

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

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' LIMITED REVIEW REPORT
FOR THE THREE AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2014**

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

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

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KPMG Al Fozan & Al Sadhan



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

SCOPE OF REVIEW:

We have reviewed the accompanying interim statement of financial position of The Company for Cooperative Insurance (A Saudi Joint Stock Company) (the "Company") as at September 30, 2014, and the related interim statements of income - insurance operations and accumulated surplus and interim statement of comprehensive income - shareholders for the three month and nine month periods then ended and the interim statement of changes in shareholders' equity and interim statements of cash flows for insurance operations and shareholders for the nine month period then ended and notes 1 to 14 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 limited review in accordance with the Standard on 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 interim condensed financial statements for them to be in conformity with IAS 34.

EMPHASIS OF MATTER:

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

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Dhu Al-Hijjah 29, 1435H
(October 23, 2014)

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF FINANCIAL POSITION

	Notes	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
SR '000			
<u>ASSETS - INSURANCE OPERATIONS</u>			
Due from shareholders operation		130,721	489,625
Property and equipment, net		258,801	265,816
Investment property		9,861	9,861
Investments in associates		9,093	5,377
Available for sale investments	4(i)	2,959,478	1,968,124
Prepaid expenses and other assets		348,862	315,228
Deferred policy acquisition costs		164,573	163,680
Reinsurers' share of outstanding claims	5	1,137,024	1,699,886
Reinsurers' share of unearned premium		578,027	489,328
Receivables, net	3	1,763,233	1,531,469
Cash and cash equivalents		487,125	792,078
Total assets - Insurance operations		7,846,798	7,730,472
<u>ASSETS - SHAREHOLDERS</u>			
Investments in associates		77,187	64,048
Available for sale investments	4(ii)	2,028,909	1,866,910
Accrued investment income		4,755	5,146
Statutory deposit	8	100,000	100,000
Cash and cash equivalents		71,973	198,766
Total assets - Shareholders		2,282,824	2,234,870
TOTAL ASSETS		10,129,622	9,965,342

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





THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
		SR '000	
<u>LIABILITIES AND SURPLUS – INSURANCE OPERATIONS</u>			
Liabilities - Insurance operations:			
Claims payable, accrued expenses and other liabilities		1,282,524	1,288,843
Reserve for takaful activities		14,573	13,642
Reserve for discontinued operations		11,212	11,410
Gross outstanding claims and reserves	5	2,605,419	3,094,127
Unearned commission income		53,561	50,697
Gross unearned premiums		2,944,149	2,847,389
Reinsurers' balances payable		812,896	345,793
Total liabilities - Insurance operations		7,724,334	7,651,901
Surplus - Insurance operations:			
Accumulated surplus		31,111	-
Fair value reserve for available for sale investments		91,353	78,571
Total liabilities and surplus - Insurance operations		7,846,798	7,730,472
<u>LIABILITIES AND EQUITY - SHAREHOLDERS</u>			
Shareholders' liabilities:			
Due to insurance operations		130,721	489,625
Accrued expenses and other liabilities		1,358	1,127
Dividends payable		5,046	5,151
Zakat		114,401	98,399
Total liabilities – Shareholders		251,526	594,302
Shareholders' equity:			
Share capital	6	1,000,000	1,000,000
Legal reserve	9	651,756	651,756
Fair value reserve for available for sale investments		268,170	288,183
Retained earnings (Accumulated losses)		111,372	(299,371)
Total Shareholders' equity		2,031,298	1,640,568
Total Shareholders' liabilities and equity		2,282,824	2,234,870
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		10,129,622	9,965,342

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





THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

	Three months ended September 30, 2014 (Unaudited)	Three months ended September 30, 2013 (Unaudited)	Nine months ended September 30, 2014 (Unaudited)	Nine months ended September 30, 2013 (Unaudited)
SR '000				
REVENUES				
Gross premiums written	1,373,436	1,317,543	4,345,581	4,050,512
Less: Reinsurance ceded	(210,207)	(255,014)	(795,141)	(807,112)
Net premiums written	1,163,229	1,062,529	3,550,440	3,243,400
Changes in unearned premiums	65,343	64,204	(8,061)	360,203
Net premiums earned	1,228,572	1,126,733	3,542,379	3,603,603
Reinsurance commissions	27,457	30,244	78,215	94,963
Investment income, net	16,020	9,561	42,864	59,113
Other income, net	5,599	5,044	43,430	11,457
Total revenues	1,277,648	1,171,582	3,706,888	3,769,136
COSTS AND EXPENSES				
Gross claims paid	1,122,034	1,131,036	3,604,279	3,604,238
Less: Reinsurance share	(206,434)	(103,026)	(817,659)	(601,531)
Net claims paid	915,600	1,028,010	2,786,620	3,002,707
Changes in outstanding claims and reserves	(17,154)	(24,333)	74,154	277,374
Net claims incurred	898,446	1,003,677	2,860,774	3,280,081
Policy acquisition costs	104,443	96,562	289,111	304,511
Excess of loss expenses	2,792	17,837	12,151	52,664
Changes in reserves for takaful activities	(301)	(308)	931	(414)
Other underwriting expenses	16,459	14,826	50,589	52,491
Operating and selling expenses	54,540	20,975	152,335	164,239
Other general and administrative expenses	10,336	6,485	29,888	25,960
Total costs and expenses	1,086,715	1,160,054	3,395,779	3,879,532
Surplus / (deficit) from insurance operations	190,933	11,528	311,109	(110,396)
Shareholders' appropriation from (surplus) / deficit	(171,840)	(11,528)	(279,998)	110,396
Surplus from insurance operations after shareholders' appropriation	19,093	-	31,111	-
Accumulated surplus, beginning of period	12,018	-	-	-
ACCUMULATED SURPLUS, END OF PERIOD	31,111	-	31,111	-

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





THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS

	Three months ended September 30, 2014 (Unaudited)	Three months ended September 30, 2013 (Unaudited)	Nine months ended September 30, 2014 (Unaudited)	Nine months ended September 30, 2013 (Unaudited)
	SR '000			
	Notes			
Appropriation of surplus / (deficit) from insurance operations	171,840	11,528	279,998	(110,396)
Investment income, net	37,949	11,570	162,835	79,751
Other expenses, net	-	(15)	(202)	(139)
Income / (loss) from operations before zakat	209,789	23,083	442,631	(30,784)
Zakat	(14,420)	(9,613)	(31,888)	(26,388)
Net income / (loss) for the period	195,369	13,470	410,743	(57,172)
Other comprehensive income:				
Will be reclassified subsequently to profit or loss when specific conditions are met:				
- Net change in fair value for available for sale investments	14,917	39,484	(20,013)	42,889
Comprehensive income / (loss) for the period	210,286	52,954	390,730	(14,283)
Earnings / (losses) per share:				
Basic and diluted earnings / (losses) per share (in SR)	1.95	0.13	4.11	(0.57)
Weighted average number of shares in issue throughout the period	100,000,000	100,000,000	100,000,000	100,000,000

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





THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Legal reserve	Fair value reserve on available for sale investments	Retained earnings	Total
Unaudited					
Balance at January 1, 2013	750,000	651,756	198,418	542,764	2,142,938
Issuance of bonus shares	250,000	-	-	(250,000)	-
Board of Directors' remuneration	-	-	-	(1,200)	(1,200)
Net loss for the period	-	-	-	(57,172)	(57,172)
Changes in fair value for available for sale investments	-	-	42,889	-	42,889
Total comprehensive loss for the period	-	-	42,889	(57,172)	(14,283)
Balance at September 30, 2013	1,000,000	651,756	241,307	234,392	2,127,455
Unaudited					
Balance at January 1, 2014	1,000,000	651,756	288,183	(299,371)	1,640,568
Net income for the period	-	-	-	410,743	410,743
Changes in fair value for available for sale investments	-	-	(20,013)	-	(20,013)
Total comprehensive income for the period	-	-	(20,013)	410,743	390,730
Balance at September 30, 2014	1,000,000	651,756	268,170	111,372	2,031,298

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF CASH FLOWS - INSURANCE OPERATIONS

	Nine months ended September 30, 2014 (Unaudited)	Nine months ended September 30, 2013 (Unaudited)
	SR '000	
Operating activities:		
Surplus from insurance operations after shareholders' appropriation	31,111	-
Adjustments to reconcile surplus from insurance operations to net cash from operating activities:		
Shareholders' appropriation from surplus / (deficit)	279,998	(110,396)
Depreciation	7,082	8,428
Gain on sale of property and equipment	24,080	-
Gain on sale of investments available for sale	(42,864)	(33,341)
Share of profit from investments in associates, net	(3,716)	(7,634)
Operating surplus / (deficit) before changes in operating assets and liabilities	295,691	(142,943)
Changes in operating assets and liabilities:		
Prepaid expenses and others assets	(33,634)	(116,400)
Deferred policy acquisition costs	(893)	14,123
Reinsurers' share of outstanding claims	562,862	(366,102)
Reinsurers' share of unearned premiums	(88,699)	(70,282)
Receivables, net	(231,764)	354,969
Reinsurers' balances payable	467,103	10,096
Unearned premium income	96,760	(289,921)
Unearned commission income	2,864	(5,758)
Gross outstanding claims and reserves	(488,708)	643,476
Reserve for discontinued operations	(198)	6
Reserve for takaful activities	931	(414)
Claims payable, accrued expenses and other liabilities	(6,319)	40,231
Due to shareholders	78,906	106,371
Net cash from operating activities	654,902	177,452
Investing activities:		
Proceeds from sale of investments	592,955	515,930
Purchase of investments	(1,528,663)	(590,813)
Purchase of property and equipment	(37,223)	(28,928)
Proceeds from sale of property and equipment	13,076	660
Dividends received from investments in associates	-	9,000
Net cash used in investing activities	(959,855)	(94,151)
Financing activities		
Surplus paid to policyholders	-	(1,010)
Net cash used in financing activities	-	(1,010)
Net change in cash and cash equivalents	(304,953)	82,291
Cash and cash equivalents, beginning of period	792,078	473,239
Cash and cash equivalents, end of period	487,125	555,530
Non-cash supplemental information:		
Changes in fair value for available for sale investments	12,782	9,733

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF CASH FLOWS - SHAREHOLDERS

Note	Nine months ended	Nine months ended
	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)
SR '000		
Operating activities:		
	442,631	(30,784)
Net income / (loss) for the period before zakat		
Adjustments to reconcile net income / (loss) to net cash (used in) / from operating activities:		
Appropriation of (surplus) / deficit from insurance operations	(279,998)	110,396
Gain on sale of investments	(162,835)	(39,151)
Share of income from investments in associates, net	(16,867)	(11,249)
Operating (loss) / profit before changes in operating assets and liabilities	(17,069)	29,212
Changes in operating assets and liabilities:		
Accrued investment income	391	4,290
Due from insurance operations	(78,906)	(106,371)
Accrued expenses and other liabilities	231	190
Zakat paid	(15,886)	(19,919)
Net cash used in operating activities	(111,239)	(92,598)
Investing activities:		
Statutory deposit	-	(25,000)
Proceeds from sale of/and matured investments	709,663	777,107
Purchase of investments	(728,840)	(746,196)
Dividends received from investment in associates	3,728	7,452
Net cash (used in) / from investing activities	(15,449)	13,363
Financing activities:		
Dividends paid	(105)	(208)
Board of Directors' remuneration	-	(1,200)
Net cash used in financing activities	(105)	(1,408)
Net change in cash and cash equivalents	(126,793)	(80,643)
Cash and cash equivalents, beginning of period	198,766	122,781
Cash and cash equivalents, end of period	71,973	42,138
Non-cash supplemental information:		
Changes in fair value for available for sale investments	(20,013)	42,889

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

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2014

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 interim condensed financial statements for the nine month period ended September 30, 2014 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting.

The interim condensed 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 audited financial statements for the year ended December 31, 2013.

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

As required by SAMA implementing regulations, 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.

These interim condensed financial statements have been presented in Saudi Arabian Riyals (SR), being the functional currency of the Company. All financial information presented has been rounded off to the nearest thousand (SR '000).

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)
SEPTEMBER 30, 2014

2. BASIS OF PREPARATION (continued)

(b) Critical accounting judgments, estimates and assumptions

The preparation of the interim condensed 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 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.

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 interim condensed 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 interim condensed financial statements:

Estimation of Insurance contract reserves:

Following are the critical areas of estimation and judgments for medical business (which represents the main line of 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 claims reserves are sensitive to assumptions made about the number of months used to average the completion factors and the claims trend.

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.

ii) Premium deficiency reserve

Estimation of the premium deficiency for medical business is highly sensitive to a number of assumptions 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 considers the claims and premiums relationship which is expected to apply on month to month basis.

iii) Stop loss recovery

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 COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)
SEPTEMBER 30, 2014

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 December 31, 2013, except for the adoption of the following amendments to existing standards mentioned below which had no financial impact on the interim condensed 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 recognized or reversed.
- IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
- 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 FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)
SEPTEMBER 30, 2014

2. BASIS OF PREPARATION (continued)

(c) Significant accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below:

- IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

The Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect from future dates.

In management's opinion, these interim condensed financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim period presented. The interim results are not an indication of the Company's annual results.

(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 interim condensed financial statements.

No inter-segment transactions occurred during the period. Segment income, expense and results will then include those transfers between business segments which will then be eliminated at the level of the interim condensed financial statements of the Company.

(e) Seasonality of operations

There are no seasonal changes that may affect insurance operations.

THE COMPANY FOR COOPERATIVE INSURANCE
(A SAUDI JOINT STOCK COMPANY)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(Continued)
SEPTEMBER 30, 2014

3. RECEIVABLES, NET

Receivables of insurance operations are comprised of balances due from the following:

	September 30, 2014 SR'000 (Unaudited)	December 31, 2013 SR'000 (Audited)
Policyholders	1,066,377	1,130,339
Agents	139,224	198,855
Related party (Note 10)	35,851	13,542
	<u>1,241,452</u>	<u>1,342,736</u>
Receivable from reinsurers	607,546	271,787
Administrative Service Plan	12,817	23,007
	<u>1,861,815</u>	<u>1,637,530</u>
Provision for doubtful receivables	(98,582)	(106,061)
Receivables, net	<u>1,763,233</u>	<u>1,531,469</u>

4. AVAILABLE FOR SALE INVESTMENTS

i) Insurance operations:

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

	September 30, 2014 SR'000 (Unaudited)	December 31, 2013 SR'000 (Audited)
Local / regional money market and fixed income investments	2,433,369	1,729,639
Local / regional equity and equity funds	429,607	148,421
Foreign equity and equity funds	96,502	90,064
Total	<u>2,959,478</u>	<u>1,968,124</u>

ii) Shareholders:

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

	September 30, 2014 SR'000 (Unaudited)	December 31, 2013 SR'000 (Audited)
Local / regional money market and fixed income investments	1,141,569	853,503
Local / regional equity and equity funds	269,105	263,220
Foreign money market and fixed income investments	308,824	296,321
Foreign equity and equity funds	309,411	453,866
Total	<u>2,028,909</u>	<u>1,866,910</u>

THE COMPANY FOR COOPERATIVE INSURANCE
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5. OUTSTANDING CLAIMS AND RESERVES, NET

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

	September 30, 2014 SR'000 (Unaudited)	December 31, 2013 SR'000 (Audited)
Gross outstanding claims	1,571,503	2,118,797
Less: Realizable value of salvage and subrogation	(71,778)	(77,995)
Add: Incurred but not reported claims	831,728	779,359
Add: Premium deficiency reserve	273,966	273,966
Outstanding claims and reserves	<u>2,605,419</u>	<u>3,094,127</u>
Less: Reinsurers' share of outstanding claims	<u>(1,137,024)</u>	<u>(1,699,886)</u>
Net outstanding claims and reserves	<u>1,468,395</u>	<u>1,394,241</u>

At the end of 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.

6. SHARE CAPITAL

The authorized, issued and paid up capital of the Company is SR 1 billion at September 30, 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 September 30, 2014, the Company was contingently liable for letters of credit and guarantees, issued on its behalf by the bank, amounting to SR 148 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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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 nine months ended		Balance receivable / (payable) as at	
	September 30, 2014 SR'000 (Unaudited) SR'000	September 30, 2013 SR'000 (Unaudited) SR'000	September 30, 2014 SR'000 (Unaudited) SR'000	December 31, 2013 SR'000 (Audited) SR'000
Major shareholders				
Amount of claims pertaining to owned hospitals	39,199	41,166	(2,774)	-
Medical insurance premiums	32,313	32,837	35,368	1,376
Rent expenses paid	-	2,677	-	-
Stationery	-	851	-	-
Associates				
Insurance premiums	35,852	35,012	483	90
Rent expenses paid	2,788	9,571	-	12,076
Insurance Claims	-	-	(4,350)	-

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.

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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, available for sale investments, statutory deposits and accrued income and its financial liabilities consist of outstanding claims, reinsurance balance payable and claims payable, 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 September 30, 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 September 30, 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)			
September 30, 2014 (Unaudited)	Level 1	Level 2	Level 3	Total
Available for sale financial assets				
- Insurance operations	1,947,144	-	1,012,334	2,959,478
- Shareholders	1,611,752	-	417,157	2,028,909
Total	3,558,896	-	1,429,491	4,988,387
December 31, 2013 (Audited)				
Available for sale financial assets				
- Insurance operations	1,602,500	-	365,624	1,968,124
- Shareholders	1,621,489	-	245,421	1,866,910
Total	3,223,989	-	611,045	3,835,034

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 is computed 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)					
September 30, 2014	Balance January 1	Purchases	Sales	Total gain or loss in profit or loss in other comprehensive income		Balance
Insurance operations	365,624	1,116,710	(470,000)	-	-	1,012,334
Shareholders	245,421	365,397	(202,632)	8,080	891	417,157
Total	611,045	1,482,107	(672,632)	8,080	891	1,429,491
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
Total	622,680	233,237	(256,257)	6,334	5,051	611,045

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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 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 September 30, 2014 (Unaudited)			Total
	Medical	Motor	Property & casualty	
	SR' 000			
Gross premiums written:				
Compulsory	825,351	-	-	-
Non- Compulsory	71,116	-	-	-
Total Gross premiums written	896,467	246,001	230,968	1,373,436
Net premiums written	881,100	246,001	36,128	1,163,229
Net premiums earned	938,879	250,658	39,035	1,228,572
Reinsurance commissions	85	19	27,353	27,457
Net claims incurred	(721,786)	(165,784)	(10,876)	(898,446)
Policy acquisition costs	(59,233)	(33,834)	(11,376)	(104,443)
Excess of loss expenses	-	(766)	(2,026)	(2,792)
Changes in reserve for takaful activities	301	-	-	301
Other underwriting expenses	(14,334)	(1,256)	(869)	(16,459)
General, administrative, selling and marketing expenses	(26,267)	(19,651)	(18,958)	(64,876)
Profit from Insurance Operations	117,645	29,386	22,283	169,314
Investment income, net				16,020
Other income, net				5,599
Surplus from Insurance Operations				190,933

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12. OPERATING SEGMENTS (continued)

Operating Segments	For the three-month period ended September 30, 2013 (Unaudited)			
	Medical	Motor	Property & casualty	Total
	SR' 000			
Gross premiums written:				
Compulsory	723,225	-	-	-
Non- Compulsory	83,031	-	-	-
Total Gross premiums written	806,256	249,586	261,701	1,317,543
Net premiums written	778,064	248,703	35,762	1,062,529
Net premiums earned	807,156	283,126	36,451	1,126,733
Reinsurance commissions	1,339	4,696	24,209	30,244
Net claims incurred	(774,071)	(212,709)	(16,897)	(1,003,677)
Policy acquisition costs	(46,968)	(38,807)	(10,787)	(96,562)
Excess of loss expenses	(14,652)	(2,506)	(679)	(17,837)
Changes in reserve for takaful activities	308	-	-	308
Other underwriting expenses	(13,038)	(1,318)	(470)	(14,826)
General, administrative, selling and marketing expenses	(1,060)	(14,640)	(11,760)	(27,460)
(Loss)/ profit from Insurance Operations	(40,986)	17,842	20,067	(3,077)
Investment income, net				9,561
Other income, net				5,044
Surplus from Insurance Operations				11,528

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12. OPERATING SEGMENTS (continued)

Operating Segments	For the nine month period ended September 30, 2014 (Unaudited)			
	Medical	Motor	Property & casualty	Total
	SR' 000			
Gross premiums written:				
Compulsory	2,423,802	-	-	-
Non- Compulsory	271,710	-	-	-
Total Gross premiums written	2,695,512	784,216	865,853	4,345,581
Net premiums written	2,657,084	784,161	109,195	3,550,440
Net premiums earned	2,676,139	760,373	105,867	3,542,379
Reinsurance commissions	1,215	2,349	74,651	78,215
Net claims incurred	(2,306,060)	(511,204)	(43,510)	(2,860,774)
Policy acquisition costs	(153,896)	(105,365)	(29,850)	(289,111)
Excess of loss expenses	-	(7,153)	(4,998)	(12,151)
Changes in reserve for takaful activities	(931)	-	-	(931)
Other underwriting expenses	(41,520)	(4,102)	(4,967)	(50,589)
General, administrative, selling and marketing expenses	(82,036)	(49,661)	(50,526)	(182,223)
Profit from Insurance Operations	92,911	85,237	46,667	224,815
Investment income, net				42,864
Other income, net				43,430
Surplus from Insurance Operations				311,109

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12. OPERATING SEGMENTS (continued)

Operating Segments	For the nine-month period ended September 30, 2013 (Unaudited)			
	Medical	Motor	Property & casualty	Total
	SR' 000			
Gross premiums written:				
Compulsory	2,155,826	-	-	-
Non- Compulsory	319,254	-	-	-
Total Gross premiums written	2,475,080	820,817	754,615	4,050,512
Net premiums written	2,345,751	777,511	120,138	3,243,400
Net premiums earned	2,667,057	831,800	104,746	3,603,603
Reinsurance commissions	4,916	15,527	74,520	94,963
Net claims incurred	(2,499,169)	(713,607)	(67,305)	(3,280,081)
Policy acquisition costs	(146,105)	(124,400)	(34,006)	(304,511)
Excess of loss expenses	(26,596)	(18,182)	(7,886)	(52,664)
Changes in reserve for takaful activities	414	-	-	414
Other underwriting expenses	(41,281)	(6,343)	(4,867)	(52,491)
General, administrative, selling and marketing expenses	(93,190)	(54,094)	(42,915)	(190,199)
(Loss) / profit from Insurance Operations	(133,954)	(69,299)	22,287	(180,966)
Investment income, net				59,113
Other income, net				11,457
Deficit from Insurance Operations				(110,396)

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12. OPERATING SEGMENTS (continued)

	As at September 30, 2014 (Unaudited)			
	Medical	Motor	Property & casualty	Total
	SR '000			
Assets - Insurance operations				
Reinsurers' share of unearned premium	11,534	2,033	564,460	578,027
Reinsurers' share of outstanding claims, net	233	33,128	1,103,663	1,137,024
Deferred policy acquisition costs	93,545	48,493	22,535	164,573
Investments				2,978,432
Receivables, net				1,763,233
Unallocated assets				1,225,509
Total assets				<u>7,846,798</u>
Liabilities and surplus - Insurance operations				
Gross unearned premiums	1,780,801	474,377	688,971	2,944,149
Gross outstanding claims and reserves	1,146,256	200,273	1,258,890	2,605,419
Unearned commission income	5,527	82	47,952	53,561
Reserve for takaful activities	14,573	-	-	14,573
Unallocated liabilities and surplus				2,229,096
Total liabilities and surplus				<u>7,846,798</u>
	As at December 31, 2013 (Audited)			
	Medical	Motor	Property & casualty	Total
	SR '000			
Assets - Insurance operations				
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
Total assets				<u>7,730,472</u>
Liabilities and surplus - Insurance operations				
Gross unearned premiums	1,823,072	461,310	563,007	2,847,389
Gross 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
Total liabilities and surplus				<u>7,730,472</u>

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13. EARNINGS / (LOSS) PER SHARE

Earnings (losses) per share have been calculated by dividing the net income / loss for the periods ended September 30, 2014 and September 30, 2013 by 100 million shares.

14. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on Dhu Al-Hijjah 29, 1435H, corresponding to October 23, 2014.