

SALAMA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH AND TWELVE-MONTH PERIODS ENDED  
31 DECEMBER 2017

SALAMA COOPERATIVE INSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE THREE-MONTH AND TWELVE-MONTH PERIODS ENDED 31 DECEMBER 2017

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## INDEPENDENT AUDITORS' REVIEW REPORT

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

### INTRODUCTION

We have reviewed the accompanying interim statement of financial position of **Salama Cooperative Insurance Company** (A Saudi Joint Stock Company) (the "Company") as at 31 December 2017 and the related interim statements of insurance operations and accumulated surplus, shareholders' operations, comprehensive income for the three-month and twelve-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 twelve-month period then ended and the notes from 1 to 15 which form an integral part of these interim condensed financial statements. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 – "Interim Financial Reporting" (IAS 34) as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of these interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34 – "Interim Financial Reporting" (IAS 34) as modified by SAMA for the accounting of zakat and income tax.

for PKF Al-Bassam & Co.  
Allied Accountants

Ibrahim A. Al Bassam  
Certified Public Accountant  
Licence No. 337



for Moore Stephens  
El Sayed El Ayouy & Co.

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Certified Public Accountant  
Licence No. 211

Jeddah, Kingdom of Saudi Arabia  
11 FEBRUARY 2018  
25 JUMADA AL-AWAL 1439H




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

**INTERIM STATEMENT OF FINANCIAL POSITION**

As at 31 December 2017

	<i>Note</i>	<b>31 December 2017 (Unaudited) SR'000</b>	<b>31 December 2016 (Audited) SR'000</b>
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	3	14,392	58,019
Term deposits	4	15,292	14,783
Premium receivables, net	5	127,669	99,109
Reinsurance receivables, net		630	509
Deferred policy acquisition costs		14,516	10,590
Prepayments and other receivables		14,581	21,407
FVIS investments	6(a)	354,374	254,516
Reinsurers' share of unearned premiums		8,889	4,752
Reinsurers' share of outstanding claims	7	11,444	6,376
Held to maturity investments	6(b)	35,790	35,947
Furniture, fittings and office equipment		4,931	2,607
<b>Total Insurance Operations' assets</b>		<b>602,508</b>	<b>508,615</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	3	11	11
FVIS investments	6(a)	216,980	145,210
Available-for-sale investments	6(c)	1,923	1,923
Prepayments and other receivables		123	132
Held to maturity investments	6(b)	13,642	13,755
Statutory deposit		25,000	25,000
Return on statutory deposit		2,164	1,645
Due from insurance operations		14,902	21,199
<b>Total Shareholders' assets</b>		<b>274,745</b>	<b>208,875</b>
<b>TOTAL ASSETS</b>		<b>877,253</b>	<b>717,490</b>







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

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

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

As at 31 December 2017

	<u>Note</u>	<b>31 December 2017 (Unaudited) SR'000</b>	<b>31 December 2016 (Audited) SR'000</b>
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
<b>Insurance Operations' liabilities</b>			
Unearned premiums		322,609	280,969
Outstanding claims	7	177,776	147,176
Unearned commission income		2,244	1,287
Other technical reserves		4,033	3,695
Policyholders' claims		11,512	7,572
Reinsurance payable		9,902	6,449
Accruals and other payable		36,947	25,715
Employees' end of service benefits		9,262	8,382
Due to shareholders' operations		14,902	21,199
<b>Total insurance operations' liabilities</b>		<b>589,187</b>	<b>502,444</b>
<b>Insurance Operations' surplus</b>			
Accumulated surplus from Insurance Operations		13,321	6,171
<b>Total Insurance Operations' liabilities and surplus</b>		<b>602,508</b>	<b>508,615</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Return on statutory deposit payable to SAMA		2,164	1,645
Accrued Zakat	8	18,189	14,054
<b>Total Shareholders' liabilities</b>		<b>20,353</b>	<b>15,699</b>
<b>Shareholders' equity</b>			
Share capital	9	250,000	250,000
Retained earnings / (accumulated losses)		4,392	(56,824)
<b>Total Shareholders' equity</b>		<b>254,392</b>	<b>193,176</b>
<b>Total Shareholders' liabilities and equity</b>		<b>274,745</b>	<b>208,875</b>
<b>TOTAL LIABILITIES, SURPLUS AND EQUITY</b>		<b>877,253</b>	<b>717,490</b>







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



**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company**  
**INTERIM STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**  
For the three-month and twelve-month periods ended 31 December 2017

<i>Note</i>	<i>Three-month period ended 31 December</i>		<i>Twelve-month period ended 31 December</i>	
	<i>2017 (Unaudited)</i>	<i>2016 (Unaudited)</i>	<i>2017 (Unaudited)</i>	<i>2016 (Audited)</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b>Revenues</b>				
Gross premiums written	161,860	156,098	750,691	571,353
Less: Reinsurance premiums ceded	(3,511)	(2,311)	(19,641)	(13,668)
Less: Excess of loss premiums	(6,061)	(4,999)	(18,224)	(14,587)
Net premiums written	152,288	148,788	712,826	543,098
Changes in net unearned premiums	28,236	(23,021)	(37,503)	(110,133)
Net premiums earned	180,524	125,767	675,323	432,965
Net reinsurance commissions earned	1,202	940	4,313	3,735
Other underwriting income	-	-	4,267	601
Net revenue	181,726	126,707	683,903	437,301
<b>Costs and expenses</b>				
Gross claims paid	149,717	80,936	478,425	283,758
Less: Reinsurers' share	(2,043)	(812)	(6,069)	(3,898)
Net claims paid	147,674	80,124	472,356	279,860
Changes in net outstanding claims	(10,944)	11,359	25,532	50,101
Net claims incurred	136,730	91,483	497,888	329,961
Changes in other technical reserves	338	1,111	338	1,111
Policy acquisition costs	8,821	4,822	30,596	15,612
Other operating expenses	4,725	7,407	18,485	14,842
Net costs and expenses	150,614	104,823	547,307	361,526
Net results of insurance operations	31,112	21,884	136,596	75,775
General and administrative expenses	(16,934)	(13,019)	(62,429)	(48,826)
Provision for doubtful debts	319	(239)	(11,256)	(5,760)
Investment income	1,408	2,582	7,394	5,968
Other income	172	1,780	1,201	2,613
<b>Surplus from Insurance Operations</b>	16,077	12,988	71,506	29,770
Shareholders' share of insurance operations' surplus	2(a) (14,470)	(11,689)	(64,356)	(26,793)
<b>Surplus for the period</b>	1,607	1,299	7,150	2,977
<b>Accumulated surplus at the beginning of the period</b>	11,714	4,872	6,171	3,194
<b>Accumulated surplus at the end of the period</b>	13,321	6,171	13,321	6,171

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 twelve-month periods ended 31 December 2017

		Three-month period ended 31 December		Twelve-month period ended 31 December	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>Note</u>	(Unaudited) SR'000	(Unaudited) SR'000	(Unaudited) SR'000	(Audited) SR'000
<b>REVENUES</b>					
Shareholders' share of Insurance Operations' surplus	2 (a)	14,470	11,689	64,356	26,793
Unrealized gain on FVIS Investments		782	4,749	4,537	4,152
Income / (loss) from held to maturity investments		22	(190)	81	24
		<u>15,274</u>	<u>16,248</u>	<u>68,974</u>	<u>30,969</u>
<b>EXPENSES</b>					
General and administrative expenses		<u>(123)</u>	<u>(164)</u>	<u>(1,458)</u>	<u>(619)</u>
<b>Net income for the period</b>		<u>15,151</u>	<u>16,084</u>	<u>67,516</u>	<u>30,350</u>
<b>Earning per share – (SR) – restated</b>	13, 14	<u>0.61</u>	<u>0.64</u>	<u>2.70</u>	<u>1.21</u>

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**SALAMA COOPERATIVE INSURANCE COMPANY – A Saudi Joint Stock Company****INTERIM STATEMENT OF COMPREHENSIVE INCOME**

For the three-month and twelve-month periods ended 31 December 2017

	<i>Three-month period ended 31 December</i>		<i>Twelve-month period ended 31 December</i>	
	<u>2017</u> <i>(Unaudited)</i> SR'000	<u>2016</u> <i>(Unaudited)</i> SR'000	<u>2017</u> <i>(Unaudited)</i> SR'000	<u>2016</u> <i>(Audited)</i> SR'000
Net income for the period	15,151	16,084	67,516	30,350
<b>Items that may be reclassified subsequently to statement of Shareholders' Operations:</b>				
Change in fair value of available-for-sale-investments (note 6(c))	-	-	-	-
<b>Total comprehensive income for the period</b>	<u>15,151</u>	<u>16,084</u>	<u>67,516</u>	<u>30,350</u>



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



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

**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the twelve-month period ended 31 December 2017

	<i>For the twelve-month period ended 31 December 2017</i>			
	<i>Share capital</i>	<i>Available-for-sale investments reserve</i>	<i>Retained earnings / (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 2016 (Audited)	250,000	-	(56,824)	193,176
Net income for the period	-	-	67,516	67,516
Zakat for the current period (note 8)	-	-	(6,300)	(6,300)
<b>Balance at 31 December 2017 (Unaudited)</b>	<b>250,000</b>	<b>-</b>	<b>4,392</b>	<b>254,392</b>

	<i>For the twelve-month period ended 31 December 2016</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 2015 (Audited)	250,000	-	(78,128)	171,872
Net income for the period before adjustment	-	-	21,304	21,304
Prior year adjustment (note 14)	-	-	9,046	9,046
Net income for the period after adjustment	-	-	30,350	30,350
Zakat for the current period	-	-	(9,046)	(9,046)
<b>Balance at 31 December 2016 (Unaudited)</b>	<b>250,000</b>	<b>-</b>	<b>(56,824)</b>	<b>193,176</b>

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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 twelve-month period ended 31 December 2017

	Notes	Twelve-month period ended 31 December 2017 (Unaudited) SR'000	Twelve-month period ended 31 December 2016 (Audited) SR'000
<b>OPERATING ACTIVITIES</b>			
Surplus for the period from the insurance operations		7,150	2,977
Adjustments for:			
Unrealized gain on FVIS investments	6(a)	(5,691)	(2,237)
Realized gain on FVIS investments		-	(1,392)
Amortization related to held to maturity investments	6(b)	157	153
Provision for doubtful insurance receivables		11,170	5,534
Release / provision for doubtful reinsurance receivables		86	226
Unearned premiums		41,640	108,822
Other technical reserves		338	1,111
Employees end of service benefits, net		880	1,689
Depreciation		1,548	1,304
		<u>57,278</u>	<u>118,187</u>
Changes in operating assets and liabilities:			
Premium receivables		(39,730)	(44,871)
Reinsurance receivables		(207)	818
Policy acquisition costs		(3,926)	(5,375)
Prepayments and other receivables		6,826	(6,485)
Reinsurers share of unearned premiums		(4,137)	1,311
Reinsurers share of outstanding claims		(5,068)	1,032
Unearned commission income		957	(266)
Outstanding claims		30,600	49,069
Policyholders' claims		3,940	2,511
Reinsurance payables		3,453	3,886
Accruals and other payables		11,232	9,463
Due from shareholders' operations		(6,297)	23,190
Net cash from operating activities		<u>54,921</u>	<u>152,470</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and office equipment		(3,872)	(1,571)
Purchase of FVIS investments	6 (a)	(114,667)	(166,162)
Term deposits		(15,292)	(3,821)
Proceeds from disposal of FVIS investments		20,500	74,412
Proceeds from term deposits		14,783	-
Net cash used in investing activities		<u>(98,548)</u>	<u>(97,142)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<u>(43,627)</u>	<u>55,328</u>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<u>58,019</u>	<u>2,691</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	3	<u>14,392</u>	<u>58,019</u>

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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 twelve-month period ended 31 December 2017

		<b>Twelve-month period ended 31 December 2017 (Unaudited) SR'000</b>	<b>Twelve-month period ended 31 December 2016 (Audited) SR'000</b>
	<i>Notes</i>		
<b>OPERATING ACTIVITIES</b>			
Net income for the period		67,516	30,350
Adjustments for:			
Unrealized gain on FVIS investments	6(a)	(4,262)	(3,012)
Amortization of held to maturity investments	6(b)	113	109
		<u>63,367</u>	<u>27,447</u>
Changes in operating assets and liabilities:			
Prepayment and other receivables		9	(23)
Due to insurance operations		6,297	(23,190)
Return on statutory deposit		(519)	(577)
Return on statutory deposit payable to SAMA		519	577
Zakat paid		(2,165)	-
Net cash from operating activities		<u>67,508</u>	<u>4,234</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of FVIS Investments		(82,500)	(514)
Purchase of held to maturity investments		-	(3,717)
Proceeds from disposal of FVIS Investments		14,992	-
Net cash used in investing activities		<u>(67,508)</u>	<u>(4,231)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>-</b>	<b>3</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>11</b>	<b>8</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>3</b>	<b><u>11</u></b>	<b><u>11</u></b>

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

**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**

The interim condensed financial statements of the Company have been prepared in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax, which requires, adoption of all IFRS as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 – "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings. As the Company's accounting policy for the zakat and income tax has always been consistent with the SAMA's new guidance, the adoption of the guidance has not resulted in any changes in the accounting policies, accounting treatment or amounts reported in current or prior years/periods.

These 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 31 December 2016.

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 2016 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 2016.

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.



BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of presentation (continued)

• *Zakat*

On 14 Rajab 1438H corresponding to 11 April 2017, SAMA has issued a new circular (number 381000074519) regarding the accounting policy of Zakat and income tax in which it is mentioned that Zakat and income tax should be charged directly to the retained earnings of all insurance companies irrespective of their ownership structure for the current and comparative periods and this will be effective starting 1 January 2017.

Therefore, the Company has adopted the above new accounting policy in the preparation of these interim condensed financial statements and has restated the comparative financial statements accordingly (Note 14).

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

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

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

The Company received the approval letters from the Saudi Arabian Monetary Agency and Ministry of Commerce and Investment regarding the amendment of the Company's by-laws to be in accordance with the new companies' regulations.

Based on the above, the Company's general assembly was held on 5 June 2017 corresponding to 10 Ramadan 1438H and accordingly the new by-laws was approved.

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 2017:

<i>Standard</i>	<i>Description</i>
IFRS 12	The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. This did not have any impact on the financial statements of the Company as there is no investment in subsidiary, a joint venture or an associate.
IAS 7	Amendments to IAS 7 – "Statement of Cash flows: Disclosure Initiative", The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Company is not required to provide additional disclosures in its interim condensed financial statements, but will disclose additional information in its annual financial statements for the year ending 31 December 2017.

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.

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective date</i>
IFRS 9	Financial Instruments	1 January 2021
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 2	Amendments to IFRS 2 Classification and Measurement of share-based Payment transactions.	1 January 2018
IAS 40	Amendments to IAS 40 Transfers of investment property.	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance consideration.	1 January 2018
IFRS 1 and IAS 28	Annual Improvements 2016 to IFRS 2014 - 2016 cycle.	1 January 2018
IFRS 16	Leases	1 January 2019

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 TWELVE-MONTH PERIODS ENDED 31 DECEMBER 2017

3. CASH AND CASH EQUIVALENTS

	<i>31 December</i> <u>2017</u> (Unaudited) SR'000	<i>31 December</i> <u>2016</u> (Audited) SR'000
<i>Insurance Operations</i>		
Cash in hand and at banks	<u>14,392</u>	<u>58,019</u>
<i>Shareholders' Operations</i>		
Cash at banks	<u>11</u>	<u>11</u>

4. TERM DEPOSITS

	<i>31 December</i> <u>2017</u> (Unaudited) SR'000	<i>31 December</i> <u>2016</u> (Audited) SR'000
<i>Insurance Operations</i>		
Term deposits	<u>15,292</u>	<u>14,783</u>

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

5. PREMIUM RECEIVABLE, NET

	<i>31 December</i> <u>2017</u> (Unaudited) SR'000	<i>31 December</i> <u>2016</u> (Audited) SR'000
Due from policyholders	129,760	83,755
Due from policy holders – related parties (note 10)	30,448	36,723
Allowance for doubtful premiums receivable (see below)	(32,539)	(21,369)
	<u>127,669</u>	<u>99,109</u>

Movements in allowance for doubtful premiums receivable were as follows:

	<i>31 December</i> <u>2017</u> (Unaudited) SR'000	<i>31 December</i> <u>2016</u> (Audited) SR'000
Balance at beginning of period / year	21,369	15,835
Provision during the period / year	<u>11,170</u>	<u>5,534</u>
Balance at the end of the period / year	<u>32,539</u>	<u>21,369</u>

6. INVESTMENTS

a) FVIS investments

*Insurance operations*

Movement in FVIS investments is as follows:

	<i>Twelve-month period ended 31 December 2017 (Unaudited) SR'000</i>	<i>Year ended 31 December 2016 (Audited) SR'000</i>
Balance at the beginning of the period / year	254,516	159,137
Purchased during the period / year	114,667	166,162
Disposals during the period / year	(20,500)	(74,412)
Changes in fair value of investments	5,691	3,629
Balance at the end of the period / year	<u>354,374</u>	<u>254,516</u>

*Shareholders' operations*

Movement in FVIS investments is as follows:

	<i>Twelve-month period ended 31 December 2017 (Unaudited) SR'000</i>	<i>Year ended 31 December 2016 (Audited) SR'000</i>
Balance at the beginning of the period / year	145,210	141,684
Purchases during the period / year	82,500	514
Disposals during the period / year	(14,992)	-
Changes in fair value of investments	4,262	3,012
Balance at the end of the period / year	<u>216,980</u>	<u>145,210</u>

b) Held to maturity investments

*Insurance operations*

Movement in investments held to maturity is as follows:

	<i>Twelve-month period ended 31 December 2017 (Unaudited) SR'000</i>	<i>Year ended 31 December 2016 (Audited) SR'000</i>
Balance at the beginning of the period / year	35,947	36,100
Amortized during the period / year	(157)	(153)
Balance at the end of the period / year	<u>35,790</u>	<u>35,947</u>



6. INVESTMENTS (continued)

b) Held to maturity investments – (continued)

*Shareholders' operations*

Movement in investments held to maturity is as follows:

	<i>Twelve-month period ended 31 December 2017 (Unaudited) SR'000</i>	<i>Year ended 31 December 2016 (Audited) SR'000</i>
Balance at the beginning of the period / year	13,755	10,147
Purchases during the period / year	-	3,717
Amortized during the period / year	(113)	(109)
Balance at the end of the period / year	<u>13,642</u>	<u>13,755</u>

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

c) Available-for-sale investments

*Shareholders' operations*

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

*Twelve-month period ended 31 December 2017 (Unaudited)*

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

*Year ended 31 December 2016 (Audited)*

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

- i. Unquoted available-for-sale investment, having a carrying value of SR 1,923 thousand (31 December 2016: 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.

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**7. OUTSTANDING CLAIMS – NET**

	<i>31 December 2017 (Unaudited) SR'000</i>	<i>31 December 2016 (Audited) SR'000</i>
Gross outstanding claims	45,489	23,179
Add: Incurred But Not Reported (IBNR) reserve	132,287	123,997
	<u>177,776</u>	<u>147,176</u>
Less: Reinsurers' share of outstanding claims	(9,951)	(5,544)
Less: Reinsurers' share of Incurred But Not Reported (IBNR) reserve	(1,493)	(832)
	<u>166,332</u>	<u>140,800</u>

**8. ZAKAT**

The Zakat payable by the Company has been calculated based on the best estimates of the management. Movement in Zakat payable during the twelve-month period ended 31 December 2017 and for the year ended 31 December 2016 is as follows:

	<i>31 December 2017 (Unaudited) SR'000</i>	<i>31 December 2016 (Audited) SR'000</i>
Balance at the beginning of the period / year	14,054	5,008
Charge for the current period / year	6,300	5,000
Payment made during the period / year	(2,165)	-
Charge for the prior period / year	-	4,046
Balance at the end of the period / year	<u>18,189</u>	<u>14,054</u>

**Zakat status**

The Company has filed its zakat declarations for the period from 16 May 2007 to 31 December 2008 and for the years ended 31 December 2009 through 2016 and has obtained restricted zakat certificates.

During 2016, the Company received zakat assessments for the years ended 31 December 2008 through 2012 where GAZT demanded an additional zakat and withholding tax liability of SR 13.7 million in respect of those years. The Company has filed an objection against those assessments and the management is confident of a favorable outcome. In this regard, the Company have issued a letter of guarantee amounting to SR 9.5 million in favour of GAZT. Further, the Company has booked an additional liability of SR 4.4 million for withholding tax in the statement of insurance operations and SR 4 million for zakat for prior period in the statement of shareholders' operations.

**9. SHARE CAPITAL**

The authorized and issued share capital of the Company is SR 250 million divided into 25 million ordinary shares of SR 10 each.

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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>	<i>Amount of transactions Twelve-month period ended</i>		<i>Balance as at</i>	<i>Balance as at</i>
		<i>31 December 2017 (Unaudited) SR'000</i>	<i>31 December 2016 (Unaudited) SR'000</i>	<i>31 December 2017 (Unaudited) SR'000</i>	<i>31 December 2016 (Audited) SR'000</i>
<b><i>a) Insurance Operations</i></b>					
Major Shareholder					
Islamic Arab Insurance Company - UAE	Insurance policies written	-	100	-	-
<b><i>Related Parties of key management personnel</i></b>					
Tajeer Co. (Affiliate)	Insurance policies written	73,069	98,661	30,350	36,362
Chairman of the Board	Insurance policies written	341	312	71	144
Rusd Global Company	Insurance policies written	150	608	-	191
Al Firdous Group Co.	Insurance policies written	1,742	1,971	27	26
<b><i>Key management personnel</i></b>					
	Long-term benefits	286	276	(1,245)	(1,038)
	Short term benefits	4,667	4,423	83	146
<b><i>b) Shareholders' Operations</i></b>					
Board of Directors	Remuneration	775	104	-	-
Board Committees	Remuneration	328	11	-	-

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>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>
31 December 2017 – unaudited				
Gross premiums written	16,745	140,110	5,005	161,860
Less: Reinsurance premiums ceded	-	-	(3,511)	(3,511)
Less: Excess of loss premiums	(862)	(4,933)	(266)	(6,061)
Net premiums written	15,883	135,177	1,228	152,288
Changes in net unearned premiums	3,215	24,896	125	28,236
Net premiums earned	19,098	160,073	1,353	180,524
Net reinsurance commissions earned	-	-	1,202	1,202
Net revenue	19,098	160,073	2,555	181,726
Gross claims paid	7,859	141,666	192	149,717
Less: Reinsurers' share	(1,262)	(722)	(59)	(2,043)
Net claims paid	6,597	140,944	133	147,674
Changes in net outstanding claims	2,278	(13,425)	203	(10,944)
Net claims incurred	8,875	127,519	336	136,730
Changes in other technical reserves	1,196	(836)	(22)	338
Policy acquisition costs	1,210	6,976	635	8,821
Other operating expenses	2,483	2,203	39	4,725
Net costs and expenses	13,764	135,862	988	150,614
Net results of insurance operations	5,334	24,211	1,567	31,112
General and administrative expenses				(16,934)
Provision for doubtful debts				319
Investment income				1,408
Other income				172
Surplus from insurance operations				16,077



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**11. SEGMENTAL INFORMATION (continued)**

	<i>Medical</i> <i>SR'000</i>	<i>Motor</i> <i>SR'000</i>	<i>Others</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<b>For the twelve-month period ended 31 December 2017 – unaudited</b>				
Gross premiums written	78,770	645,307	26,614	750,691
Less: Reinsurance premiums ceded	-	-	(19,641)	(19,641)
Less: Excess of loss premiums	(1,762)	(15,529)	(933)	(18,224)
Net premiums written	77,008	629,778	6,040	712,826
Changes in net unearned premiums	(17,864)	(18,031)	(1,608)	(37,503)
Net premiums earned	59,144	611,747	4,432	675,323
Net reinsurance commissions earned	-	-	4,313	4,313
Other underwriting income	-	4,267	-	4,267
Net revenue	59,144	616,014	8,745	683,903
Gross claims paid	21,089	454,880	2,456	478,425
Less: Reinsurers' share	(1,787)	(2,663)	(1,619)	(6,069)
Net claims paid	19,302	452,217	837	472,356
Changes in net outstanding claims	5,512	19,461	559	25,532
Net claims incurred	24,814	471,678	1,396	497,888
Changes in other technical reserves	1,196	(836)	(22)	338
Policy acquisition costs	3,498	25,083	2,015	30,596
Other operating expenses	7,045	11,230	210	18,485
Net costs and expenses	36,553	507,155	3,599	547,307
Net results of insurance operations	22,591	108,859	5,146	136,596
General and administrative expenses				(62,429)
Provision for doubtful debts				(11,256)
Investment income				7,394
Other income				1,201
Surplus from insurance operations				<u>71,506</u>
<b>As at 31 December 2017 – unaudited</b>				
Insurance operations' assets				
Reinsurer's share of unearned premiums	-	-	8,889	8,889
Reinsurer's share of outstanding claims	-	-	11,444	11,444
Deferred policy acquisition costs	1,926	11,281	1,309	14,516
Unallocated assets				567,659
Total insurance operations' assets				<u>602,508</u>
Insurance operations' liabilities and surplus				
Unearned premiums	29,529	281,214	11,866	322,609
Outstanding claims	13,147	148,692	15,937	177,776
Unearned commission income	-	-	2,244	2,244
Other technical reserves	1,729	2,304	-	4,033
Unallocated liabilities and surplus				95,846
Total insurance operations' liabilities and surplus				<u>602,508</u>

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**11. SEGMENTAL INFORMATION (continued)**

	<u>Medical</u> <u>SR'000</u>	<u>Motor</u> <u>SR'000</u>	<u>Others</u> <u>SR'000</u>	<u>Total</u> <u>SR'000</u>
For the three-month period ended 31 December 2016 – unaudited				
Gross premiums written	6,915	146,209	2,974	156,098
Less: Reinsurance premiums ceded	-	-	(2,311)	(2,311)
Less: Excess of loss premiums	-	(4,777)	(222)	(4,999)
Net premiums written	6,915	141,432	441	148,788
Changes in net unearned premiums	673	(24,278)	584	(23,021)
Net premiums earned	7,588	117,154	1,025	125,767
Net reinsurance commissions earned	-	-	940	940
Net revenue	7,588	117,154	1,965	126,707
Gross claims paid	3,448	76,439	1,049	80,936
Less: Reinsurers' share	-	-	(812)	(812)
Net claims paid	3,448	76,439	237	80,124
Changes in net outstanding claims	1,543	9,213	603	11,359
Net claims incurred	4,991	85,652	840	91,483
Changes in other technical reserves	(546)	1,661	(4)	1,111
Policy acquisition costs	333	4,164	325	4,822
Other operating expenses	689	6,674	44	7,407
Net costs and expenses	5,467	98,151	1,205	104,823
Net results of insurance operations	2,121	19,003	760	21,884
General and administrative expenses				(13,019)
Provision for doubtful debts				(239)
Investment income				2,582
Other income				1,780
Surplus from insurance operations				12,988

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**11. SEGMENTAL INFORMATION (continued)**

	<u>Medical</u> <u>SR'000</u>	<u>Motor</u> <u>SR'000</u>	<u>Others</u> <u>SR'000</u>	<u>Total</u> <u>SR'000</u>
For the Twelve-month period ended 31 December 2016 – audited				
Gross premiums written	30,016	30,016	18,050	571,353
Less: Reinsurance premiums ceded	-	(400)	(13,268)	(13,668)
Less: Excess of loss premiums	(732)	(12,859)	(996)	(14,587)
Net premiums written	29,284	510,028	3,786	543,098
Changes in net unearned premiums	(957)	(109,251)	75	(110,133)
Net premiums earned	28,327	400,777	3,861	432,965
Net reinsurance commissions earned	-	70	3,665	3,735
Other underwriting income	-	601	-	601
Net revenue	28,327	401,448	7,526	437,301
Gross claims paid	16,683	261,901	5,174	283,758
Less: Reinsurers' share	-	-	(3,898)	(3,898)
Net claims paid	16,683	261,901	1,276	279,860
Changes in net outstanding claims	1,925	47,890	286	50,101
Net claims incurred	18,608	309,791	1,562	329,961
Changes in other technical reserves	(546)	1,661	(4)	1,111
Policy acquisition costs	1,311	13,000	1,301	15,612
Other operating expenses	2,449	12,157	236	14,842
Net costs and expenses	21,822	336,609	3,095	361,526
Net results of insurance operations	6,505	64,839	4,431	75,775
General and administrative expenses				(48,826)
Provision for doubtful debts				(5,760)
Investment income				5,968
Other income				2,613
Surplus from insurance operations				29,770
As at 31 December 2016 – audited				
Insurance operations' assets				
Reinsurer's share of unearned premiums	-	-	4,752	4,752
Reinsurer's share of outstanding claims	-	-	6,376	6,376
Deferred policy acquisition costs	674	9,475	441	10,590
Unallocated assets				486,897
Total insurance operations' assets				508,615
Insurance operations' liabilities and surplus				
Unearned premiums	11,665	263,183	6,121	280,969
Outstanding claims	7,636	129,231	10,309	147,176
Unearned commission income	-	-	1,287	1,287
Other technical reserves	533	3,140	22	3,695
Unallocated liabilities and surplus				75,488
Total insurance operations' liabilities and surplus				508,615

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

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

The table below presents the financial instruments at their fair values as at 31 December 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Financial assets</i>				
Financial assets held as FVIS - Insurance Operations	-	354,374	-	354,374
Financial assets held as FVIS - Shareholders' Operations	-	216,980	-	216,980
Balance at the end of the period	<u>-</u>	<u>571,354</u>	<u>-</u>	<u>571,354</u>

The table below presents the financial instruments at their fair values as at 31 December 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Financial assets</i>				
Financial assets held as FVIS - Insurance Operations	-	254,516	-	254,516
Financial assets held as FVIS - Shareholders' Operations	-	145,210	-	145,210
Balance at the end of the year	<u>-</u>	<u>399,726</u>	<u>-</u>	<u>399,726</u>

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

## 13. EARNING PER SHARE

Earning per share for the period has been calculated by dividing the net income for the period by the weighted average number of issued and outstanding shares for the period. Earning per share was restated for the comparative figure due to the new zakat accounting policy that was issued by SAMA. For further details, please refer to the note 14.

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**14. PRIOR PERIOD RESTATEMENT**

Further to the new SAMA's circular (number 381000074519) regarding the accounting policy of Zakat and income tax (Note 2), the below is the restatement impact on the comparative financial statements:

*Financial Position – shareholders' equity as at 31 December 2016 and statement of shareholders' operations for the year ended 31 December 2016*

	<u>Before</u> <u>Adjustment</u> <u>SR'000</u>	<u>Adjustment</u> <u>SR'000</u>	<u>After</u> <u>Adjustment</u> <u>SR'000</u>
Accumulated losses as at 1 January 2016	(78,128)	-	(78,128)
Income before Zakat for the year ended 31 December 2016	30,350	-	30,350
Zakat for the year	(9,046)	9,046*	-
Net Income for the year ended 31 December 2016	21,304	9,046*	30,350
Accumulated losses as at 31 December 2016	(56,824)	-	(56,824)

\*The above mentioned adjustment was carried out to the net income and accumulated losses for the year ended and as of 31 December 2016 as a result of the Zakat restatement from income statement to the statement of shareholders' equity following the new accounting policy of Zakat and Income Tax as disclosed in Note 2 (no effect on the total shareholders' equity as of 31 December 2016).

*Interim Statement of Shareholders' Operations – (for the period ended 31 December 2016)*

	<u>Before</u> <u>Adjustment</u> <u>SR'000</u>	<u>Adjustment</u> <u>SR'000</u>	<u>After</u> <u>Adjustment</u> <u>SR'000</u>
Net Income before Zakat for the period ended 31 December 2016	30,350	-	30,350
Zakat for the period ended 31 December 2016	(9,046)	9,046*	-
Net Income for the period ended 31 December 2016	21,304	9,046*	30,350
Total Comprehensive Income for the period ended 31 December 2016	21,304	9,046*	30,350
Basic and Diluted Earnings per Share for the period	0.85	0.36	1.21

\*The above mentioned adjustment was carried out to the net income / comprehensive income for the period ended 31 December 2016 as a result of the Zakat restatement from income statement to the statement of shareholders' equity following the new accounting policy of Zakat and Income Tax as disclosed in Note 2.

**15. BOARD OF DIRECTORS' APPROVAL**

These interim financial statements have been approved by the Board of Directors on 21 January 2018, corresponding to 04 Jumada Al-Awwal 1439H.