

**The Mediterranean and Gulf Cooperative  
Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)**

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**Financial Statements and Independent Auditors' Report  
For the Year Ended 31 December 2016**

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**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF THE MEDITERRANEAN AND GULF COOPERATIVE  
INSURANCE AND REINSURANCE COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**SCOPE OF AUDIT**

We have audited the accompanying statement of financial position of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (the "Company") as at December 31, 2016 and the related statements of income and comprehensive income/(loss) - insurance operations and accumulated surplus, income and comprehensive income/(loss) - shareholders' operations, statements of changes in shareholders' equity and cash flows for insurance and shareholders' operations for the year then ended and notes 1 to 34 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions of the Regulations for Companies and the Company's By-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**UNQUALIFIED OPINION**

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- comply with the requirements of the Regulation for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

**EMPHASES OF MATTER**

We draw attention to Note 33 of the accompanying financial statements which states that on 30 March 2016, the Saudi Arabian Monetary Authority ("SAMA") issued a letter to the Company that highlighted the deteriorating solvency margin of the Company and the rectification measures to be taken by the Company according to Article 68 of the Insurance Implementing Regulations. The Company was not able to meet the solvency margin requirement by 30 September 2016 as instructed by SAMA and had not submitted the final approved plan as required by the aforesaid letter. On 27 December 2016, SAMA issued another letter binding the Company to provide an approved plan to meet the requirement of solvency margin by 18 January 2017 and take necessary measures to ensure fulfilment of the rights of the policy holders. The detailed plan has subsequently been provided to SAMA after approval by the Company's board of directors. The Company continues to take the necessary actions as advised by SAMA, through implementation of corrective action plan as advised by the consultant and approved by the Company's board of directors, which is expected to gradually improve the Company's financial position and increase the solvency margin.

We also draw attention to Note 2 of the accompanying financial statements which states that during the year ended 31 December 2016, SAMA issued a letter to the Company that highlighted certain weaknesses in claims processing including non-compliance with legal limits for settling claims and required the submission of a detailed report regarding the corrective actions taken or to be taken by the management. SAMA also prohibited the Company from issuing any new motor insurance policies with effect from 29 November 2016. The Company was however allowed to add vehicles to existing insurance policies and renew insurance policies issued prior to 29 November 2016. On 22 January 2017, SAMA issued another letter that highlighted certain additional matters related to claims including ineffectiveness of system used to handle and process claims and certain actions that needed to be taken by the Company. SAMA also instructed the Company to take serious actions and provide a detailed plan with procedures and timeframes approved by the Company's board of directors to address the current situation. The detailed plan was subsequently submitted to SAMA after approval by the Company's board of directors. The Company continues to take the necessary actions and believes that it will be able to resolve the matter in the near future. On 2 March 2017, SAMA permitted the Company to issue new motor insurance policies effective 5 March 2017 and instructed the Company to submit a monthly report for the actions taken in regards to the improvement on the current information technology system and the migration process from old information technology system to the new system.

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia as issued by the Saudi Organization for Certified Public Accountants.

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17 Jumada Al Thani 1438H  
16 March 2017



The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

As At 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016	31 December 2015
<b>INSURANCE OPERATIONS' ASSETS</b>			
Bank balances and cash	7	487,122	595,318
Time deposits	8	225,504	197,790
Policyholders' and reinsurance balances receivable	9	1,248,475	1,688,147
Investments	13 (a)	28,308	60,224
Due from related parties	10	2,065	72,606
Due from shareholders' operations		66,600	157,118
Reinsurers' share of outstanding claims	11 (a)	595,941	671,314
Reinsurers' share of unearned premiums	15	536,383	713,158
Deferred policy acquisition costs	16	141,336	181,807
Prepayments and other assets	14	163,778	54,851
Property and equipment, net	17	51,155	55,219
<b>TOTAL INSURANCE OPERATIONS' ASSETS</b>		<b>3,546,667</b>	<b>4,447,552</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	7	211,677	108,912
Time deposits	8	-	96,052
Interest on statutory deposit	28	11,072	7,757
Investments	13 (b)	146,076	242,014
Prepayments and other assets	14	2,598	1,782
Investment in an associate	12	14,802	12,095
Land		30,000	30,000
Statutory deposit	18	150,000	100,000
Goodwill	19	480,000	480,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>1,046,225</b>	<b>1,078,612</b>
<b>TOTAL ASSETS</b>		<b>4,592,892</b>	<b>5,526,164</b>

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (Continued)

As At 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016	31 December 2015
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
Gross outstanding claims	11 (a)	1,323,956	1,664,788
Due to related parties	10	5,643	40,589
Accounts and commission payable		123,710	211,837
Accrued expenses and other liabilities	20	184,354	156,593
Reinsurance balances payable		86,172	120,216
Surplus distribution payable		111,566	106,591
Unearned reinsurance commission	22	36,584	56,315
Gross unearned premiums	15	1,629,251	2,054,448
Other reserves	11 (b)	45,154	34,350
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES</b>		<b>3,546,390</b>	<b>4,445,727</b>
<b>INSURANCE OPERATIONS' SURPLUS</b>			
Cumulative change in fair values of available for sale investments	13 (a)	277	1,825
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>		<b>3,546,667</b>	<b>4,447,552</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>SHAREHOLDERS' LIABILITIES</b>			
Accrued expenses and other liabilities	20	635	762
Interest payable on statutory deposit	28	11,072	7,757
Provision for zakat and income tax	25	15,398	844
Due to insurance operations		66,600	157,118
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>93,705</b>	<b>166,481</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	26	1,000,000	1,000,000
Statutory reserve	5	146,135	146,135
Accumulated (deficit)		(199,101)	(249,265)
Cumulative change in fair values of available for sale investments	13 (b)	5,486	15,261
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>952,520</b>	<b>912,131</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>1,046,225</b>	<b>1,078,612</b>
<b>TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>4,592,892</b>	<b>5,526,164</b>

The accompanying notes 1 to 34 form an integral part of these financial statements.

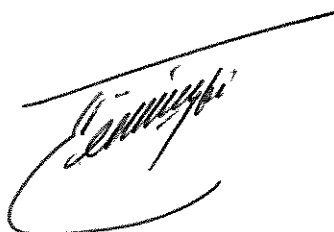
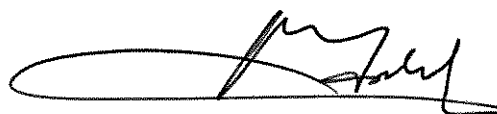
**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company**  
**(A Saudi Joint Stock Company)**

**STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS**

For the Year Ended 31 December 2016

(Amounts in SR'000)

	<i>Notes</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Gross premiums written	15	3,194,334	4,001,934
Less: Reinsurance premiums ceded		(482,785)	(629,566)
Excess of loss premiums		(14,345)	(13,853)
<b>NET PREMIUMS WRITTEN</b>		<b>2,697,204</b>	<b>3,358,515</b>
Change in unearned premiums, net		248,422	108,798
<b>NET PREMIUMS EARNED</b>		<b>2,945,626</b>	<b>3,467,313</b>
Gross claims paid and other expenses	11 (a)	(3,104,021)	(3,557,372)
Reinsurers' share of gross claims paid	11 (a)	384,371	688,741
Change in outstanding claims, net		265,459	(372,853)
Change in other reserves	11 (b)	(10,804)	(27,218)
<b>NET CLAIMS INCURRED</b>	11 (a)	<b>(2,464,995)</b>	<b>(3,268,702)</b>
Policy acquisition costs	16 (a)	(187,685)	(227,317)
Reinsurance commission income	22	85,002	110,880
<b>NET UNDERWRITING RESULT</b>		<b>377,948</b>	<b>82,174</b>
General and administrative expenses	23	(396,805)	(397,469)
Impairment losses on available for sale investments	13 (a)	(725)	-
Special commission income		20,832	5,902
Other income	24	48,497	60,173
<b>INSURANCE OPERATIONS' SURPLUS / (DEFICIT)</b>	3	<b>49,747</b>	<b>(249,220)</b>
Shareholders' appropriation from insurance operations' (surplus) / deficit	3	(44,772)	249,220
<b>Insurance operations' surplus after shareholders' appropriation</b>		<b>4,975</b>	<b>-</b>
Surplus share transferred to policyholders'	3	(4,975)	-
<b>ACCUMULATED SURPLUS AT THE END OF THE YEAR</b>		<b>-</b>	<b>-</b>

The accompanying notes 1 to 34 form an integral part of these financial statements.

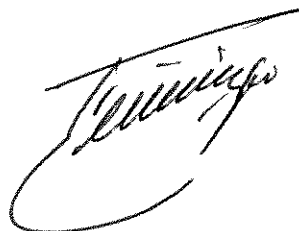
**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)**

**STATEMENT OF INSURANCE OPERATIONS' COMPREHENSIVE INCOME / (LOSS)**

For the Year Ended 31 December 2016

(Amounts in SR'000)

	Note	31 December 2016	31 December 2015
<b>INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION</b>		<b>4,975</b>	<b>-</b>
<b>Other comprehensive income / (loss):</b>			
<b>Items that may not be reclassified to statement of income in subsequent year</b>			
Impairment loss transferred to statement of income	13 (a)	725	-
<b>Items that may be reclassified to statement of income in subsequent year</b>			
<u>Available for sale investments</u>			
Change in fair values	13 (a)	(2,273)	(19)
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>		<b>3,427</b>	<b>(19)</b>




The accompanying notes 1 to 34 form an integral part of these financial statements.

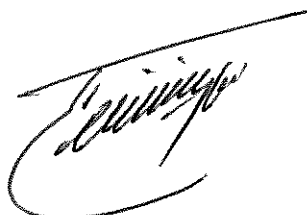
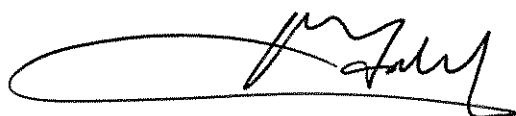
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS

For the Year Ended 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016	31 December 2015
<b>INCOME</b>			
Shareholders' appropriation from insurance operations' surplus / (deficit)	3	44,772	(249,220)
Special commission income		10,304	7,110
Realised gain on sale of available for sale investments	13 (b)	13,735	774
Dividend income on available for sale investments		711	996
Income from investment in an associate		2,707	6,095
Other income		162	-
		<u>72,391</u>	<u>(234,245)</u>
<b>EXPENSES</b>			
General and administrative expenses	23	(4,164)	(10,829)
Impairment losses on available for sale investments	13 (b)	(616)	(16,193)
		<u>(4,780)</u>	<u>(27,022)</u>
<b>NET INCOME / (LOSS) FOR THE YEAR</b>		<u><u>67,611</u></u>	<u><u>(261,267)</u></u>
<b>BASIC AND DILUTED EARNINGS / (LOSSES) PER SHARE</b>	27	<u><u>0.68</u></u>	<u><u>(2.61)</u></u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

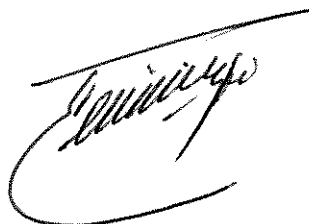
The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME / (LOSS)

For the Year Ended 31 December 2016

(Amounts in SR'000)

	<i>Note</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
<b>NET INCOME / (LOSS) FOR THE YEAR</b>		<b>67,611</b>	<b>(261,267)</b>
<b>Other comprehensive income / (loss):</b>			
<b>Items that may not be reclassified to statement of income in subsequent year</b>			
Zakat and income tax	25 (a)	(17,447)	(7,988)
Impairment loss transferred to statement of income	13 (b)	616	16,193
<b>Items that may be reclassified to statement of income in subsequent year</b>			
<u>Available for sale investments</u>			
Change in fair values		3,344	(10,103)
(Gain) transferred to statement of income	13 (b)	(13,735)	(774)
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>		<b>40,389</b>	<b>(263,939)</b>




The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended 31 December 2016  
(Amounts in SR'000)

	Share capital	Statutory reserve	Accumulated (deficit) / earnings	Cumulative change in fair values of available for sale investments	Total
<b>Balance at 1 January 2016</b>	1,000,000	146,135	(249,265)	15,261	912,131
Total comprehensive income for the year					
Net income for the year	-	-	67,611	-	67,611
Zakat and income tax	-	-	(17,447)	-	(17,447)
Change in fair values	-	-	-	3,344	3,344
Gain transferred to statement of income	-	-	-	(13,735)	(13,735)
shareholders' operations	-	-	-	-	-
Impairment loss transferred to statement of income	-	-	-	616	616
shareholders' operations	-	-	-	-	-
<b>Balance at 31 December 2016</b>	<u>1,000,000</u>	<u>146,135</u>	<u>(199,101)</u>	<u>5,486</u>	<u>952,520</u>
<b>Balance at 1 January 2015</b>	1,000,000	146,135	19,990	9,945	1,176,070
Total comprehensive loss for the year					
Net loss for the year	-	-	(261,267)	-	(261,267)
Zakat and income tax	-	-	(7,988)	-	(7,988)
Change in fair values	-	-	-	(10,103)	(10,103)
Gain transferred to statement of income	-	-	-	(774)	(774)
shareholders' operations	-	-	-	-	-
Impairment loss transferred to statement of income	-	-	-	16,193	16,193
shareholders' operations	-	-	-	-	-
<b>Balance at 31 December 2015</b>	<u>1,000,000</u>	<u>146,135</u>	<u>(249,265)</u>	<u>15,261</u>	<u>912,131</u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

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The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the Year Ended 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016	31 December 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Insurance operations' surplus after shareholders' appropriation		4,975	-
<i>Adjustments to reconcile insurance operations' surplus after shareholders' appropriation to net cash (used in) / from operating activities:</i>			
Shareholders' appropriation from insurance operations' surplus		44,772	-
Depreciation	17	9,471	9,073
Special commission income		(19,149)	(5,892)
Provision for doubtful debts	23	35,000	10,000
Gain on sale of property and equipment, net		(135)	(90)
Realised gain on available for sale investment	13 (a)	(1,683)	(10)
Impairment losses on available for sale investment	13 (a)	725	-
<b>Cash from operations</b>		<b>73,976</b>	<b>13,081</b>
<i>Changes in operating assets and liabilities:</i>			
Gross unearned premiums		(425,197)	(429,291)
Reinsurers' share of unearned premiums		176,775	320,493
Policyholders' and reinsurance balances receivable		404,672	(373,097)
Due from related parties		70,541	1,146
Due to related parties		(34,946)	12,410
Reinsurers' share of outstanding claims		75,373	(19,634)
Deferred policy acquisition costs		40,471	18,679
Prepayments and other assets		(108,927)	(27,640)
Deposit against letters of guarantee		(5,437)	(6,049)
Gross outstanding claims		(340,832)	392,487
Accounts and commissions payable		(88,127)	31,023
Accrued expenses and other liabilities		27,761	78,348
Reinsurance balances payable		(34,044)	36,077
Shareholders' appropriation from insurance operations' surplus		(44,772)	-
Unearned reinsurance commission		(19,731)	(17,143)
Other reserves		10,804	27,218
<b>Net cash (used in) / generated from operating activities</b>		<b>(221,640)</b>	<b>58,108</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Time deposits		(27,714)	29,432
Special commission income		19,149	5,892
Proceeds from sale of available for sale investments	13 (a)	31,326	37,500
Proceeds from sale of property and equipment		163	241
Purchase of property and equipment	17	(5,435)	(12,879)
<b>Net cash generated from investing activities</b>		<b>17,489</b>	<b>60,186</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Due from shareholders' operations, net		90,518	(217,992)
<b>Net cash generated from / (used in) financing activity</b>		<b>90,518</b>	<b>(217,992)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(113,633)</b>	<b>(99,698)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	7	<b>574,244</b>	<b>673,942</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	7	<b>460,611</b>	<b>574,244</b>
<b><u>Non-cash transaction:</u></b>			
Change in fair values of available for sale investments	13 (a)	(1,548)	(19)

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the Year Ended 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016	31 December 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income / (loss) for the year		67,611	(261,267)
<i>Adjustments for:</i>			
Special commission income		(10,304)	(7,110)
Dividend income on available for sale investments		(711)	(996)
Realised gain on sale of available for sale investments	13 (b)	(13,735)	(774)
Income on investment in an associate		(2,707)	(6,095)
Impairment losses on available for sale investment	13 (b)	616	16,193
Cash from / (used in) operations		40,770	(260,049)
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		(816)	(103)
Accrued expenses and other liabilities		3,188	6,127
Zakat and income tax paid	25 (c)	43,142 (2,893)	6,024 (26,651)
<b>Net cash generated from / (used in) operating activities</b>		<b>40,249</b>	<b>(280,676)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Time deposits		96,052	(96,052)
Proceeds from sale of available for sale investments	13 (b)	99,282	18,298
Special commission income		10,304	7,110
Dividend income on available for sale investments		711	996
Increase in statutory deposit		(50,000)	-
Interest on statutory deposit		(3,315)	(375)
<b>Net cash generated from / (used in) investing activities</b>		<b>153,034</b>	<b>(70,023)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Due (from) / to insurance operations, net		(90,518)	217,992
<b>Net cash (used in) / generated from financing activity</b>		<b>(90,518)</b>	<b>217,992</b>
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>102,765</b>	<b>(132,707)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	7	<b>108,912</b>	<b>241,619</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	7	<b>211,677</b>	<b>108,912</b>
<i>Non-cash transactions:</i>			
Change in fair values of available for sale investments	13 (b)	(9,775)	5,316

The accompanying notes 1 to 34 form an integral part of these financial statements.

# The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010231925 dated 8 Rabi Thani 1428H (corresponding to 26 April 2007). The registered office address of the Company is P.O. Box 2302, Riyadh 11451, Kingdom of Saudi Arabia. The objectives of the Company are to transact cooperative insurance and reinsurance business and related activities in the Kingdom of Saudi Arabia. Its principal lines of business include all classes of general insurance. The Company was listed on the Saudi Arabian Stock Exchange (Tadawul) on 28 Rabi Al-Awal 1428H (corresponding to 16 April 2007).

### 2. BASIS OF PREPARATION

#### *Basis of measurement*

The financial statements have been prepared on a historical cost basis except for the measurement at fair value of available for sale investments and investment in an associate which is accounted for under the equity method.

#### *Statement of compliance*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB).

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly. The physical custody 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 other revenue and expenses from joint operations is as determined by the management and Board of Directors.

As indicated in Note 33 to the accompanying financial statements, the Company continues to take the necessary actions as advised by SAMA to comply with the solvency margin. The management of the Company believes that it will be able to comply with the underlying requirements in the near future through implementation of corrective action plan as advised by the consultant and approved by the Company's board of directors. Accordingly, these accompanying financial statements are prepared on a going concern basis (Also see Note 33).

During the year ended 31 December 2016, SAMA issued a letter to the Company that highlighted certain weaknesses in claims processing including non-compliance with legal limits for settling claims and required the submission of a detailed report regarding the corrective actions taken or to be taken by the management. SAMA also prohibited the Company from issuing any new motor insurance policies with effect from 29 November 2016. The Company was however allowed to add vehicles to existing insurance policies and renew insurance policies issued prior to 29 November 2016. On 22 January 2017, SAMA issued another letter that highlighted certain additional matters related to claims including ineffectiveness of system used to handle and process claims and certain actions that needed to be taken by the Company. SAMA also instructed the Company to take serious actions and provide the detailed plan with procedures and timeframes approved by the Company's board of directors to address the current situation. The detailed plan was subsequently submitted to SAMA after approval by the Company's board of directors. The Company continues to take the necessary action and believes that it will be able to resolve the matter in the near future. On 2 March 2017, SAMA permitted the Company to issue new motor insurance policies effective 5 March 2017 and instructed the Company to submit a monthly report for the actions taken in regard to the improvement of the current information technology system and the migration process from old information technology system to the new system.

#### *Functional and presentational currency*

The functional and presentational currency of the Company is Saudi Arabian Riyals. The financial statement are presented in Saudi Riyal rounded to nearest thousand (SAR'000) unless otherwise stated.

# The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

### 3. SURPLUS DISTRIBUTION

The Company is required to distribute 10% of the net surplus from insurance operations to policyholders and the remaining 90% to be allocated to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Authority ("SAMA").

The insurance operations' surplus of the Company for the year ended 31 December 2016 amounted to SR 49,747 thousand (31 December 2015: deficit of SR 249,220 thousand). Accordingly, 90% of insurance operation surplus amounting to SR 44,772 thousand was transferred to the shareholders' operations for the year ended 31 December 2016, leaving a surplus payable to policyholders of SR 4,975 thousand (31 December 2015: no transfer from insurance operations to the shareholders' operations).

### 4. SIGNIFICANT ACCOUNTING POLICIES AND AMENDMENTS TO STANDARDS

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2015 except for the adoption of the following new standards and other amendments to existing standards mentioned below which have had no significant financial impact on the financial statements of the Company on the current year or prior year and is expected to have no significant effect in future periods:

#### *New and amended standards issued and adopted*

- IFRS 14 – "Regulatory Deferral Accounts", applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

#### *Amendments to existing standards*

- Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates", applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- Amendments to IFRS 11 – "Joint Arrangements", applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – "Business Combinations" and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

- Amendments to IAS 1 – "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES AND AMENDMENTS TO STANDARDS (Continued)

*Amendments to existing standards (Continued)*

That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 41 – “Agriculture”, applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – “Accounting for Government Grants and Disclosure of Government Assistance” instead of IAS 41.

- Amendments to IAS 27 – “Separate Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:

-IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations” , amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

-IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

-IAS 19 – “Employee Benefits” - amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

-IAS 34 – “Interim Financial Reporting” - amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

*Standards issued but not yet effective*

The company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards (IFRSs) which have been published and are mandatory for compliance by the Company for the accounting years beginning on or after January 1, 2016. The Company is currently assessing their impact. Following is a brief on the new IFRSs and amendments to IFRSs effective for annual periods beginning on or after January 1, 2016.

-IFRS 9 - Financial instruments (effective on or after January 1, 2018)

-Amendments to IAS 7 - Disclosure Initiative (effective on or after January 1, 2017)

-Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses (effective on or after January 1, 2017)

-Amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions (effective on or after January 1, 2018)

-IFRS 15 – Revenue from contracts with customers (effective on or after January 1, 2018)

-IFRS 16 – Leases (effective on or after January 1, 2019)

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in preparation of these financial statements:

*Cash and cash equivalents*

Cash and cash equivalents comprise of cash in hand and at banks and short-term time deposits with an original maturity of less than three months at the date of acquisition.

*Goodwill*

Goodwill represents the fair value of the consideration paid in excess of the fair value of net assets or liabilities acquired. Goodwill is tested for impairment by management at least once at the end of each financial year. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

*Land, property and equipment*

Land is stated at cost less any impairment and is not depreciated. Property and equipment are measured at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis at the following depreciation rates:

	<u>Rates</u>
Leasehold improvements	15% - 25%
Office equipment, furniture and fixtures	10% - 15%
Computers	25%
Motor vehicles	25%

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

*Investments*

All investments are initially recognised at fair value, being the fair value of the consideration given, including acquisition charges associated with the investment except for investments at fair value through profit or loss. Premiums and discounts are amortized on a systematic basis to their maturity. For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the statement of financial position date without any deduction for transaction costs.

*(a) Available for sale investments*

Investments which are classified as "available for sale" are subsequently measured at fair value. Available for sale investments are those investments that are not held to maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognised directly under insurance operations' surplus and / or shareholders' comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognised under the insurance operations' surplus and / or shareholders' comprehensive income is included in the statement of insurance operations and accumulated surplus and / or shareholders' operations for the year. Available for sale investments whose fair value cannot be reliably measured are carried at amortised cost less impairment provision.

*(b) Investments in held to maturity securities*

Investments which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of income - shareholders' operations when the investment is derecognized or impaired.

The accompanying notes 1 to 34 form an integral part of these financial statements.

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Investments (Continued)***

***(c) Investment in an associate***

Associates are enterprises in which the Company generally holds 20% to 50% of the voting power and / or over which it exercises significant influence. Investments in an associates are carried in the statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

***Statutory reserve***

In accordance with its bylaws, the Company shall allocate 20% of its net income from shareholders' operations each year to the statutory reserve until it has built up a reserve equal to the share capital. The reserve is not available for distribution.

***Impairment and un-collectability of financial assets***

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of shareholders' operations. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between the cost and fair value (fair value being lower than cost), less any impairment loss previously recognized in the statement of shareholders' operations
- For assets carried at cost, impairment is the difference between the cost and the present value (present value being lower than cost) of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is determined based on future cash flows that are discounted at the original effective special commission rate.

***Accrued expenses and other liabilities***

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

***Zakat and income tax***

Zakat and income tax are provided for in accordance with the Saudi Arabian Zakat and Tax Regulations and are charged to the statement of shareholders' comprehensive income.

***Special commission income***

Special commission income from time deposits is recognized on an effective yield basis.

***Dividend income***

Dividend income is recognised when the right to receive dividend is established.

***Provisions***

Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses.

***Trade date accounting***

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

***Employees' end of service benefits***

The Company provides end-of-service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

The accompanying notes 1 to 34 form an integral part of these financial statements.

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The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Foreign currencies*

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange prevailing at the statement of financial position date. All differences are taken to the statements of income - insurance operations and accumulated surplus and shareholders' comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Foreign exchange gains or losses on available for sale investments are recognised in 'insurance operations surplus' in the statement of insurance operations and other comprehensive income under the statement of shareholders' comprehensive operations. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

*Offsetting financial assets and liabilities*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the statement of shareholders' operations unless required or permitted by any accounting standard or interpretation.

*Premiums earned and commission income*

Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. For engineering construction projects with policy terms in excess of one year, the premium are taken into income linearly over the policy term. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

The underwriting results represents premiums earned and fee and commission income less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts subject to reinsurance, less provision for any anticipated future losses on continuing policies.

Commission receivable on reinsurance contracts are deferred and amortised on a straight-line basis over the term of the reinsurance contracts.

Retained premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:

- Actual number of days for all lines of business, except
- For engineering construction projects with policy terms in excess of one year, it is assumed that the risk is increasing linearly over the policy term.
- Last three month of premiums for marine cargo business

*Premiums receivable*

Premiums receivable are recognized when due and are measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of insurance operations and accumulated surplus. Premiums receivable are derecognized when the de-recognition criteria for financial assets have been met.

*Claims*

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and are charged to statement of income - insurance operations and accumulated surplus / (deficit) as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the date of statement of financial position, whether reported or not. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at date of statement of financial position. The ultimate liability may be in excess of or less than the amount provided.

The accompanying notes 1 to 34 form an integral part of these financial statements.

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**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Claims (continued)***

Any difference between the provisions at the date of statement of financial position and settlements and provisions in the following year is included in the underwriting account for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

***Liability adequacy test***

At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of income - insurance operations and accumulated surplus and an unexpired risk provision is created.

***Deferred policy acquisition costs***

Commissions, SAMA fees, CCHI fees, TPA fees, partial administration cost (related to underwriting and issue of policy), and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognised as an expense when incurred. Amortization is recorded in the statement of income - insurance operations and accumulated surplus.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.

***Reinsurance***

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income - insurance operations and accumulated surplus.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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The accompanying notes 1 to 34 form an integral part of these financial statements.

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Unearned reinsurance commission***

Commission receivable on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate. Amortisation is recorded in the statement of income - insurance operations and accumulated surplus.

***Product classification***

The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

***Derecognition of financial instruments***

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

***Fair values***

The fair value of financial assets are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flow using commission for items with similar terms and risk characteristics.

For financial assets where there is no active market, fair value is determined by reference to the market value of a similar financial assets or where the fair values cannot be derived from active market, they are determined using a variety of valuation techniques that includes the use of mathematical models. The inputs of this models is taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

***Segmental reporting***

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on their products and services and has three reportable operating segments as follows:

- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies.
- Motor Insurance, which provides coverage against losses and liability related to motor vehicles.
- Other classes, which covers any other classes of insurance not included above.

Shareholders' operations' is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

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

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between operating 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 operating segments which will then be eliminated at the level of financial statements of the Company.

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The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

**6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

*The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on quarterly basis.

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers

*Impairment losses on receivables*

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms.

*Deferred policy acquisition costs*

Certain acquisition costs related to the sale of new policies are recorded as deferred policy acquisition costs and are amortized in the statement of insurance income - operations and accumulated surplus / deficit over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income - insurance operations and accumulated surplus.

*Goodwill*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows.

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

*Critical accounting judgments, estimates and assumptions*

The preparation of financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure at the date of the financial statements and the reported amounts of revenues and expenses for the reporting year. Although these estimates and judgments are based on management's best knowledge of the current events and actions but the actual results may ultimately differ from these estimates.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities for the current year and could also have an impact on the subsequent financial year. Such estimates and judgments are constantly assessed based on historical experience and other factors such as expectations of future events that are believed to be reasonable under the current circumstances.

**Estimation of insurance contracts reserves:**

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

*(i) Incurred but not reported claims (IBNR)*

As a first step towards setting appropriate IBNR reserves for the medical and motor line of businesses, a runoff analysis is prepared to assess how the claims reserves determined at the previous valuation dates compare with actual developments.

Results from runoff analysis are taken into consideration while setting reserves for IBNR claims. An analysis is carried out by using the following methods:

- Chain Ladder method - this builds up, using historical claims payment patterns, ratios of eventual cumulative claims which have been incurred in a particular period to those which have been paid as at the end of a reporting period.
- Bornhuetter Ferguson method – this is a technique that combines actual past claims experience and any prior information or expectations that might be available concerning claims, for example expected ultimate loss ratios.
- Expected Loss Ratio method – this technique determines the projected amount of claims relative to earned premiums. The method is used where the insurer lacks the appropriate past claim occurrence data because of changes in product offerings, change in claims settlement processes, etc.

*(ii) Premium deficiency reserve*

Estimation of the premium deficiency for medical and motor 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 looks at the claims and premiums relationship which is expected to realize in the future.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

7. BANK BALANCES AND CASH

	2016		2015	
	SR'000	SR'000	SR'000	SR'000
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
Cash in hand and at banks	31,535	24,739	231,194	2,122
Short-term time deposits	429,076	186,938	343,050	106,790
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>460,611</b>	<b>211,677</b>	<b>574,244</b>	<b>108,912</b>
Deposits against letters of guarantee	26,511	-	21,074	-
	<b>487,122</b>	<b>211,677</b>	<b>595,318</b>	<b>108,912</b>

Cash at banks and short-term time deposits are placed with counterparties who have credit ratings equivalent to A+ to BBB ratings under Standard and Poor's, Fitch and Moody's ratings methodology.

Short-term time deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 3.25% per annum (2015: 1.95% per annum). The carrying amounts disclosed above reasonably approximate the fair value at the statement of financial position date.

Deposits against letters of guarantee comprise amounts placed with a local bank against issuance of payment guarantees in favour of the Company's customers and service providers (also see note 30). As deposits against letters of guarantee cannot be withdrawn before the end of guarantee and are restricted in nature.

8. TIME DEPOSITS

Time deposits are placed with counterparties that have credit ratings equivalent to BBB+ to BBB ratings under Standard and Poor's, Fitch and Moody's ratings methodology.

Time deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with a maturity of more than three months from the date of original acquisition and earned special commission income at an average rate of 3.15% per annum (2015: 1.38% per annum).

The carrying amounts of the time deposits reasonably approximate the fair value at the statement of financial position date.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

9. POLICYHOLDERS' AND REINSURANCE BALANCES RECEIVABLE

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Policyholders' balances receivable	1,099,022	1,291,600
Less: Provision for doubtful debts	(182,862)	(147,862)
	<u>916,160</u>	<u>1,143,738</u>
Reinsurance balances receivable	335,954	548,048
Less: Provision for doubtful debts	(3,639)	(3,639)
	<u>332,315</u>	<u>544,409</u>
<b>Total policyholders' and reinsurance balances receivable</b>	<u><u>1,248,475</u></u>	<u><u>1,688,147</u></u>

As at December 31, 2016, the movement in the provision for doubtful debts of premium receivables was as follows:

	<u>Note</u>	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Balance, January 1		147,862	136,570
Provision for the year	23	35,000	11,292
Balance, December 31		<u><u>182,862</u></u>	<u><u>147,862</u></u>

As at December 31, 2016, the movement in the provision for doubtful debts of reinsurance receivables was as follows:

	<u>Note</u>	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
Balance, January 1		3,639	4,931
Reversal for the year	23	-	(1,292)
Balance, December 31		<u><u>3,639</u></u>	<u><u>3,639</u></u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

9. PREMIUMS AND REINSURANCE BALANCES RECEIVABLE (Continued)

The aging analysis of gross premiums and reinsurance balances receivable is as at 31 December 2016 and 2015 is set as below:

	<i>Total SR'000</i>	<i>Neither past due nor impaired SR'000</i>	<i>Past due but not impaired</i>			<i>Past due and impaired SR'000</i>
			<i>Less than 30 day SR'000</i>	<i>31 to 90 days SR'000</i>	<i>More than 90 days SR'000</i>	
2016	1,434,976	399,128	209,894	343,378	296,075	186,501
2015	1,839,648	505,873	179,183	375,483	627,608	151,501

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies mainly in Europe. Premiums and reinsurance balances receivable include SR 37,156 thousand (31 December 2015: SR 148,994 thousand) due in foreign currencies, mainly in US Dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. The five largest customers accounts for 43% (31 December 2015: 42%) of the premiums receivable as at 31 December 2016. Further, total receivable from government entities amount to SR 332,602 thousand (31 December 2015: SR 286,534 thousand) constituting 30% (31 December 2015: 23%) of total premium receivable.

Unimpaired premiums and reinsurance balances receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured. The Company does not have an internal credit ratings assessment process and accordingly, amounts which are neither past due nor impaired, in respect of premiums receivable balances, are from individuals and unrated corporates. Balances due from reinsurers are with counterparties who have investment grade credit ratings issued by external rating agencies.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

(a) The following are the details of major related party transactions during the year and their balances at the end of the year:

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
<b>Due from related parties</b>					
Medgulf BSC - Head office account (parent company)	-Claims recoveries on behalf of parent company	2,065	-	-	-
	-Payment received during the year	23,879	-	-	-
	-Balance due from at year end	-	-	2,065	23,879
Medgulf BSC - Operation account (parent company)	-Reinsurance recoveries on behalf of parent company	-	4	-	-
	-Settlement on behalf of parent company (run off)	-	95	-	-
	-Payment received during the year	24,206	-	-	-
	-Balance due from at year end	-	-	-	24,206
	-Payment received during the year	58	-	-	-
Medgulf Egypt (fellow subsidiary)	-Balance due from at year end	-	-	-	58
	-Payment received during the year	25	-	-	-
Medgulf Jordan (fellow subsidiary)	-Balance due from at year end	-	-	-	25
	-Payment received during the year	10,924	-	-	-
Motion al-Saudia (fellow subsidiary) (in liquidation)	-Balance due from at year end	-	-	-	10,924

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		31 December	31 December	31 December	31 December
		2016	2015	2016	2015
		SR'000	SR'000	SR'000	SR'000
<b>Due from related parties (continued)</b>					
Addison Bradley Arabia- KSA – (fellow subsidiary)	-Payment received during the year	13,066	-	-	-
	-Balance due from at year end	-	-	-	13,066
Al Samiya Trading Co (fellow subsidiary)	-Payment received during the year	448	-	-	-
	-Gross written premium	-	20	-	-
	-Balance due from at year end	-	-	-	448
Medgulf Lebanon (fellow subsidiary)	-Claims paid by fellow subsidiary on behalf of Medgulf KSA	-	1,075	-	-
				2,065	72,606
<b>Due to related parties</b>					
Medivisa KSA (fellow subsidiary)	-Insurance premium for employees of fellow subsidiary	3,894	3,392	-	-
	-Third party administration fees	77,061	98,500	-	-
	-Payment medical claim	-	1,746	-	-
	-Claim incurred	66	164	-	-
	-Payment received	43	80	-	-
	-Premium refundable	367	264	-	-
	-Payment on third party administration fees	68,000	84,737	-	-
	-5% Service fees paid on behalf on Medgulf KSA (Jordan)	-	84	-	-
	-Amount set off in favour of Medgulf BSC	40,589	-	-	-
	-Balance due to at year end	-	-	5,643	40,589
				5,643	40,589

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
The Saudi Investment Bank, (Founding shareholders)	-Current account and time deposits	20,297	9,350	20,820	523
	-Statutory deposit (refer note 10.a (i))	53,315	375	161,072	107,757
	-Gross written premiums	2,965	4,363	-	-
	-Premiums refundable	-	-	(1,013)	(664)
	-Claims incurred	928	1,599	-	-
	-Outstanding claims	-	-	(597)	(361)
	-Discretionary portfolio arrangement (refer 10.a (ii))	463	28	55,626	55,163
Al Istithmar Capital (subsidiary of SIB-founding shareholders)	-GCC Equity Fund	-	1,133	-	9,272
	-Gross Written Premium / (refund)	(24)	228	-	-
	-Premiums refundable	-	-	(38)	(14)
	-Gross Written Premium	76,102	-	-	-
	-Premiums receivable	-	-	19,408	-
Saudi Ground Services (Under common directorship) Note 10.a(iv)	-Claims incurred	21,057	-	-	-
	-Outstanding claims	-	-	(1)	-
	-Current account and time deposits	-	19	-	-
Banque de Credit National (Common ownership and directors)	-Gross written premiums	-	506	-	-
	-Claims incurred	-	189	-	-
	-Premiums receivable	-	-	-	2
Creative Solutions Restaurants Co. (Under common directorship) note 10.a(iii)	-Medical claim	137	107	-	-
	-Payment on account	135	114	-	-
	-Balance due to at year end	-	-	(8)	(9)
Sanaya Dental Care (Under common directorship)	-Payment to fellow subsidiary	-	177	-	-

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
Medivisa KSA (fellow subsidiary)	-Medical claim Jordan / balance	1,168	2,246	1,327	159
	-Medical claim Lebanon / balance	365	4,351	365	-
	-Medical claim Egypt / balance	58	328	77	19
	-Payment to Medivisa KSA	-	278	-	-
	-Investment in Sukuk/ repayment	-	7,500	-	-
Saudi Orix (Shareholders of the parent company)	-Income on Sukuk	-	185	-	-
	-Gross written premiums	27,788	30,644	-	-
	-Premiums receivable	-	-	1,313	1,925
	-Claims incurred	19,659	22,777	-	-
	-Outstanding claims	-	-	(56)	(220)
	-Gross written premiums	16,680	13,974	-	-
	-Premiums receivable	-	-	188	1,126
Safari Group of companies (common Directorship)	-Claims incurred	15,030	12,842	-	-
	-Claims payable	-	-	(20)	(785)
	-Gross written premiums	25	49	-	-
Khalid A. Al Shathry Construction Co. (Under common directorship)	-Premiums receivable	-	-	143	119
	-Claims incurred	56	48	-	-
	- Outstanding claims	-	-	1	-
	-Gross written premiums	7	51	-	-
Khalid A. Al Shathry- board member (individual motor policies)	-Premiums receivables	-	-	522	831
	-Claims incurred	14	43	-	-
	-Outstanding claims / (recovery)	-	-	10	(11)
	-Gross written premiums	-	152	-	-
Al Jasamah establishment (Under common directorship) note 10.a(iii)	-Premiums receivables	-	-	-	4
	-Claims incurred	-	409	-	-
	-Outstanding claims	-	-	-	(8)

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
Medgulf BSC (parent company)	-Claim recoveries	26,949	268,728	-	-
	-Reinsurance premium ceded	-	3,610	-	-
	-Payment received during the year	126,586	-	-	-
	-Reinsurance Commission income	-	361	-	-
	-Amount set off from Medivisa KSA balance	40,589	-	-	-
	-Balance Receivable at the end of the year	-	-	165,666	305,892
	-Reinsurance premiums ceded	-	61	-	-
Addison Bradley Overseas (fellow subsidiary)	-Reinsurance claim recoveries	-	15,227	-	-
	-Payment received	54,527	14,000	-	-
	-Balance at the end of year	-	-	-	54,527
	-Reinsurance claim recoveries payable	-	2	-	(2,692)
Addison Bradley Arabia Holding LLC (UAE) (fellow subsidiary)	-Commission cancellation	-	10	-	-
	-Payment made during the year	2,692	-	-	-
	-Payment received during the year	31	-	-	-
SIB LLC (UAE) (fellow subsidiary)	-Balance due to at year end	-	-	-	(31)
	-Reinsurance receivable	-	-	-	3,164
Addison Bradley Arabia-KSA (fellow subsidiary)	-Premiums receivable	-	-	-	1,406
	-Payment received during the year	4,570	-	-	-

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
Addison Bradley Arabia- KSA – reinsurance broker (fellow subsidiary)	-Reinsurance premiums ceded	-	6	-	-
	-Reinsurance claim recoveries	-	3,888	-	-
	-Direct payment to reinsurer	-	1,920	-	-
	-Collection from recoveries	-	6,149	-	-
Addison Bradley Arabia- KSA – Brokerage commission (fellow subsidiary)	-Brokerage commission	-	20	-	-
Emad J. Baban (individual motor policies of Director) note 10.a(iii)	-Gross written premiums	-	19	-	-
	-Claims incurred	-	33	-	-
Saleh Al-Sagri (individual motor policies of Director)	-Gross written premiums	64	148	-	-
	-Premiums refundable	-	-	-	(8)
	-Claims incurred	2	25	-	-
Lutfi Fadel El Zein - board member	-Gross written premiums	87	-	-	-

10.a(i) Statutory deposit has been placed with the Saudi Investment Bank at the commission rate of 0.7% per annum (31 December 2015: 0.7% per annum).

10.a(ii) Discretionary portfolio management agreement (DPM) was signed on February 11, 2011 and includes a mix of equity and debt investments.

10.a(iii) Creative solution restaurants Co., Al Jasamah establishment and Emad J. Baban are not a related party for the current year. The transactions and balances are presented for comparison only.

10.a(iv) During the year a transaction has entered with Saudi Ground Service (under common directorship) for which the approval has been taken in extraordinary general assembly meeting held on October 16, 2016.

**Compensation of key management personnel**

10.b The remuneration of the Board of Directors and other key management personnel during the year is as follows:

	2016 SR'000	2015 SR'000
Short term benefits	16,577	23,903
End of service benefits	1,089	2,446
	<u>17,666</u>	<u>26,349</u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

11. CLAIMS

a) Outstanding Claims, IBNR and Other Reserves

	2016			2015		
	Gross SR'000	Reinsurers' share SR'000	Net SR'000	Gross SR'000	Reinsurers' share SR'000	Net SR'000
Outstanding at end of the year	608,009	(441,296)	166,713	859,765	(519,205)	340,560
Incurred but not reported	715,947	(154,645)	561,302	805,023	(152,109)	652,914
Other reserves (note 11b)	1,323,956	(595,941)	728,015	1,664,788	(671,314)	993,474
	45,154	-	45,154	34,350	-	34,350
	1,369,110	(595,941)	773,169	1,699,138	(671,314)	1,027,824
Claims paid during the year	3,104,021	(384,371)	2,719,650	3,557,372	(688,741)	2,868,631
Outstanding at beginning of the year	859,765	(519,205)	340,560	790,269	(515,993)	274,276
Incurred but not reported	805,023	(152,109)	652,914	482,032	(135,687)	346,345
Other reserves (note 11b)	34,350	-	34,350	7,132	-	7,132
	1,699,138	(671,314)	1,027,824	1,279,433	(651,680)	627,753
Claims incurred	2,773,993	(308,998)	2,464,995	3,977,077	(708,375)	3,268,702

b) Other Reserves

	2016 SR'000	2015 SR'000
Premium Deficiency Reserve (PDR)	17,527	24,265
Others	27,627	10,085
Other reserves at end of the year	45,154	34,350

c) Claims Triangulation Analysis by Accident Year

The Company maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

11. CLAIMS (Continued)

c) Claims Triangulation Analysis by Accident Year (Continued)

Claims triangulation analysis is by accident years spanning a number of financial years.

i) On Gross Basis

<i>Accident Year</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>TOTAL</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
At the end of accident year	1,148,965	1,525,392	1,759,169	2,030,375	2,865,129	3,196,139	3,553,993	2,821,668	
One year later	1,166,831	1,538,465	1,887,696	2,355,342	3,006,147	3,446,409	3,403,193		
Two years later	1,165,977	1,509,521	1,967,919	2,319,794	3,056,802	3,430,507			
Three years later	1,145,562	1,537,038	1,950,795	2,321,681	3,082,282				
Four years later	1,281,007	1,537,201	1,948,513	2,323,884					
Five years later	1,257,000	1,543,934	1,945,686						
Six years later	1,238,429	1,544,369							
Seven years later	1,238,219								
Ultimate paid claims (estimated)	1,238,219	1,544,369	1,945,686	2,323,884	3,082,282	3,430,507	3,403,193	2,821,668	19,789,808
Cumulative paid claims	1,233,233	1,525,655	1,935,256	2,297,400	2,918,837	3,343,372	3,230,990	1,981,109	18,465,852
Outstanding claims + IBNR	4,986	18,714	10,430	26,484	163,445	87,135	172,203	840,559	1,323,956

\*Other reserves amounting to SR 45,154 thousand are not included in the claims triangulation.

ii) On net Basis (net of reinsurance)

<i>Accident Year</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>TOTAL</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
At the end of accident year	607,986	872,155	1,032,598	1,118,998	1,437,617	2,459,548	2,884,490	2,518,555	
One year later	962,313	1,230,576	1,472,573	1,767,465	2,299,916	2,657,710	2,749,239		
Two years later	976,888	1,253,029	1,500,727	1,790,733	2,337,043	2,637,623			
Three years later	979,244	1,256,681	1,505,277	1,797,190	2,343,241				
Four years later	980,249	1,258,037	1,505,267	1,796,803					
Five years later	980,674	1,265,891	1,508,041						
Six years later	980,908	1,265,159							
Seven years later	980,888								
Ultimate paid claims (estimated)	980,888	1,265,159	1,508,041	1,796,803	2,343,241	2,637,623	2,749,239	2,518,555	15,799,549
Cumulative paid claims	980,167	1,265,527	1,507,236	1,795,712	2,337,348	2,620,345	2,682,080	1,883,119	15,071,534
Outstanding claims + IBNR	721	(368)	805	1,091	5,893	17,278	67,159	635,436	728,015

\*Other reserves amounting to SR 45,154 thousand are not included in the claims triangulation.

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

**12. INVESTMENT IN AN ASSOCIATE**

Investment in an associate comprises of an equity investment in Al-Waseel for Electronic Transportation amounting to SR 14,802 thousand (a 25% equity interest) (31 December 2015: SR 12,095 thousand), in an unquoted company (the "associate"), registered in the Kingdom of Saudi Arabia.

**13. INVESTMENTS**

Investments are classified as set out below:

*(a) Insurance Operations - Available for sale investments*

	2016		
	Quoted SR'000	Unquoted SR'000	Total SR'000
Mutual funds	3,308	-	3,308
Sukuk	-	25,000	25,000
	<u>3,308</u>	<u>25,000</u>	<u>28,308</u>
	2015		
	Quoted SR'000	Unquoted SR'000	Total SR'000
Mutual funds	33,070	-	33,070
Sukuk	-	25,000	25,000
Equities	2,154	-	2,154
	<u>35,224</u>	<u>25,000</u>	<u>60,224</u>

The available for sale investments comprise mutual funds, sukuk and equities issued by corporate and financial institutions in the Kingdom of Saudi Arabia.

The cumulative change in fair values of available for sale investments for insurance operations amounting to SR 277 thousand (31 December 2015: SR 1,825 thousand) is presented within insurance operations' surplus' in the statement of financial position.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**13. INVESTMENTS (Continued)**

**(a) Insurance Operations - Available for sale investments (Continued)**

The movements during the year in available for sale investments for insurance's operations were as follows:

	<i>2016</i> <i>SR'000</i>	<i>2015</i> <i>SR'000</i>
At the beginning of the year	60,224	97,733
Purchase during the year	-	-
Sold during the year	(31,326)	(37,500)
	<b>28,898</b>	<b>60,233</b>
Realised gain*	1,683	10
Impairment loss	(725)	-
Net change in fair values	(1,548)	(19)
At the end of the year	<b>28,308</b>	<b>60,224</b>

\*The realised gain is transferred to statement of income under special commission income.

**(b) Shareholders' Operations - Available for sale investments**

	<i>2016</i>		
	<i>Quoted</i> <i>SR'000</i>	<i>Unquoted</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
Mutual funds	55,626	-	55,626
Bonds	28,753	18,774	47,527
Sukuk	-	41,000	41,000
Equities	-	1,923	1,923
Total	<b>84,379</b>	<b>61,697</b>	<b>146,076</b>
	<i>2015</i>		
	<i>Quoted</i> <i>SR'000</i>	<i>Unquoted</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
Mutual funds	74,843	-	74,843
Bonds	77,319	18,820	96,139
Sukuk	10,064	40,996	51,060
Equities	19,972	-	19,972
Total	<b>182,198</b>	<b>59,816</b>	<b>242,014</b>

The available for sale investments comprise of mutual funds, bonds, sukuk and equities issued by corporate and financial institutions in the Kingdom of Saudi Arabia.

The cumulative change in fair values of available for sale investments for shareholders' operations amounting to SR 5,486 thousand (31 December 2015: SR 15,261 thousand) is presented within shareholders' equity in the statement of financial position.

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

13. INVESTMENTS (Continued)

(b) Shareholders' Operations - Available for sale investments (Continued)

The movements during the year in available for sale investments for shareholders' operations were as follows:

	2016 SR'000	2015 SR'000
At the beginning of the year	242,014	270,415
Purchased during the year	-	-
Sold during the year	(99,282)	(18,298)
	142,732	252,117
Realised gain	13,735	774
Impairment loss	(616)	(16,193)
Net change in fair values	(9,775)	5,316
At the end of the year	146,076	242,014

(c) Insurance and Shareholders' Operations - Available for sale investments

i. The analysis of investments of insurance and shareholders' operations by counterparties is as follows:

	2016 SR'000	2015 SR'000
Government and quasi government	20,000	68,464
Banks and other financial institutions	152,461	208,478
Corporates	1,923	25,296
Total	174,384	302,238

ii. The credit quality of investment portfolio is as follows:

	2016 SR'000	2015 SR'000
AA- To AAA	38,755	87,321
A- To A+	114,932	166,129
B- To B+	-	992
NA	20,697	47,796
Total	174,384	302,238

Credit ratings are based on Standard and Poor, Fitch and Moody's rating methodology or the issuer, noting that "NA" represents the sum of the investments which are not rated.

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The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

13. INVESTMENTS (Continued)

(C) Insurance and Shareholders' Operations - Available for sale investments (Continued)

iii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair values of recognised financial instruments are not significantly different from the carrying values included in the financial statements. The estimated fair values of financial instruments are based on quoted market prices, when available. There are no transfers made during the year between the levels in the fair value hierarchy. The fair values of these investments are disclosed below.

*Determination of fair value and fair value hierarchy*

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

- Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.
- Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data. Level 2 consists of bonds and sukuk, the value of these are based on discounted cash flow technique.
- Level 3: valuation techniques for which any significant input is not based on observable market data.

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

1. Insurance operations – Fair Value

	2016			
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<i>Available for sale investments</i>				
Mutual funds	3,308	-	-	3,308
Sukuk	-	25,000	-	25,000
<i>Total available for sale investments</i>	<u>3,308</u>	<u>25,000</u>	<u>-</u>	<u>28,308</u>
	2015			
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<i>Available for sale investments</i>				
Mutual funds	33,070	-	-	33,070
Sukuk	-	25,000	-	25,000
Equities	2,154	-	-	2,154
<i>Total available for sale investments</i>	<u>35,224</u>	<u>25,000</u>	<u>-</u>	<u>60,224</u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

13. INVESTMENTS (Continued)

(C) Insurance and Shareholders' Operations - Available for sale investments (Continued)

iii. Fair value (Continued)

2. Shareholders' operations –Fair value

	2016			
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<i>Available for sale investments</i>				
Mutual funds	55,626	-	-	55,626
Bonds	9,998	37,529	-	47,527
Sukuk	-	41,000	-	41,000
Equities	-	-	1,923	1,923
<i>Total available for sale investments</i>	<u>65,624</u>	<u>78,529</u>	<u>1,923</u>	<u>146,076</u>
	2015			
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
<i>Available for sale investments</i>				
Mutual funds	74,843	-	-	74,843
Bonds	9,998	86,141	-	96,139
Sukuk	10,064	40,996	-	51,060
Equities	18,049	-	1,923	19,972
<i>Total available for sale investments</i>	<u>112,954</u>	<u>127,137</u>	<u>1,923</u>	<u>242,014</u>

14. PREPAYMENTS AND OTHER ASSETS

	2016		2015	
	Insurance Operations SR'000	Shareholders' Operations SR'000	Insurance Operations SR'000	Shareholders' Operations SR'000
Advances to employees	7,738	-	8,760	-
Prepaid expenses	1,103	-	2,103	-
Prepayment on hospital dues	139,520	-	31,169	-
Advances to suppliers	4,363	-	4,520	-
Prepaid rent	3,984	-	3,783	-
Accrued special commission income	5,174	2,455	1,286	1,782
Others	1,896	143	3,230	-
	<u>163,778</u>	<u>2,598</u>	<u>54,851</u>	<u>1,782</u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

15. MOVEMENT IN UNEARNED PREMIUMS

	2016			2015		
	<i>Gross SR'000</i>	<i>Reinsurers' share SR'000</i>	<i>Net SR'000</i>	<i>Gross SR'000</i>	<i>Reinsurers' share SR'000</i>	<i>Net SR'000</i>
At the beginning of the year	2,054,448	(713,158)	1,341,290	2,483,739	(1,033,651)	1,450,088
Premiums written during the year	3,194,334	(497,130)	2,697,204	4,001,934	(643,419)	3,358,515
Premiums earned during the year	(3,619,531)	673,905	(2,945,626)	(4,431,225)	963,912	(3,467,313)
At the end of the year	<u>1,629,251</u>	<u>(536,383)</u>	<u>1,092,868</u>	<u>2,054,448</u>	<u>(713,158)</u>	<u>1,341,290</u>

16. DEFERRED POLICY ACQUISITION COSTS

(a) The movements during the year for commissions' incurred for operations are as follows:

	<i>2016 SR'000</i>	<i>2015 SR'000</i>
At the beginning of the year	100,599	101,653
Costs incurred during the year	160,012	226,263
Amortised during the year	(187,685)	(227,317)
At the end of the year	<u>72,926</u>	<u>100,599</u>

(b) The movements during the year for deferral of SAMA fees, CCHI fees, TPA fees and certain administration cost are as follows:

	<i>2016 SR'000</i>	<i>2015 SR'000</i>
At the beginning of the year	81,208	98,833
Costs incurred during the year	114,606	147,064
Amortised during the year	(127,404)	(164,689)
At the end of the year	<u>68,410</u>	<u>81,208</u>
Total deferred acquisition cost at end of the year	<u>141,336</u>	<u>181,807</u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

17. PROPERTY AND EQUIPMENT, NET

	<i>Leasehold improvements SR'000</i>	<i>Office equipment, furniture and fixtures SR'000</i>	<i>Computers SR'000</i>	<i>Motor vehicles SR'000</i>	<i>Total SR'000</i>
<b>Cost:</b>					
1 January 2015	31,733	23,896	40,993	4,014	100,636
Additions	3,103	6,517	2,879	380	12,879
Disposals	(25)	(1,253)	(201)	(341)	(1,820)
31 December 2015	34,811	29,160	43,671	4,053	111,695
Additions	266	1,575	3,092	502	5,435
Disposals	-	(1)	-	(351)	(352)
31 December 2016	35,077	30,734	46,763	4,204	116,778
<b>Accumulated depreciation:</b>					
1 January 2015	22,340	10,892	12,770	3,070	49,072
Provided during the year	2,426	3,591	2,458	598	9,073
Disposals	(19)	(1,114)	(195)	(341)	(1,669)
31 December 2015	24,747	13,369	15,033	3,327	56,476
Provided during the year	2,610	3,967	2,466	428	9,471
Disposals	-	(1)	-	(323)	(324)
31 December 2016	27,357	17,335	17,499	3,432	65,623
<b>Net book value:</b>					
31 December 2016	7,720	13,399	29,264	772	51,155
31 December 2015	10,064	15,791	28,638	726	55,219

18. STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. Further, SAMA has increased the statutory deposit by 5% and accordingly the Company has transferred the same to arrive at 15% statutory deposit (also see note 32). This statutory deposit cannot be withdrawn without the consent of the Saudi Arabian Monetary Agency ("SAMA").

19. GOODWILL

The Company commenced its insurance operations on 1 January 2009. In 2009, the Company entered into an agreement ("the agreement") for the purchase of insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of the Mediterranean and Gulf Insurance and Reinsurance Company (MEDGULF) B.S.C. (closed). The Company held an ordinary general assembly meeting on 22 December 2008 and approved the purchase of the insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of the Mediterranean and Gulf Insurance and Reinsurance Company (MEDGULF) B.S.C. (closed) effective 1 January 2009. This acquisition resulted in goodwill of SR 480,000 thousand.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. Recoverable amount was determined on the basis of fair value less cost to sell.

The accompanying notes 1 to 34 form an integral part of these financial statements.

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**19. GOODWILL (Continued)**

The Fair Value less cost to sell ("FVLCTS") is used to conclude on the impairment assessment. The valuation result has determined that the recoverable amount of goodwill is higher than its carrying amount.

Fair Value analysis is based on the "Market Approach" where trading activity of Medgulf's stock and the capitalisation of earnings using value metrics of broadly comparable listed companies and Mergers and Acquisitions transaction multiples were considered up to the valuation date.

As per management's assessment, the Company's track record supports the assumptions used in the impairment testing.

The life span of goodwill is not definite as it is an unidentifiable intangible asset and cannot exist independently of the business, nor can it be sold, purchased or transferred separately without carrying out the transaction for the business as a whole.

**20. ACCRUED EXPENSES AND OTHER LIABILITIES**

	Note	2016		2015	
		Insurance Operations SR'000	Shareholders Operations SR'000	Insurance Operations SR'000	Shareholders Operations SR'000
Employees' end of service benefits	21	26,047	-	23,729	-
Accrued CCHI fees		4,237	-	28,115	-
Payable to suppliers		136,318	-	86,516	-
Accrued expenses		17,531	635	17,916	762
Other payables		221	-	317	-
		<b>184,354</b>	<b>635</b>	<b>156,593</b>	<b>762</b>

**21. EMPLOYEES' END OF SERVICE BENEFITS**

	Note	2016 SR'000	2015 SR'000
At the beginning of the year		23,729	36,945
Charged during the year	23	12,338	1,116
Paid during the year		(10,020)	(14,332)
At the end of the year	20	<b>26,047</b>	<b>23,729</b>

**22. UNEARNED REINSURANCE COMMISSION**

	2016 SR'000	2015 SR'000
At the beginning of the year	56,315	73,458
Commission received during the year	65,271	93,737
Commission earned during the year	(85,002)	(110,880)
At the end of the year	<b>36,584</b>	<b>56,315</b>

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2016		2015	
		Insurance Operations SR'000	Shareholders' Operations SR'000	Insurance Operations SR'000	Shareholders' Operations SR'000
Employee salaries and costs		157,786	-	183,300	-
Supervision and inspection fees - CCHI		22,885	-	30,597	-
Rental		22,831	-	29,029	-
Supervision and inspection fees - SAMA		18,092	-	22,155	-
Professional fees		15,618	494	20,646	507
Depreciation		9,471	-	9,073	-
Employees' end of service benefits	21	12,338	-	1,116	-
Stationery		4,363	-	7,183	-
Withholding taxes on reinsurance payments		63,714	-	49,907	-
Repairs and maintenance		7,786	-	6,814	-
Promotion and advertising		3,166	286	4,362	15
Business travel and transport		2,293	40	2,220	332
Utilities		1,343	-	1,212	-
Board of Directors and other committees remunerations and expenses		-	3,132	-	3,160
SAMA interest fees		-	-	-	6,539
Bad debts	9	35,000	-	10,000	-
Others		20,119	212	19,855	276
		<b>396,805</b>	<b>4,164</b>	<b>397,469</b>	<b>10,829</b>

24. OTHER INCOME

	2016 SR'000	2015 SR'000
Income from hospitals for prompt settlement of claims	41,362	44,088
Others	7,135	16,085
	<b>48,497</b>	<b>60,173</b>

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

25. PROVISION FOR ZAKAT AND INCOME TAX

a) Zakat charge for the year

	Note	2016 SR'000	2015 SR'000
<b><u>Zakat Calculation:</u></b>			
Net Income / (loss) for the year		67,611	(261,267)
Provision for end of service benefits	21	26,047	23,729
Provision for doubtful debts	9	186,501	151,501
Withholding taxes payable on reinsurance payment		94,333	48,978
Share capital	5	1,000,000	1,000,000
Surplus distribution payable		111,566	106,591
Statutory reserve	26	146,135	146,135
Opening accumulated profit		-	19,990
		1,564,582	1,496,924
Fixed assets differences		(542,097)	(535,624)
Investment in associate	12	(14,802)	(12,095)
Investment in Najm (level 3)	13(c)	(1,923)	(1,923)
Difference in depreciation on fixed assets		(23,191)	(24,290)
Deferred acquisition cost	16	(141,336)	(181,807)
Opening accumulated loss		(249,265)	
		(972,614)	(755,739)
<b>Zakat base</b>		<b>659,579</b>	<b>479,918</b>
<b>Saudi shareholders' share of zakat base (47.97%) (31 December 2015: 54.5%)</b>		<b>316,400</b>	<b>261,555</b>
<b>Zakat at 2.5%</b>		<b>7,910</b>	<b>6,539</b>
<b><u>Income tax calculation:</u></b>			
Net Income / (loss) for the year		67,611	-
Provision charged during the year for end of service benefits	21	12,338	-
Provision charged during the year for doubtful debts	9	35,000	-
Withholding tax expense during the year	23	63,714	-
Difference in depreciation on fixed assets		(23,191)	-
		87,861	-
		155,472	-
<b>Foreign shareholders' share of tax base (52.03%)</b>		<b>80,892</b>	<b>-</b>
Payments of end of service benefits	21	(10,020)	-
Payments of withholding tax		(14,934)	-
		(24,954)	-
<b>Foreign shareholders' share of tax base (52.03%) (31 December 2015: 45.5%)</b>		<b>(12,984)</b>	<b>-</b>
<b>25% deduction from foreign share of tax base to cover accumulated losses</b>		<b>(20,223)</b>	<b>-</b>
<b>Tax base</b>		<b>47,685</b>	<b>-</b>
<b>Tax at 20%</b>		<b>9,537</b>	<b>-</b>
<b>Total zakat and tax charge for the year</b>	25 (c)	<b>17,447</b>	<b>6,539</b>

The differences between the financial and the zakatable results are mainly due to provisions which are not included in the calculation of zakatable income.

The accompanying notes 1 to 34 form an integral part of these financial statements.

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**25. ZAKAT AND INCOME TAX (Continued)**

**b) Income tax charge for the year**

Income tax relating to the non Saudi shareholders in 2016 amounting to SR 9,537 thousand consists of the 2016 year charge, which has been provided for based on the estimated taxable profit at 52.03%. There was no income tax in 2015 due to the losses incurred.

**c) Movement in the provision for zakat and income tax during the year**

The movement in the provision for zakat and income tax for the year was as follows:

	Note	2016 SR'000	2015 SR'000
At the beginning of the year		844	19,507
Charge - current year	25(a)	17,447	6,539
prior year		-	1,449
		17,447	7,988
Payments during the year		(2,893)	(26,651)
At the end of the year		15,398	844

The provision for zakat and income tax for the year is 15,398 thousand (31 December 2015: SR 844 thousand). An amount of SR 17,447 thousand (also see note 25(a)) has been charged in the statement of shareholders' comprehensive income / (loss) to meet the required provision for the year ended December 31, 2016.

**d) Status of zakat and tax assessments**

The Company has filed its zakat and income tax declarations for the year from 16 April 2007 to 31 December 2015 with the General Authority of Zakat and Income Tax (GAZT). The GAZT has given its preliminary assessment for the years from 16 April 2007 to 31 December 2012 and identified differences amounting to SR 76 million, however, the Company has filed an appeal against this assessment and based on tax advisor's assessment, management believes that appropriate provision is made in the books. No assessment of the remaining years have been completed yet by the GAZT.

**26. SHARE CAPITAL**

The authorized and paid up share capital of the Company is SR 1,000 thousand divided into 100 thousand shares of SR 10 each (31 December 2015: SR 1,000 thousand divided into 100 million shares of SR 10 each) . The founding shareholders of the Company have subscribed and paid for 75 million shares (SR 750 million) with a nominal value of SR 10 each, which represent 75% of the shares of the Company and the remaining 25 million shares (SR 250 million) with a nominal value of SR 10 each which represent 25% of the shares of the Company, have been subscribed by the general public.

**27. BASIC AND DILUTED EARNINGS / (LOSSES) PER SHARE**

Basic and diluted earnings / (losses) per share for the year was calculated by dividing the net income for the year by the weighted average number of shares issued and outstanding during the year amounting to 100 million shares.

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

**28. INTEREST ON STATUTORY DEPOSIT**

The interest on statutory deposit which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia amounts to SR 11,072 thousand (31 December 2015: 7,757 thousand). This interest cannot be withdrawn without the consent of Saudi Arabian Monetary Authority ("SAMA").

**29. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial assets and liabilities include cash and cash equivalents, time deposits, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of unquoted financial instruments which are carried at cost.

**30. COMMITMENTS AND CONTINGENCIES**

*a) Legal proceedings*

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position.

*b) Operating lease commitments*

The minimum future lease payments for the use of the Company office premises are as follows:

	2016 SR'000	2015 SR'000
Less than one year	-	-
One to five years	22,831	29,029
	<u>22,831</u>	<u>29,029</u>

*c) Contingencies and capital commitments*

As at 31 December 2016, the Company's banker has issued letters of guarantee of SR 26,511 thousand (31 December 2015: SR 21,074 thousand) to various customers, motor agencies and workshops as per the terms of the agreements with them (also see note 7). The Company had no capital commitments in 2016 (31 December 2015: nil).

**31. SEGMENTAL INFORMATION**

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 as set out below.

Segment results do not include allocation of general and administration expenses, special commission income and other income to operating segments.

Segment assets do not include allocation of cash and cash equivalents, time deposits investments, premiums and reinsurance balances receivable, prepayments and other assets, due from related parties, and property and equipment, net, to the operating segments.

Segment liabilities do not include allocation of accounts and commission payable, reinsurance balances payable, accrued expenses and other liabilities, due to shareholders' operations, surplus distribution payable and other reserves to operating segments.

The accompanying notes 1 to 34 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

31. SEGMENTAL INFORMATION (Continued)

Operating segments

For the year ended 31 December 2016

	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Others SR'000</i>	<i>Total SR'000</i>
<b>Insurance operations</b>				
Gross premiums written	2,266,987	529,999	397,348	3,194,334
Net premiums written	2,265,987	364,752	66,465	2,697,204
Net premiums earned	2,430,258	428,105	87,263	2,945,626
Net claims incurred	(2,115,010)	(323,079)	(26,906)	(2,464,995)
Policy acquisition costs	(120,201)	(37,578)	(29,906)	(187,685)
Reinsurance commission income	-	39,327	45,675	85,002
Net underwriting result	195,047	106,775	76,126	377,948
General and administrative expenses and impairment charge on available for sale investment				(397,530)
Special commission income and other income				69,329
Insurance operations' surplus				49,747

For the year ended 31 December 2015

	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Others SR'000</i>	<i>Total SR'000</i>
<b>Insurance operations</b>				
Gross premiums written	2,811,471	666,047	524,416	4,001,934
Net premiums written	2,806,540	458,493	93,482	3,358,515
Net premiums earned	2,845,296	523,960	98,057	3,467,313
Net claims incurred	(2,578,340)	(675,217)	(15,145)	(3,268,702)
Policy acquisition costs	(162,304)	(34,058)	(30,955)	(227,317)
Reinsurance commission income	20,970	33,405	56,505	110,880
Net underwriting result	125,622	(151,910)	108,462	82,174
General and administrative expenses				(397,469)
Special commission income and other income				66,075
Insurance operations' deficit				(249,220)

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

31. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

<i>As at 31 December 2016</i>	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Others SR'000</i>	<i>Total SR'000</i>
<i>Insurance operations' assets</i>				
Reinsurers' share of unearned premiums	-	50,389	485,994	536,383
Reinsurers' share of outstanding claims	3,099	87,584	505,258	595,941
Deferred policy acquisition costs	109,797	9,949	21,590	141,336
Unallocated assets				2,273,007
				<u>3,546,667</u>
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	926,951	167,962	534,338	1,629,251
Unearned reinsurance commission	-	11,058	25,526	36,584
Gross outstanding claims	536,346	247,263	540,347	1,323,956
Unallocated liabilities				556,876
				<u>3,546,667</u>
<i>As at 31 December 2015</i>	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Others SR'000</i>	<i>Total SR'000</i>
<i>Insurance operations' assets</i>				
Reinsurers' share of unearned premiums	-	77,523	635,635	713,158
Reinsurers' share of outstanding claims	27,353	87,015	556,946	671,314
Deferred policy acquisition costs	137,520	14,955	29,332	181,807
Unallocated assets	-	-	-	2,881,273
				<u>4,447,552</u>
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	1,091,222	258,450	704,776	2,054,448
Unearned reinsurance commission	-	15,502	40,813	56,315
Gross outstanding claims	823,776	256,209	584,803	1,664,788
Unallocated liabilities	-	-	-	672,001
				<u>4,447,552</u>

The accompanying notes 1 to 34 form an integral part of these financial statements.

# The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company)

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

### 32. RISK MANAGEMENT

#### **Risk governance**

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board. The Company is exposed to insurance, reinsurance, regulatory framework, credit, liquidity, foreign currency, commission rate, and market risks.

#### *Risk management structure*

A cohesive organisational structure is established within the Company in order to identify, assess, monitor, and control risks.

#### *Board of Directors*

The apex of risk governance is the centralised oversight of Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

#### *Senior management*

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

#### *Audit Committee and Internal Audit Department*

Risk management processes throughout the Company are also insured by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The risks faced by the Company and the manner in which these risks are mitigated by management are set out below:

#### **a) Insurance risk**

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims severity, actual benefits paid and subsequent development of long term claims are different than expected. Therefore the objective of the Company is to ensure that sufficient resources are available to cover these liabilities. The insurance risk arising from insurance contracts is mainly concentrated in the Kingdom of Saudi Arabia.

#### *Frequency and amounts of claims*

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

#### *Motor*

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive policies for owner/drivers over 18 years of age. Substantially all of the motor contracts relate to private individuals. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 750 thousand (31 December 2015: SR 750 thousand).

#### *Medical*

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The company does not have any reinsurance coverage for medical line of business.

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The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

32. RISK MANAGEMENT (Continued)

a) Insurance risk (Continued)

*Sensitivity analysis*

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process. The general insurance claims provision is sensitive to the above key assumptions. A hypothetical 10% change in the claims ratio would impact income by approximately SR 19,477 thousand (31 December 2015: SR 19,705 thousand) annually in aggregate.

b) Reinsurance risk

In common with other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk arising from similar geographic regions, activities and economic characteristics of reinsurers.

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure in this connection is:

	2016 SR'000	2015 SR'000
Middle East	176,498	180,215
Europe	419,443	491,099
	<u>595,941</u>	<u>671,314</u>

c) Regulatory framework risk

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. The Company is not in compliance with solvency margin requirement as prescribed by SAMA (also see note 33).

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**32. RISK MANAGEMENT (Continued)**

**d) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the investment officer in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	Note	2016		2015	
		<i>Insurance</i>	<i>Shareholders'</i>	<i>Insurance</i>	<i>Shareholders'</i>
		<i>Operations</i>	<i>Operations</i>	<i>Operations</i>	<i>Operations</i>
		<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Bank balances and cash		486,969	211,677	594,951	108,912
Time deposits		225,504	-	197,790	96,052
Investments	13	28,308	146,076	60,224	242,014
Statutory deposit		-	150,000	-	100,000
Interest on statutory deposit		-	11,072	-	7,757
Premiums and reinsurance balances receivable	9	1,248,475	-	1,688,147	-
Advances to employees	14	7,738	-	8,760	-
Advances to suppliers	14	4,363	-	4,520	-
Accrued special commission income	14	5,174	2,455	1,286	1,782
Reinsurers' share of outstanding claims	11 (a)	595,941	-	671,314	-
Due from related parties	10	2,065	-	72,606	-
		<b>2,604,537</b>	<b>521,280</b>	<b>3,299,598</b>	<b>556,517</b>

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2016

32. RISK MANAGEMENT (Continued)

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

Maturity profiles

Unearned premiums and reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations. The table below summarises the maturity profile of the non-derivative financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

		2016		2015			
Note		Up to one year SR '000	More than one year SR '000	Total SR'000	Up to one year SR '000	More than one year SR '000	Total SR '000
<b>INSURANCE OPERATIONS' FINANCIAL LIABILITIES</b>							
	Gross outstanding claims	1,323,956	-	1,323,956	1,664,788	-	1,664,788
	Accounts and commission payable	123,710	-	123,710	211,837	-	211,837
	Reinsurance balances payable	86,172	-	86,172	120,216	-	120,216
20	Accrued expenses and other liabilities	184,354	-	184,354	156,593	-	156,593
	Surplus distribution payable	111,566	-	111,566	106,591	-	106,591
		1,829,758	-	1,829,758	2,260,025	-	2,260,025
<b>SHAREHOLDERS' FINANCIAL LIABILITIES</b>							
20	Accrued expenses and other liabilities	635	-	635	762	-	762
	Interest payable on statutory deposit	11,072	-	11,072	7,757	-	7,757
		11,707	-	11,707	8,519	-	8,519
		1,841,465	-	1,841,465	2,268,544	-	2,268,544
<b>TOTAL FINANCIAL LIABILITIES</b>							

Liquidity profile

None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the non-derivative financial liabilities of the Company.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

32. RISK MANAGEMENT (Continued)

f) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's principal transactions are carried out in Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

		2016				2015			
	Note	Saudi Riyals SR '000	US Dollars SR '000	Others SR '000	Total SR '000	Saudi Riyals SR '000	US Dollars SR '000	Others SR '000	Total SR '000
INSURANCE OPERATIONS' ASSETS									
Bank balances and cash	7	472,089	15,033	-	487,122	567,866	27,452	-	595,318
Time deposits		225,504	-	-	225,504	197,790	-	-	197,790
Premiums and reinsurance balances receivable	9	1,211,319	35,856	1,300	1,248,475	1,539,153	141,901	7,093	1,688,147
Due from related parties	10	2,065	-	-	2,065	72,606	-	-	72,606
Due from shareholders' operations		66,600	-	-	66,600	157,118	-	-	157,118
Reinsurers' share of outstanding claims	11 (a)	488,882	107,059	-	595,941	515,188	156,126	-	671,314
Investments	13 (a)	28,308	-	-	28,308	60,224	-	-	60,224
Prepayments and other assets	14	163,778	-	-	163,778	54,851	-	-	54,851
Reinsurers' share of unearned premium	15	536,383	-	-	536,383	713,158	-	-	713,158
Deferred policy acquisition costs	16	141,336	-	-	141,336	181,807	-	-	181,807
Property and equipment, net	17	51,155	-	-	51,155	55,219	-	-	55,219
TOTAL INSURANCE OPERATIONS' ASSETS		3,387,419	157,948	1,300	3,546,667	4,114,980	325,479	7,093	4,447,552
SHAREHOLDERS' ASSETS									
Cash and cash equivalents	7	190,435	21,242	-	211,677	107,665	1,244	3	108,912
Time deposits		-	-	-	-	96,052	-	-	96,052
Interest on statutory deposit		11,072	-	-	11,072	7,757	-	-	7,757
Investment in an associate	12	14,802	-	-	14,802	12,095	-	-	12,095
Investments	13 (b)	98,550	47,526	-	146,076	134,420	105,411	2,183	242,014
Prepayments and other assets	14	2,598	-	-	2,598	1,782	-	-	1,782
Land		30,000	-	-	30,000	30,000	-	-	30,000
Statutory deposit		150,000	-	-	150,000	100,000	-	-	100,000
Goodwill		480,000	-	-	480,000	480,000	-	-	480,000
TOTAL SHAREHOLDERS' ASSETS		977,457	68,768	-	1,046,225	969,771	106,655	2,186	1,078,612
TOTAL ASSETS		4,364,876	226,716	1,300	4,592,892	5,084,751	432,134	9,279	5,526,164

The accompanying notes 1 to 34 form an integral part of these financial statements.

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2016

32. RISK MANAGEMENT (Continued)

f) Foreign currency risk (Continued)

	2016				2015			
Note	Saudi Riyals SR'000	US Dollars SR'000	Other SR'000	Total SR'000	Saudi Riyals SR'000	US Dollars SR'000	Other SR'000	Total SR'000
INSURANCE OPERATIONS' LIABILITIES								
11 (a)	1,215,700	108,256	-	1,323,956	1,507,678	157,110	-	1,664,788
	123,710	-	-	123,710	211,837	-	-	211,837
20	71,500	14,015	657	86,172	90,730	28,804	682	120,216
	184,354	-	-	184,354	156,593	-	-	156,593
	111,566	-	-	111,566	106,591	-	-	106,591
22	36,584	-	-	36,584	56,315	-	-	56,315
15	1,629,251	-	-	1,629,251	2,054,448	-	-	2,054,448
11 (b)	45,154	-	-	45,154	34,350	-	-	34,350
10	5,643	-	-	5,643	40,589	-	-	40,589
TOTAL INSURANCE OPERATIONS' LIABILITIES								
	3,423,462	122,271	657	3,546,390	4,259,131	185,914	682	4,445,727
SHAREHOLDERS' LIABILITIES								
20	635	-	-	635	762	-	-	762
	11,072	-	-	11,072	7,757	-	-	7,757
25 (c)	15,398	-	-	15,398	844	-	-	844
	66,600	-	-	66,600	157,118	-	-	157,118
TOTAL SHAREHOLDERS' LIABILITIES								
	93,705	-	-	93,705	166,481	-	-	166,481
TOTAL LIABILITIES								
	3,517,167	122,271	657	3,640,095	4,425,612	185,914	682	4,612,208

The accompanying notes 1 to 34 form an integral part of these financial statements.

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**32. RISK MANAGEMENT (Continued)**

**g) Special commission rate risk**

Special commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market special commission rates. Floating rate instruments expose the company to cash flow special commission risk, whereas fixed commission rate instruments expose the Company to fair value interest risk.

The Company is exposed to special commission rate risk on its certain investments, cash and cash equivalents, and time deposits. The Company limits special commission rate risk by monitoring changes in special commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of statements of insurance operations and the shareholders equity to reasonably possible changes in commission rates of the Company's term deposits, with all other variables held constant.

**31 December 2016**

Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 5,343
	- 50 basis points	SR (5,343)

**31 December 2015**

Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 4,637
	- 50 basis points	SR (4,637)

**h) Market price risk**

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of income - shareholders' operations will be impacted.

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders comprehensive income / (loss) is set out below:

	Change in market price	Effect on statement of shareholders comprehensive income / (loss) SR'000
2016	+5%	3,447
	-5%	(3,447)
2015	+5%	10,871
	-5%	(10,871)

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended 31 December 2016

**32. RISK MANAGEMENT (Continued)**

**i) Capital management**

Capital requirements are set and regulated by the Saudi Arabian Monetary Agency. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The operations of the Company are subject to local regulatory requirements within the jurisdiction where it is incorporated. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g capital adequacy to minimize the risk of default and insolvency on the part of the insurance Companies and to enable them to meet unforeseen liabilities as these arise.

The Company maintains its capital as per guidelines laid out by SAMA in Article 66 table 3 and 4 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained. According to the said Article, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

Minimum Capital Requirement of SR 100 million  
Premium Solvency Margin  
Claims Solvency Margin

The Company uses Claims Solvency Margin Method for determining its solvency requirements. As at 31 December 2016, the solvency margin is less than the required minimum margin (also see note 33).

**33. SOLVENCY MARGIN**

During the year, SAMA issued a letter to the Company under Ref. 371000070025 dated 30 March 2016. The letter highlighted the deteriorating solvency margin of the Company and the rectification measures to be taken by the Company according to Article 68 of the Insurance Implementing Regulations. SAMA in its aforesaid letter instructed the Company to meet the solvency margin requirement by 30 September 2016 and increase its statutory deposit from 10% to 15% of the paid up capital before 21 April 2016. Further, SAMA directed the Company to appoint a consultant to study the reasons for the deterioration of the financial position and formulate a strategy to overcome the deterioration. The letter also indicated that detailed progress report on the consultant's work, on a monthly and quarterly basis, and final report should be submitted to SAMA. During the three-month period ended 30 June 2016, the Company increased the statutory deposit to 15% of the paid up capital, appointed a consultant and started submitting the consultant's monthly and quarterly reports to SAMA as advised. The Company was not able to meet the solvency margin requirement by 30 September 2016 as instructed by SAMA and had not submitted the final approved plan as required by the aforesaid letter. On 27 December 2016, SAMA issued another letter binding the Company to provide an approved plan to meet the requirement of solvency margin by 18 January 2017 and take necessary measures to ensure fulfilment of the rights of the policy holders. The detailed plan has subsequently been provided to SAMA after approval of the Company's board of directors. The Company continues to take the necessary actions as advised by SAMA, through implementation of corrective action plan as advised by the consultant and approved by the Company's board of directors, which is expected to gradually improve the Company's financial position and increase the solvency margin.

**34. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 7 Jumaada Al-Akhar 1438H corresponding to 06 March, 2017.