
Less: Reinsurers' share of outstanding claims	<u>(1,513,407)</u>	<u>(1,699,886)</u>
Net outstanding claims and reserves	<u>1,430,180</u>	<u>1,394,241</u>

At 31 December 2013, the Company has created a provision in respect of premium deficiency for medical business of SR 274 million. The Company created this provision as it believes that the unearned premiums for medical business will not be sufficient to provide for the expected losses and expenses attributable to the unexpired periods of the policies in force at the balance sheet date. The Company reassesses the provision at each period end.

**6. SHARE CAPITAL**

The authorized, issued and paid up capital of the Company is SR 1 billion at March 31, 2014 (December 31, 2013: SR 1 billion) consisting of 100 million shares of SR 10 each (December 31, 2013: 100 million shares).

**7. CONTINGENT LIABILITIES**

At March 31, 2014, the Company was contingently liable for letters of credit and guarantee amounting to SR 139 million (December 31, 2013 - SR 141 million) occurring in the normal course of business.

**8. STATUTORY DEPOSIT**

In compliance with Article 58 of the Insurance Implementing Regulations of the SAMA, the Company has deposited 10 percent of its share capital, amounting to SR 100 million in a bank designated by SAMA. The statutory deposit is maintained with the National Commercial Bank and can be withdrawn only with the consent of SAMA.

**9. LEGAL RESERVE**

In accordance with the Articles of Association of the Company and in compliance with Article 70(2)(g) of the Insurance Implementing Regulations issued by SAMA, the Company is required to allocate 20% of its net income for the year to the legal reserve until it equals to the share capital. The legal reserve is not available for distribution to shareholders until liquidation of the Company.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)**  
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**10. RELATED PARTY TRANSACTIONS AND BALANCES**

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

	Transactions for the period		Balance receivable / (payable)	
	ended		as at	
	March 31, 2014 SR'000 (Unaudited) SR'000	March 31, 2013 SR'000 (Unaudited) SR'000	March 31, 2014 SR'000 (Unaudited) SR'000	December 31, 2013 SR'000 (Audited) SR'000
<b><u>Major shareholders</u></b>				
Amount of claims pertaining to owned hospitals	15,264	14,454	4,608	-
Medical insurance premiums	14,215	7,433	10,358	1,376
Rent expense	387	792	-	-
<b><u>Associates</u></b>				
Insurance premiums	16,234	950	943	90
Rent expense	874	1,722	89	12,076

In accordance with the Company's Articles of Association, the Board of Directors is entitled each year to remuneration up to 10% of the remaining profit from shareholders' operations, as defined, based on a decision by the General Assembly. Such remuneration is reflected in the statement of changes in shareholders' equity when approved by the General Assembly.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014**

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**11. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. Consequently, differences can arise between the carrying values and fair value estimates. The Company's financial assets consist of cash and cash equivalents, receivables, reinsurers' share of outstanding claims, other assets, investments, statutory deposits and accrued income and its financial liabilities consist of outstanding claims, reinsurance balance payable and accrued expenses and other liabilities.

The fair values of financial assets that are traded in active market are based on quoted market prices or dealer price quotations. For all other financial instruments the fair value is based on other valuation techniques. These are not materially different from their carrying values at the financial position date.

The fair value of derivatives held by the Company as of March 31, 2014 and December 31, 2013 is immaterial to the Company's financial statements.

**Determination of fair value and fair value hierarchy**

The Company uses the following hierarchy method for determining and disclosing the fair value of financial instruments at the reporting period end.

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

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11. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

The table below analyses the financial instruments measured at fair value at the end of the reporting period March 31, 2014 and December 31, 2013 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	(SR'000)			
March 31, 2014	Level 1	Level 2	Level 3	Total
Available for sale financial assets				
- Insurance operations	1,618,145	-	835,624	2,453,769
- Shareholders	1,907,110	-	250,169	2,157,279
<b>Total</b>	<b>3,525,255</b>	<b>-</b>	<b>1,085,793</b>	<b>4,611,048</b>
<hr/>				
December 31, 2013				
Available for sale financial assets				
- Insurance operations	1,602,500	-	365,624	1,968,124
- Shareholders	1,621,489	-	245,421	1,866,910
<b>Total</b>	<b>3,223,989</b>	<b>-</b>	<b>611,045</b>	<b>3,835,034</b>

There were no transfers between the levels of fair value hierarchies during the period.

Level 3 investments comprise investment in Private Equity Funds and Debt Instruments. The fair value of Private Equity Funds computed is based on the funds latest reported net assets as at the financial position date. Further, the Debt Instruments are carried at an amount which as per the management is the best estimate of the exit price i.e. fair value.

Reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy

	(SR'000)					
March 31, 2014	Balance January 1	Purchases	Sales	Total gain or loss in profit or loss in other comprehensive income		Balance
Insurance operations	365,624	470,000	-	-	-	835,624
Shareholders	245,421	929	(3,093)	-	6,912	250,169
<b>Total</b>	<b>611,045</b>	<b>470,929</b>	<b>(3,093)</b>	<b>-</b>	<b>6,912</b>	<b>1,085,793</b>
<hr/>						
December 31, 2013						
Insurance operations	340,625	200,000	(175,001)	-	-	365,624
Shareholders	282,055	33,237	(81,256)	6,334	5,051	245,421
<b>Total</b>	<b>622,680</b>	<b>233,237</b>	<b>(256,257)</b>	<b>6,334</b>	<b>5,051</b>	<b>611,045</b>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)  
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12. OPERATING SEGMENTS

Consistent with the Company's internal reporting process; operating segments have been approved by management in respect of the Company's activities, assets and liabilities. Information disclosed in the note is based on current reporting to the chief operating decision maker.

Segment assets do not include insurance operations' property and equipment, prepayments and other assets, receivables, net and cash and cash equivalents. Segment liabilities do not include due to shareholders' operations, reinsurance balances payable, accrued expenses and other liabilities. Accordingly they are included in unallocated liabilities.

These unallocated assets and liabilities (including the related charges for provision for doubtful debts on premium receivable and depreciation on the property and equipments) are not reported to chief operating decision maker under related segments and are monitored on a centralized basis.

Operating Segments	For the three month period ended March 31, 2014 (Unaudited)			Total
	Medical	Motor	Property & casualty	
SR' 000				
Gross premiums written:				
Compulsory	921,734			
Non- Compulsory	36,197			
Total Gross premiums written	957,931	277,736	258,035	1,493,702
Net premiums written	947,811	277,657	32,314	1,257,782
Net premiums earned	845,693	251,982	33,606	1,131,281
Reinsurance commissions	940	1,760	25,017	27,717
Net claims incurred	(798,940)	(172,247)	(15,276)	(986,463)
Policy acquisition costs	(50,606)	(35,949)	(9,798)	(96,353)
Excess of loss expenses	(2,761)	(3,933)	(1,005)	(7,699)
Changes in reserve for takaful activities	12	-	-	12
Other underwriting expenses	(14,659)	(1,519)	(1,782)	(17,960)
General, administrative, operating and selling expenses	(25,839)	(14,393)	(17,595)	(57,827)
<b>(Loss) / profit from insurance operations</b>	<b>(46,160)</b>	<b>25,701</b>	<b>13,167</b>	<b>(7,292)</b>
Investment income, net				7,003
Other income, net				27,951
<b>Surplus from insurance operations</b>				<b>27,662</b>

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014

12. OPERATING SEGMENTS (continued)

Operating Segments	For the three month period ended March 31, 2013			
	(Unaudited)			
	Medical	Motor	Property & casualty	Total
	SR' 000			
Gross premiums written:				
Compulsory	706,989	-	-	-
Non- Compulsory	47,551	-	-	-
Total Gross premiums written	<u>754,540</u>	<u>306,240</u>	<u>150,479</u>	<u>1,211,259</u>
Net premiums written	<u>711,389</u>	<u>283,517</u>	<u>41,275</u>	<u>1,036,181</u>
Net premiums earned	824,568	272,082	35,521	1,132,171
Reinsurance commissions	(974)	5,335	28,653	33,014
Net claims incurred	(792,012)	(277,380)	(13,653)	(1,083,045)
Policy acquisition costs	(48,931)	(43,521)	(12,414)	(104,866)
Excess of loss expenses	(7,309)	(11,046)	(8,545)	(26,900)
Changes in reserve for takaful activities	(140)	-	-	(140)
Other underwriting expenses	(13,400)	(2,693)	(2,165)	(18,258)
General, administrative, operating and selling expenses	<u>(51,684)</u>	<u>(18,621)</u>	<u>(13,414)</u>	<u>(83,749)</u>
<b>(Loss) / profit from insurance operations</b>	<u>(89,882)</u>	<u>(75,844)</u>	<u>13,953</u>	<u>(151,773)</u>
Investment income, net				38,396
Other income, net				2,994
<b>Deficit from insurance operations</b>				<u>(110,383)</u>

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)**  
**FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014**

**12. OPERATING SEGMENTS (continued)**

	As at March 31, 2014 (Unaudited)			Total
	Medical	Motor	Property & casualty	
	SR '000			
<b>Assets - Insurance operations</b>				
Reinsurers' share of unearned premium	15,979	6,285	447,184	469,448
Reinsurers' share of outstanding claims, net	2,750	34,134	1,476,523	1,513,407
Deferred policy acquisition costs	72,976	77,292	18,832	169,100
Investments				2,469,825
Receivables, net				1,536,898
Unallocated assets				1,561,058
<b>Total assets</b>				<b>7,719,736</b>
<b>Liabilities and surplus - Insurance operations</b>				
Unearned premiums	1,906,420	480,515	567,075	2,954,010
Outstanding claims and reserves	1,114,812	203,592	1,625,183	2,943,587
Unearned commission income	6,380	1,252	41,145	48,777
Reserve for takaful activities	13,630	-	-	13,630
Unallocated liabilities and surplus				1,759,732
<b>Total liabilities and surplus</b>				<b>7,719,736</b>
As at December 31, 2013 (Audited)				
	Medical	Motor	Property & casualty	Total
	SR '000			
<b>Assets - Insurance operations</b>				
Reinsurers' share of unearned premium	34,749	12,754	441,825	489,328
Reinsurers' share of outstanding claims, net	3,061	30,449	1,666,376	1,699,886
Deferred policy acquisition costs	69,777	74,019	19,884	163,680
Investments				1,983,362
Receivables, net				1,531,469
Unallocated assets				1,862,747
<b>Total assets</b>				<b>7,730,472</b>
<b>Liabilities and surplus - Insurance operations</b>				
Unearned premium income	1,823,072	461,310	563,007	2,847,389
Outstanding claims and reserves	1,062,244	223,232	1,808,651	3,094,127
Unearned commission income	7,000	2,993	40,704	50,697
Reserve for takaful activities	13,642	-	-	13,642
Unallocated liabilities and surplus				1,724,617
<b>Total liabilities and surplus</b>				<b>7,730,472</b>

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Continued)  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014**

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**13. EARNINGS (LOSS) PER SHARE**

Earnings (loss) per share has been calculated by dividing the net income for the period ended March 31, 2014 by 100 million shares and by dividing the loss for the period ended March 31, 2013 by 100 million shares to give retroactive effect of change in share capital as a result of bonus share issue during 2013.

**14. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

The condensed interim financial statements have been approved by the Audit Committee on behalf of the Board of Directors on Jumada II 16, 1435H, corresponding to April 16, 2014.

