

**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 2014

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 2014

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KPMG Al Fozan & Al Sadhan



**AUDIT 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, 2014 and the related statements of income - insurance operations and accumulated surplus, shareholders' operations, comprehensive income, changes in shareholders' equity, insurance operations' and shareholders' cash flows for the year then ended and notes 1 to 32 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 Article 123 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:

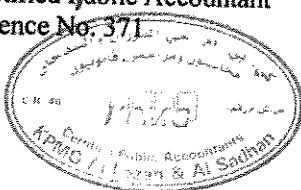
- present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- comply with the requirements of the Regulation for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

EMPHASIS OF MATTER

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Framework 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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24 February 2015

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

STATEMENT OF FINANCIAL POSITION

As At 31 December 2014

(Amounts in SR)

	<i>Notes</i>	<i>2014</i>	<i>2013</i>
INSURANCE OPERATIONS' ASSETS			
Bank balances and cash	7	688,967,126	686,594,970
Time deposits	8	227,222,265	129,639,726
Policyholders' and reinsurance balances receivable	9	1,325,049,622	1,240,053,958
Investments	13 (a)	97,732,546	90,875,000
Due from related parties	10	73,751,591	68,969,606
Due from shareholders' operations		-	268,878,984
Reinsurers' share of outstanding claims	11 (a)	651,679,235	605,687,165
Reinsurers' share of unearned premiums	15	1,033,651,418	919,402,928
Deferred policy acquisition costs	16	200,486,008	174,854,095
Prepayments and other assets	14	27,212,521	118,096,148
Property and equipment, net	17	51,563,979	39,586,774
TOTAL INSURANCE OPERATIONS' ASSETS		4,377,316,311	4,342,639,354
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	7	241,618,786	315,793,912
Time deposits	8	-	126,149,039
Due from insurance operations		60,873,479	-
Investments	13 (b)	270,415,402	211,127,052
Prepayments and other assets	14	1,678,647	2,787,249
Investment in an associate	12	6,000,000	6,000,000
Land		30,000,000	30,000,000
Statutory deposit	18	107,382,259	106,308,807
Goodwill	19	480,000,000	480,000,000
TOTAL SHAREHOLDERS' ASSETS		1,197,968,573	1,278,166,059
TOTAL ASSETS		5,575,284,884	5,620,805,413

The accompanying notes 1 to 32 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 2014

(Amounts in SR)

	Notes	2014	2013
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims	11	1,272,301,117	1,451,905,914
Due to related parties	10	28,178,554	12,211,276
Due to shareholders' operations		60,873,479	-
Accounts and commission payable		180,814,057	73,314,933
Accrued expenses and other liabilities	20	78,245,287	78,858,790
Reinsurance balances payable		84,139,436	294,402,083
Surplus distribution payable		106,591,151	85,595,806
Unearned reinsurance commission	22	73,457,867	39,772,672
Gross unearned premiums	15	2,483,739,078	2,298,631,011
Other reserves		7,131,898	6,327,378
TOTAL INSURANCE OPERATIONS' LIABILITIES		4,375,471,924	4,341,019,863
INSURANCE OPERATIONS' SURPLUS			
Cumulative change in fair values of available for sale investments	13 (a)	1,844,387	1,619,491
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		4,377,316,311	4,342,639,354
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	20	2,391,777	899,500
Provision for zakat and income tax	25	19,506,624	12,453,909
Due to Insurance operation		-	268,878,984
TOTAL SHAREHOLDERS' LIABILITIES		21,898,401	282,232,393
SHAREHOLDERS' EQUITY			
Share capital	26	1,000,000,000	1,000,000,000
Statutory reserve	5	146,134,974	139,374,369
Accumulated surplus / (deficit)		19,989,704	(159,694,752)
Cumulative changes in fair values of available for sale investments	13 (b)	9,945,494	16,254,049
TOTAL SHAREHOLDERS' EQUITY		1,176,070,172	995,933,666
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		1,197,968,573	1,278,166,059
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		5,575,284,884	5,620,805,413

The accompanying notes 1 to 32 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 / DEFICIT
For the Year Ended 31 December 2014
(Amounts in SR)

	Notes	2014	2013
Gross premiums written	15	4,415,993,030	4,137,512,368
Less: Reinsurance premiums ceded		(1,197,206,440)	(1,127,792,216)
Excess of loss premiums		(20,739,697)	(117,451,386)
NET PREMIUMS WRITTEN		3,198,046,893	2,892,268,766
Change in unearned premiums, net		(70,859,577)	(294,620,355)
NET PREMIUMS EARNED		3,127,187,316	2,597,648,411
Gross claims paid and other expenses	11 (a)	(3,541,412,022)	(2,704,174,962)
Reinsurers' share of gross claims paid	11 (a)	694,946,433	537,901,527
Change in outstanding claims, net		225,596,867	(465,871,759)
Change in other reserves		(804,520)	672,622
NET CLAIMS INCURRED	11	(2,621,673,242)	(2,631,472,572)
Policy acquisition costs	16	(162,690,998)	(120,949,734)
Reinsurance commission income	22	78,593,396	108,218,360
NET UNDERWRITING RESULT		421,416,472	(46,555,535)
General and administrative expenses	23	(290,726,088)	(233,812,050)
Special commission income		7,887,725	6,256,536
Other income	24	71,375,341	76,175,637
INSURANCE OPERATIONS' SURPLUS / (DEFICIT)	3	209,953,450	(197,935,412)
Shareholders' appropriation from insurance operations' (surplus) / deficit	3	(188,958,105)	197,935,412
Insurance operations' surplus after shareholders' appropriation		20,995,345	-
Surplus distribution	3	(20,995,345)	-
ACCUMULATED SURPLUS AT THE END OF THE YEAR		-	-

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

STATEMENT OF INCOME / (LOSS) - SHAREHOLDERS' OPERATIONS

For the Year Ended 31 December 2014

(Amounts in SR)

	<i>Notes</i>	2014	2013
INCOME			
Shareholders' appropriation from insurance operations' surplus / (deficit)	3	188,958,105	(197,935,412)
Special commission income		7,312,251	15,277,865
Realised losses on sale of available for sale investments		(1,021,115)	(162,308)
Dividend income on available for sale investments		1,831,074	1,823,728
		197,080,315	(180,996,127)
EXPENSES			
General and administrative expenses	23	(3,582,539)	(11,465,250)
NET INCOME / (LOSS) FOR THE YEAR			
		193,497,776	(192,461,377)
BASIC AND DILUTED EARNINGS / (LOSSES) PER SHARE			
	27	1.93	(1.92)



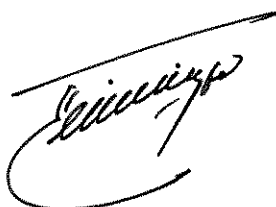

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME / (LOSS)

For the Year Ended 31 December 2014

(Amounts in SR)

	<i>Note</i>	2014	2013
NET INCOME / (LOSS) FOR THE YEAR		193,497,776	(192,461,377)
Other comprehensive income / (loss):			
Items that cannot be recycled back to statement of income in future			
<u>Zakat and income tax</u>	25 (c)	(7,052,715)	(4,730,853)
Items that can be recycled back to statement of income in future			
<u>Available for sale investments</u>			
Net change in fair values		(5,287,440)	7,133,074
Loss transferred to statement of income – Shareholders' operations		(1,021,115)	(162,308)
Other comprehensive (loss) / income for the year		(6,308,555)	6,970,766
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		180,136,506	(190,221,464)




The accompanying notes 1 to 32 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 2014

(Amounts in SR)

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Accumulated retained earnings / (deficit)</i>	<i>Available for sale investments</i>	<i>Total</i>
Balance at 1 January 2014	<u>1,000,000,000</u>	<u>139,374,369</u>	<u>(159,694,752)</u>	<u>16,254,049</u>	<u>995,933,666</u>
Total comprehensive income for the year					
Net income for the year	-	-	193,497,776	-	193,497,776
Zakat and income tax	-	-	(7,052,715)	-	(7,052,715)
Net change in fair values	-	-	-	(5,287,440)	(5,287,440)
Net amount transferred to statement of income - shareholders' operations	-	-	-	(1,021,115)	(1,021,115)
Transfer to statutory reserve	-	6,760,605	(6,760,605)	-	-
Balance at 31 December 2014	<u>1,000,000,000</u>	<u>146,134,974</u>	<u>19,989,704</u>	<u>9,945,494</u>	<u>1,176,070,172</u>
 Balance at 1 January 2013	 <u>800,000,000</u>	 <u>139,374,369</u>	 <u>237,497,478</u>	 <u>9,283,283</u>	 <u>1,186,155,130</u>
Total comprehensive income / (loss) for the year					
Net loss for the year	-	-	(192,461,377)	-	(192,461,377)
Zakat and income tax	-	-	(4,730,853)	-	(4,730,853)
Net change in fair values	-	-	-	6,970,766	6,970,766
Net amount transferred to statement of income - shareholders' operations	-	-	-	-	-
Bonus shares issued	200,000,000	-	(200,000,000)	-	-
Balance at 31 December 2013	<u>1,000,000,000</u>	<u>139,374,369</u>	<u>(159,694,752)</u>	<u>16,254,049</u>	<u>995,933,666</u>

The accompanying notes 1 to 32 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' CASH FLOWS

For the Year Ended 31 December 2014

(Amounts in SR)

	Notes	31 December 2014	31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		20,995,345	-
<i>Adjustments to reconcile insurance operations' surplus after shareholders' appropriation to net cash from operating activities:</i>			
Depreciation		10,039,531	10,493,194
Special commission income		(7,887,725)	(6,256,536)
Gain on sale of property and equipment, net		(144,339)	(156,102)
Cash from operations		23,002,812	4,080,556
<i>Changes in operating assets and liabilities:</i>			
Gross unearned premiums		185,108,067	579,978,794
Reinsurers' share of unearned premiums		(114,248,490)	(285,358,439)
Policyholders' and reinsurance balances receivable		(84,995,664)	55,580,395
Due from related parties		(4,912,478)	(20,242,851)
Due to related parties		16,097,771	(33,633,932)
Reinsurers' share of outstanding claims		(45,992,070)	(8,327,670)
Deferred policy acquisition costs		(25,631,913)	(139,835,990)
Prepayments and other assets		90,883,627	(57,066,167)
Deposit against letters of guarantee		(7,974,466)	(698,003)
Gross outstanding claims		(179,604,797)	474,199,429
Due from / (to) shareholders' operations, net		329,752,463	(345,248,751)
Accounts and commissions payable		107,499,124	26,385,378
Accrued expenses and other liabilities		(613,503)	15,040,464
Reinsurance balances payable		(210,262,647)	132,267,721
Unearned reinsurance commission		33,685,195	(10,128,816)
Other reserves		804,520	(672,622)
Net cash from operating activities		112,597,551	386,319,496
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		(97,582,539)	8,363,894
Special commission income		7,887,725	6,256,536
Proceeds from sale of property and equipment		329,364	468,369
Purchase of available for sale investments	13 (a)	(26,632,650)	-
Proceeds from sale of available for sale investments	13 (a)	20,000,000	20,000,000
Purchase of property and equipment		(22,201,761)	(18,167,732)
Net cash (used in) / from investing activities		(118,199,861)	16,921,067
DECREASE / INCREASE IN CASH AND CASH EQUIVALENTS		(5,602,310)	403,240,563
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	7	679,544,481	276,303,918
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	673,942,171	679,544,481
Non-cash transaction:			
Change in fair values of available for sale investments	13 (a)	224,896	501,053

The accompanying notes 1 to 32 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 2014

(Amounts in SR)

	Notes	31 December 2014	31 December 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year		193,497,776	(192,461,377)
<i>Adjustments for:</i>			
Special commission income		(7,312,251)	(15,277,865)
Dividend income on available for sale investments		(1,831,074)	(1,823,728)
Realised loss on sale of available for sale investments		1,021,115	162,308
Impairment on investment in an associate		-	8,000,000
Cash from operations		185,375,566	(201,400,662)
<i>Changes in operating assets and liabilities:</i>			
Due (to) / from insurance operations, net		(329,752,463)	345,248,751
Accrued expenses and other liabilities		1,492,277	674,500
Zakat and income tax paid	25 (c)	-	(38,077,648)
Prepayments and other assets		1,108,602	(313,666)
Increase in statutory deposit		-	(20,000,000)
Interest on statutory deposit		(1,073,452)	(870,556)
Net cash (used in) / from operating activities		(142,849,470)	85,260,719
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		126,149,039	(60,294,391)
Purchase of available for sale investments	13 (b)	(122,627,339)	(29,972,505)
Proceeds from sale of available for sale investments	13 (b)	56,009,319	22,512,592
Special commission income		7,312,251	15,277,865
Dividend income on available for sale investments		1,831,074	1,823,728
Net cash from / (used in) investing activities		68,674,344	(50,652,711)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(74,175,126)	34,608,008
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	7	315,793,912	281,185,904
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	241,618,786	315,793,912
<i>Non-cash transactions:</i>			
Change in fair values of available for sale investments	13 (b)	(6,308,555)	6,970,766
Increase in share capital due to bonus issue		-	200,000,000

The accompanying notes 1 to 32 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 2014

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).

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.

Functional and presentational currency

The functional and presentational currency of the Company is Saudi Arabian Riyals.

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 Agency ("SAMA").

The insurance operations' surplus of the Company for the year ended 31 December 2014 amounted to SR 209,953,450 (31 December 2013: deficit of SR 197,935,412). Accordingly, 90% of insurance operations surplus amounting to SR 188,958,105 (31 December 2013: 100% loss amounting to SR 197,935,142 from insurance operation) has been transferred to the shareholders' operations for the year, leaving a surplus payable to policyholders of SR 20,995,345 for the year 2014 (31 December 2013: no surplus payable).

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 2014

4. SIGNIFICANT ACCOUNTING POLICIES AND AMENDMENTS TO STANDARDS

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2013. The Company has adopted the following new standards and amendment, which are effective for the Company's financial years starting 2014 and thereafter. Adoption of these standards will not result any significant impact on the Company's financial statements:

New and amended standards issued and adopted

-Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investments funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.

-IAS 32 amendment applicable from 1 January 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.

-IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.

-IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

Standards issued but not yet effective

In addition to the above mentioned standards, the following standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the Company with effect from future dates.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015.

However, on 19 November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9) amending IFRS 9 to include the new general hedge accounting model. In its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for years ending on or after 31 December 2018.

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 2014

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. 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 shareholders' operations when the investment is derecognized or impaired.

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 2014

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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, 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 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 Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statements of income - insurance operations and accumulated surplus / deficit and shareholders' operations. 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 loss on available for sale investments are recognised in under 'insurance operations surplus' in the statement of insurance operations and under 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:

- 25% of premiums for marine cargo business
- 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.
- Actual number of days for other lines of 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 derecognition criteria for financial assets have been met.

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 2014

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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), unearned portion of stamp charges (excluding motor business) 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 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.

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 2014

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. 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 insurance operations.

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.

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 insurance operations.

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.

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 2014

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, excluding transport insurance.
- 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.

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

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 2014

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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 insurance operations.

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.

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 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 line of business, 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.
- Bornheutter-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.
- Hybrid method – this uses a combination of the Chain Ladder (CL) method and Bornheutter-Ferguson (BF) method.

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 2014

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

(ii) Premium deficiency reserve

Estimation of the premium deficiency for medical business is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risks for written policies. To arrive at the estimate of the expected loss ratio, the actuary looks at the claims and premiums relationship which is expected to realize in the future.

7. BANK BALANCES AND CASH

	2014		2013	
	Insurance Operations SR	Shareholders' Operations SR	Insurance Operations SR	Shareholders' Operations SR
Cash in hand and at banks	446,466,406	18,120,186	471,240,592	14,650,429
Short-term time deposits	227,475,765	223,498,600	208,303,889	301,143,483
<i>Cash and cash equivalents in the statement of cash flows</i>	673,942,171	241,618,786	679,544,481	315,793,912
Deposits against letters of guarantee	15,024,955	-	7,050,489	-
	<u>688,967,126</u>	<u>241,618,786</u>	<u>686,594,970</u>	<u>315,793,912</u>

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 0.77% per annum (2013: 2.66% per annum). The carrying amounts disclosed above reasonably approximate the fair value at the statement of financial position date.

Deposits against letters of guarantee comprises amounts placed with a local bank against issuance of payment guarantees in favour of the Company's customers and service providers (note 29). 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 1.09% per annum (2013: 1.8% per annum).

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

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 2014

9. POLICYHOLDERS' AND REINSURANCE BALANCES RECEIVABLE

	2014 SR	2013 SR
Policyholders' receivable	1,229,689,664	1,254,544,899
Less: Provision for doubtful debts	(136,570,377)	(138,286,694)
	<u>1,093,119,287</u>	<u>1,116,258,205</u>
Reinsurance balances receivable	236,861,490	127,010,591
Less: Provision for doubtful debts	(4,931,155)	(3,214,838)
	<u>231,930,335</u>	<u>123,795,753</u>
Total premiums and reinsurance balances receivables, net	<u><u>1,325,049,622</u></u>	<u><u>1,240,053,958</u></u>

As at December 31, 2014, the movement in the provision for doubtful debts of premium receivables was as follows:

	2014 SR	2013 SR
Balance, January 1	138,286,694	135,246,450
Provided during the year	-	3,040,244
Reversal for the year	(1,716,317)	-
Balance, December 31	<u><u>136,570,377</u></u>	<u><u>138,286,694</u></u>

As at December 31, 2014, the movement in the provision for doubtful debts of reinsurance receivables was as follows:

	2014 SR	2013 SR
Balance, January 1	3,214,838	6,255,082
Write off during the year	-	(3,040,244)
Provided during the year	1,716,317	-
Balance, December 31	<u><u>4,931,155</u></u>	<u><u>3,214,838</u></u>

The aging analysis of premiums and reinsurance balances receivable is as at 31 December 2014 and 2013 is set as below:

	Total SR	Neither past due nor impaired SR	Past due but not impaired		More than 90 days SR	Past due and impaired SR
			Less than 30 day SR	31 to 90 days SR		
2014	<u>1,466,551,154</u>	<u>766,763,020</u>	<u>230,206,160</u>	<u>308,568,114</u>	<u>19,512,328</u>	<u>141,501,532</u>
2013	<u>1,381,555,490</u>	<u>670,814,904</u>	<u>309,341,790</u>	<u>225,277,913</u>	<u>34,619,351</u>	<u>141,501,532</u>

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 2014

9. PREMIUMS AND REINSURANCE BALANCES RECEIVABLE (Continued)

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 125,733,075 (31 December 2013: SR 202,557,489) due in foreign currencies, mainly 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. No individual or company as at 31 December 2014 accounts for more than 23% (31 December 2013: 19%) of the premiums receivable. In addition, the five largest customers accounts for 42% (31 December 2013: 50%) of the premiums receivable as at 31 December 2014.

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.

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 2014

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 2014	31 December 2013	31 December 2014	31 December 2013
		SR	SR	SR	SR
Due from related parties					
Medgulf BSC - Operation account (parent company)	-Claims paid on behalf of parent company	1,351,273	1,348,960	-	-
	-Operational expenses paid on behalf of parent company, CEO & members of BOD	193,731	1,977,089	-	-
	-Transfer of investment	1,958,078	-	-	-
	-Balance due from at year end	-	-	23,879,189	24,292,263
Medgulf BSC - Head office account (parent company)	-Personal expenses paid on behalf of BOD	18,144	232,592	-	-
	-Expenses paid on behalf of parent company	953,651	3,385,720	-	-
	-Expenses paid by parent company on behalf of Medgulf KSA	-	541,487	-	-
	-Insurance premium for employees of parent company	28,446	70,279	-	-
	-Reinsurance recoveries on behalf of parent company	328	307,831	-	-
	-Claims paid	-	130,290	-	-
	-Reinsurance premiums ceded	-	11,864,923	-	-
	-Payment received on behalf of parent company	2,786	380,526	-	-
	-Premium refundable	9,581	1,289	-	-
	-Balance due from at year end	-	-	24,297,042	23,309,168

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 2014

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

<u>Related parties</u>	<u>Nature of transaction</u>	<u>Amount of transaction for the year ended</u>		<u>Balance</u>	
		<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
		<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
<u>Due from related parties (continued)</u>					
Medgulf Egypt (fellow subsidiary)	-Balance due from at year end	-	-	57,797	57,797
Motion al-Saudia (fellow subsidiary)	-Operational expenditures paid on behalf of fellow subsidiary	-	16,900	-	-
	-Payment on account	-	4,327	-	-
	-Gross written premiums	-	1,796	-	-
	-Expenses paid by fellow subsidiary on behalf of Medgulf KSA	-	22,500	-	-
	-Balance due from at year end	-	-	10,924,474	10,924,474
Medgulf Jordan (fellow subsidiary)	-Expenses paid on behalf of fellow subsidiary	956,558	11,250	-	-
	-Expenses paid by Medgulf Jordan on behalf of Medgulf KSA	-	163,415	-	-
	-Gross written premiums	-	54,392	-	-
	-Payment received from fellow subsidiary	445,602	-	-	-
	-Balance due to at year end	-	-	25,248	470,850
Addison Bradley Arabia- KSA – (fellow subsidiary)	-Expenses paid on behalf of fellow subsidiary	3,004,986	4,317,538	-	-
	-Expenses paid by fellow subsidiary on behalf of Medgulf KSA	-	458,467	-	-
	-Insurance for employees of fellow subsidiary	62,454	125,394	-	-
	-Premium refundable	2,576	44,129	-	-
	-Payment received from fellow subsidiary	21,319	366,594	-	-
	-Balance due from at year end	-	-	13,064,874	10,021,326

For the Year Ended 31 DECEMBER 2014

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

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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 2014

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

<u>Related parties</u>	<u>Nature of transaction</u>	<u>Amount of transaction for the year ended</u>		<u>Balance</u>	
		<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
		<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
<u>Due to related parties</u>					
Medivisa KSA (fellow subsidiary)	-Expenses paid on behalf of fellow subsidiary	224,675	10,251,925	-	-
	-Insurance premium for employees of fellow subsidiary	2,798,068	2,462,173	-	-
	-TPA fees	97,877,443	101,706,370	-	-
	-Expenses paid by fellow subsidiary on behalf of Medgulf KSA	37,800	124,134	-	-
	-Premium refundable	237,823	360,959	-	-
	-Payment on TPA fees	77,158,828	118,000,000	-	-
	-Balance due to at year end	-	-	27,969,793	9,892,430
Al Samiya Trading Co (fellow subsidiary)	-Commissions	-	56,286,833	-	-
	-Payment on commissions	-	44,885,518	-	-
	-Expenses paid on behalf of fellow subsidiary	-	9,300,152	-	-
	-Gross written premiums	-	1,101,895	-	-
	-Payment received	-	9,095	-	-
	-Premium refundable	-	88,485	-	-
	-Balance due to at year end	-	-	-	2,188,353
Medivisa Jordan (fellow subsidiary)	-5% Withholding taxes paid on behalf of Medgulf KSA	78,268	95,645	-	-
	-Balance due to at year end	-	-	208,761	130,493
				28,178,554	12,211,276

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

<u>Related parties</u>	<u>Nature of transaction</u>	<u>Amount of transaction for the year ended</u>		<u>Balance</u>	
		<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
		<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
The Saudi Investment Bank, (Founding shareholders)	-Current account and time deposits	7,456,557	1,198,124	9,873,242	2,416,685
	-Statutory deposit (refer note 10.1)	-	20,870,556	107,382,259	106,308,807
	-Commission income on time deposits and statutory deposit	1,073,452	918,650	-	-
	-Gross written premiums	3,857,584	3,570,224	-	-
	-Premium refundable	-	-	(1,324,146)	(778,825)
	-Claims incurred	1,604,191	1,008,741	-	-
	-Outstanding claims payable / recovery	-	-	1,413	(149,634)
Al Istithmar Capital (subsidiary of SIB-founding shareholders)	-Discretionary portfolio arrangement (refer 10.2)	1,297,862	2,083,031	55,134,708	53,837,026
Banque de Credit National (Common ownership and directors)	-Current account and time deposits	12,175,350	9,911,827	18,974	12,194,324
	-Commission income on time deposits	278,314	114,857	-	-
Saudi Orix (Shareholders of the parent company)	-Investment in Sukuk	-	-	7,500,000	7,500,000
	-Income on Sukuk	198,123	199,543	-	-
	-Gross written premiums	26,037,960	18,504,838	-	-
	-Premium receivables	-	-	1,809,703	1,764,983
	-Claims incurred	17,988,987	12,548,074	-	-
	-Outstanding claims payable / recovery	-	-	11,611	(202,304)
Creative solutions restaurants Co. (Under common directorship)	-Gross written premiums	355,105	323,285	-	-
	-Premium receivables	-	-	16,045	49,590
	-Claims incurred	148,793	148,024	-	-
Prime health insurance (fellow subsidiary)	-Medical claim administration fees paid	229,048	-	-	-
	-Medical claim administration fees payables	-	-	(177,335)	-

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For the Year Ended 31 DECEMBER 2014

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

<u>Related parties</u>	<u>Nature of transaction</u>	<u>Amount of transaction for the year ended</u>		<u>Balance</u>	
		<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
		<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Safari Group of companies (common Directorship)	-Gross written premiums	10,094,401	20,476,628	-	-
	-Premium refundable / receivables	-	-	(559,644)	7,231,789
	-Claims incurred	14,513,708	13,162,177		
	-Claims payable	-	-	(117,777)	(538,883)
Khalid A. Al Shathry Construction Company (Under common directorship)	-Gross written premiums	45,926	254,707	-	-
	-Premium receivables	-	-	87,266	83,608
	-Claims incurred	271,296	130,736	-	-
	-Outstanding claims	-	-	250	6,599
Khalid A. Al Shathry (individual motor policies)	-Gross written premiums	49,035	47,995	-	-
	-Premium receivables	-	-	1,137,199	1,099,064
	-Claims incurred	16,888	560	-	-
	-Outstanding claims	-	-	5,980	5,980
Al Jasamah establishment (Under common directorship)	-Gross written premiums	148,013	136,580	-	-
	-Premium receivables	-	-	-	2,343
	-Claims incurred	44,978	128,325	-	-
	-Outstanding claims	-	-	(8,061)	(35,372)
Medgulf BSC (parent company)	-Reinsurance premiums ceded, claim recoveries and reinsurance commission income	46,588,188	66,690,652	-	-
	-Receivables / (payables)	-	-	40,413,700	(6,174,488)
Addison Bradley Overseas (fellow subsidiary)	-Reinsurance premiums ceded	1,416,985	-	-	-
	-Reinsurance receivables	-	-	39,341,559	40,758,544
Addison Bradley Arabia Holding LLC (UAE) (fellow subsidiary)	-Reinsurance broker commission	151,291	-	-	-
	-Reinsurance claim recoveries	-	-	2,690,538	2,539,247
SIB LLC (UAE) (fellow subsidiary)	-Balance due to at year end	-	-	(31,472)	(31,472)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

<u>Related parties</u>	<u>Nature of transaction</u>	<u>Amount of transaction for the year ended</u>		<u>Balance</u>	
		<u>31 December 2014</u>	<u>31 December 2013</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
		<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Addison Bradley Arabia- KSA – Brokerage commission (fellow subsidiary)	-Brokerage commission	24,953	306,234	-	-
	-Payment to fellow subsidiary	18,273	162,629	-	-
	-Payment received from fellow subsidiary	810	900	-	-
	-Gross written premiums to fellow subsidiary	2,716	1,260	-	-
	-Premium refundable by fellow subsidiary	-	360	-	-
Addison Bradley Arabia- KSA – reinsurance broker (fellow subsidiary)	-Reinsurance premiums ceded	546,377	22,552,372	-	-
	-Payment on ceded premiums	38,054	46,486,020	-	-
	-Ceded premiums refundable	13,906	15,829,907	-	-
	-Reinsurance claim recoveries	12,964,148	1,992,858	-	-
Addison Bradley Arabia-KSA (fellow subsidiary)	-Reinsurance receivables / (payables)	-	-	3,487,268	(8,990,108)
	-Premium receivables	-	-	1,405,848	1,410,622
Emad J. Baban (individual motor policies of Director)	-Gross written premiums	21,175	21,183	-	-
	-Claims incurred	3,014	9,462	-	-
	-Outstanding claims	-	-	-	(6,782)
Saleh Al-Sagri (individual motor policies of Director)	-Gross written premiums	65,369	13,644	-	-
	-Premium receivables	-	-	70,759	-
	-Claims incurred	25,360	140	-	-
	-Outstanding claims	-	-	(21,834)	-
Mohamad B. El-Zein (individual motor policies of Director)	-Gross written premiums	-	2,607	-	-
	-Premium refundable	-	-	-	(528)

10.1 Statutory deposit has been placed with the Saudi Investment Bank at the commission rate of 0.7% per annum.

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Compensation of key management personnel

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

	2014 SR	2013 SR
Short-term benefits	20,460,128	20,221,453
End of service benefits	393,689	596,844
	<u>20,853,817</u>	<u>20,818,297</u>

11. CLAIMS

a) Outstanding Claims and IBNR

	2014			2013		
	Gross SR	Reinsurers' share SR	Net SR	Gross SR	Reinsurers' share SR	Net SR
Outstanding at end of the year	797,400,689	(515,992,631)	281,408,058	965,222,932	(468,830,982)	496,391,950
Incurred but not reported	482,032,326	(135,686,604)	346,345,722	493,010,360	(136,856,183)	356,154,177
	<u>1,279,433,015</u>	<u>(651,679,235)</u>	<u>627,753,780</u>	<u>1,458,233,292</u>	<u>(605,687,165)</u>	<u>852,546,127</u>
Claims paid during the year	3,541,412,022	(694,946,433)	2,846,465,589	2,704,174,962	(537,901,527)	2,166,273,435
Outstanding at beginning of the year	965,222,932	(468,830,982)	496,391,950	748,083,907	(470,927,759)	277,156,148
Incurred but not reported	493,010,360	(136,856,183)	356,154,177	236,622,578	(126,431,736)	110,190,842
	<u>1,458,233,292</u>	<u>(605,687,165)</u>	<u>852,546,127</u>	<u>977,706,485</u>	<u>(597,359,495)</u>	<u>387,346,990</u>
Claims incurred	<u>3,362,611,745</u>	<u>(740,938,503)</u>	<u>2,621,673,242</u>	<u>3,178,374,391</u>	<u>(546,229,197)</u>	<u>2,631,472,572</u>

b) Claims Triangulation Analysis by Accident Year

The Company maintains 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.

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

11. CLAIMS (Continued)

b) Claims Triangulation Analysis by Accident Year (Continued)

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>TOTAL</i>
At the end of accident year	1,148,964,653	1,525,392,055	1,759,169,129	2,030,374,787	2,865,129,379	3,196,138,714	-
One year later	1,166,830,952	1,538,464,663	1,887,695,642	2,355,342,250	3,006,147,442	-	-
Two years later	1,165,977,189	1,509,521,001	1,967,918,830	2,319,793,698	-	-	-
Three years later	1,145,561,660	1,537,037,551	1,950,794,779	-	-	-	-
Four years later	1,281,007,248	1,537,201,085	-	-	-	-	-
Five years later	1,257,000,052	-	-	-	-	-	-
Ultimate paid claims (estimated)	1,257,000,052	1,537,201,085	1,950,794,779	2,319,793,698	3,006,147,442	3,196,138,714	13,267,075,770
Cumulative paid claims	1,163,139,839	1,517,572,820	1,926,513,401	2,282,009,419	2,826,915,902	2,278,623,272	11,994,774,653
Outstanding claims + IBNR	93,860,213	19,628,265	24,281,378	37,784,279	179,231,540	917,515,442	1,272,301,117

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>TOTAL</i>
At the end of accident year	607,986,350	872,154,905	1,032,598,331	1,118,997,831	1,437,617,189	2,459,547,612	-
One year later	962,313,336	1,230,576,078	1,472,573,271	1,767,464,715	2,299,915,839	-	-
Two years later	976,888,381	1,253,028,621	1,500,726,580	1,790,732,973	-	-	-
Three years later	979,244,220	1,256,681,050	1,505,276,585	-	-	-	-
Four years later	980,249,058	1,258,037,464	-	-	-	-	-
Five years later	980,674,481	-	-	-	-	-	-
Ultimate paid claims (estimated)	980,674,481	1,258,037,464	1,505,276,585	1,790,732,973	2,299,915,839	2,459,547,612	10,294,184,954
Cumulative paid claims	978,294,728	1,258,319,838	1,501,739,620	1,787,051,932	2,293,166,833	1,854,990,121	9,673,563,072
Outstanding claims + IBNR	2,379,753	(282,374)	3,536,965	3,681,041	6,749,006	604,557,491	620,621,882

12. INVESTMENT IN AN ASSOCIATE

Investment in an associate comprises of an equity investment in Al-Waseel for Electronic amounting to SR 6,000,000 (a 25% equity interest) (2013: SR 6,000,000), in an unquoted company (the "associate"), registered in the Kingdom of Saudi Arabia.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

13. INVESTMENTS

Investments are classified as set out below:

(a) Insurance Operations - Available for sale investments

	2014		
	Quoted SR	Unquoted SR	Total SR
Mutual funds	32,764,819	-	32,764,819
Bonds	38,027,812	-	38,027,812
Sukuk	-	25,000,000	25,000,000
Equities	1,939,915	-	1,939,915
Total	<u>72,732,546</u>	<u>25,000,000</u>	<u>97,732,546</u>

	2013		
	Quoted SR	Unquoted SR	Total SR
Mutual funds	52,341,125	-	52,341,125
Bonds	38,533,875	-	38,533,875
Total	<u>90,875,000</u>	<u>-</u>	<u>90,875,000</u>

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 insurance operations amounting to SR 1,844,387 (31 December 2013: SR 1,619,491) is presented within insurance operations' surplus' in the statement of financial position.

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

	2014 SR	2013 SR
At the beginning of the year	90,875,000	110,373,947
Purchase during the year	26,632,650	-
Sold during the year	(20,000,000)	(20,000,000)
Net change in fair values	<u>97,507,650</u>	<u>90,373,947</u>
	224,896	501,053
At the end of the year	<u>97,732,546</u>	<u>90,875,000</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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13. INVESTMENTS (Continued)

(b) Shareholders' Operations - Available for sale investments

	2014		
	Quoted SR	Unquoted SR	Total SR
Mutual funds	81,619,836	7,680,000	89,299,836
Bonds	78,713,608	19,081,875	97,795,483
Sukuk	17,585,500	40,995,980	58,581,480
Equities	22,815,525	1,923,078	24,738,603
Total	200,734,469	69,680,933	270,415,402

	2013		
	Quoted SR	Unquoted SR	Total SR
Mutual funds	78,618,467	7,530,000	86,148,467
Bonds	36,539,925	-	36,539,925
Sukuk	28,693,160	40,995,500	69,688,660
Equities	-	18,750,000	18,750,000
Total	143,851,552	67,275,500	211,127,052

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 company has invested SR 10,465,653 outside the Kingdom of Saudi Arabia.

The cumulative change in fair values of available for sale investments for shareholders' operations amounting to SR 9,945,494 (31 December 2013: SR 16,254,049) is presented within shareholders' equity in the statement of financial position.

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

	2014 SR	2013 SR
At the beginning of the year	211,127,052	196,858,681
Purchased during the year	122,627,339	29,972,505
Sold during the year	(56,009,319)	(22,512,592)
	277,745,072	204,318,594
Realised loss	(1,021,115)	(162,308)
Net change in fair values	(6,308,555)	6,970,766
At the end of the year	270,415,402	211,127,052

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

13. INVESTMENTS (Continued)

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

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

	2014 SR	2013 SR
Government and quasi government	69,817,232	46,542,426
Banks & other financial institutions	252,244,948	214,953,029
Corporates	46,085,768	40,506,597
Total	368,147,948	302,002,052

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

	2014 SR	2013 SR
AA- To AAA	88,716,107	57,606,885
A- To A+	208,259,442	185,218,607
BB- To BB+	7,500,000	7,500,000
B- To B+	1,300,800	-
NA	62,371,599	51,676,560
Total	368,147,948	302,002,052

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.

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. 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 prices in active markets for the same instrument (i.e. without modification or repacking).
- 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 3: Valuation techniques for which any significant input is not based on observable market data.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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13. INVESTMENTS (Continued)

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

	2014			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
<i>Available for sale investments</i>				
Mutual Funds	114,384,655	7,680,000	-	122,064,655
Bonds	9,997,500	125,825,795	-	135,823,295
Sukuk	17,585,500	65,995,980	-	83,581,480
Equities	24,755,440	-	-	24,755,440
<i>Total available for sale investments</i>	<u>166,723,095</u>	<u>199,501,775</u>	<u>-</u>	<u>366,224,870</u>
	2013			
	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
<i>Available for sale investments</i>				
Mutual Funds	130,959,592	7,530,000	-	138,489,592
Bonds	75,073,800	-	-	75,073,800
Sukuk	28,693,160	40,995,500	-	69,688,660
<i>Total available for sale investments</i>	<u>234,726,552</u>	<u>48,525,500</u>	<u>-</u>	<u>283,252,052</u>

The unlisted security amounting to SR 1,923,078 (2013: SR 18,750,000) was stated at cost in the absence of active markets or other means of reliably measuring their fair value.

14. PREPAYMENTS AND OTHER ASSETS

	2014		2013	
	Insurance Operations SR	Shareholders' Operations SR	Insurance Operations SR	Shareholders' Operations SR
Advances to employees	8,566,528	-	7,933,707	-
Prepaid expenses	4,125,913	-	1,085,158	-
Prepayment on hospital dues	-	-	89,490,917	-
Advances to suppliers	7,552,910	-	12,804,735	-
Prepaid rent	3,814,168	-	3,507,147	-
Accrued special commission income	1,088,706	1,678,647	1,243,534	2,787,249
Others	2,064,296	-	2,030,950	-
	<u>27,212,521</u>	<u>1,678,647</u>	<u>118,096,148</u>	<u>2,787,249</u>

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15. MOVEMENT IN UNEARNED PREMIUMS

	2014			2013		
	<i>Gross SR</i>	<i>Reinsurers' share SR</i>	<i>Net SR</i>	<i>Gross SR</i>	<i>Reinsurers' share SR</i>	<i>Net SR</i>
At the beginning of the year	2,298,631,011	(919,402,928)	1,379,228,083	1,718,652,217	(634,044,489)	1,084,607,728
Premiums written during the year	4,415,993,030	(1,217,946,137)	3,198,046,893	4,137,512,368	(1,245,243,602)	2,892,268,766
Premiums earned during the year	(4,230,884,963)	1,103,697,647	(3,127,187,316)	(3,557,533,574)	959,885,163	(2,597,648,411)
At the end of the year	<u>2,483,739,078</u>	<u>(1,033,651,418)</u>	<u>1,450,087,660</u>	<u>2,298,631,011</u>	<u>(919,402,928)</u>	<u>1,379,228,083</u>

16. DEFERRED POLICY ACQUISITION COSTS

	<i>2014 SR</i>	<i>2013 SR</i>
At the beginning of the year	174,854,095	35,018,105
Costs incurred during the year	188,322,911	260,785,724
Amortised during the year	(162,690,998)	(120,949,734)
At the end of the year	<u>200,486,008</u>	<u>174,854,095</u>

Commissions, SAMA fees, CCHI fees, TPA fees, partial administration cost (related to underwriting and issue of policy), unearned portion of stamp charges (excluding motor business) are included in the deferred policy acquisition costs.

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For the Year Ended 31 DECEMBER 2014

17. PROPERTY AND EQUIPMENT, NET

	<i>Leasehold improvements SR</i>	<i>Office equipment, furniture and fixtures SR</i>	<i>Computers SR</i>	<i>Motor vehicles SR</i>	<i>Total SR</i>
Cost:					
1 January 2013	24,498,546	20,339,885	14,050,972	4,088,717	62,978,120
Additions	281,914	781,718	16,443,100	661,000	18,167,732
Disposals	-	(371,608)	(674,933)	(863,431)	(1,909,972)
31 December 2013	24,780,460	20,749,995	29,819,139	3,886,286	79,235,880
Additions	6,952,955	3,914,069	11,206,737	128,000	22,201,761
Disposals	-	(768,589)	(32,901)	-	(801,490)
31 December 2014	31,733,415	23,895,475	40,992,975	4,014,286	100,636,151
Accumulated depreciation:					
1 January 2013	16,434,510	6,094,047	6,461,037	1,764,023	30,753,617
Provided during the year	3,113,205	2,785,377	3,587,339	1,007,273	10,493,194
Disposals	-	(329,603)	(667,601)	(600,501)	(1,597,705)
31 December 2013	19,547,715	8,549,821	9,380,775	2,170,795	39,649,106
Provided during the year	2,792,164	2,926,542	3,421,715	899,110	10,039,531
Disposals	-	(583,564)	(32,901)	-	(616,465)
31 December 2014	22,339,879	10,892,799	12,769,589	3,069,905	49,072,172
Net book value:					
31 December 2014	9,393,536	13,002,676	28,223,386	944,381	51,563,979
31 December 2013	5,232,745	12,200,174	20,438,364	1,715,491	39,586,774

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. This statutory deposit cannot be withdrawn without the consent of 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 480,000,000.

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 Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
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For the Year Ended 31 DECEMBER 2014

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 carrying amounts of goodwill is less than its recoverable 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.

The budgeted annual growth rate for gross premiums to be written over the next three years to be in the range of 9% to 14%.

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

20. ACCRUED EXPENSES AND OTHER LIABILITIES

	2014		2013	
	<i>Insurance Operations SR</i>	<i>Shareholders Operations SR</i>	<i>Insurance Operations SR</i>	<i>Shareholders Operations SR</i>
Employees' end of service benefits (note 21)	36,945,296	-	33,863,687	-
Accrued CCHI fees	29,739,476	-	30,110,038	-
Payable to suppliers	6,947,736	-	8,475,299	-
Accrued expenses	4,252,178	1,549,000	5,542,992	899,500
Other payables	360,601	842,777	866,774	-
	<u>78,245,287</u>	<u>2,391,777</u>	<u>78,858,790</u>	<u>899,500</u>

21. EMPLOYEES' END OF SERVICE BENEFITS

	<i>2014 SR</i>	<i>2013 SR</i>
At the beginning of the year	33,863,687	25,767,309
Charged during the year (note 23)	6,088,907	10,144,510
Paid during the year	(3,007,298)	(2,048,132)
At the end of the year (note 20)	<u>36,945,296</u>	<u>33,863,687</u>

22. UNEARNED REINSURANCE COMMISSION

	<i>2014 SR</i>	<i>2013 SR</i>
At the beginning of the year	39,772,672	49,901,488
Commission received during the year	112,278,591	98,089,544
Commission earned during the year	(78,593,396)	(108,218,360)
At the end of the year	<u>73,457,867</u>	<u>39,772,672</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2014		2013	
	Insurance Operations SR	Shareholders' Operations SR	Insurance Operations SR	Shareholders' Operations SR
Employee salaries and costs	153,102,452	-	120,096,642	-
Supervision and inspection fees - CCHI	30,756,075	-	15,999,589	-
Rent	21,188,893	-	19,199,593	-
Supervision and inspection fees - SAMA	20,838,549	-	9,394,670	-
Professional fees	11,271,422	480,250	9,411,510	660,050
Depreciation	10,039,531	-	9,061,038	-
Employees' end of service benefits (note 21)	6,088,907	-	10,144,510	-
Stationery	5,749,891	37,500	4,148,913	72,948
Withholding taxes on reinsurance payments	5,523,159	-	6,582,828	-
Repair and maintenance	5,398,318	-	3,331,615	-
Promotion and advertising	3,360,108	3,200	3,860,266	54,570
Business travel and transport	3,068,211	71,328	2,482,475	31,398
Utilities	1,323,092	-	846,386	-
Board of Directors and other committees remunerations and expenses	-	2,770,100	-	2,190,000
Others	13,017,480	220,161	19,252,015	8,456,284
	<u>290,726,088</u>	<u>3,582,539</u>	<u>233,812,050</u>	<u>11,465,250</u>

24. OTHER INCOME

	2014 SR	2013 SR
Income from hospitals for prompt settlement of claims	42,822,910	34,758,400
Others	28,552,431	41,417,237
	<u>71,375,341</u>	<u>76,175,637</u>

25. ZAKAT AND INCOME TAX

a) Zakat charge for the year

The zakat charge for the year consists of the current year's charge amounting to SR 7,637,368 (2013: SR 4,730,853).

The zakat provision is based on the following:

	2014 SR	2013 SR
Share capital	1,000,000,000	1,000,000,000
Opening provisions and other adjustments	330,513,787	46,230,376
Book value of long term assets	(769,973,064)	(699,011,697)
Zakat base	<u>560,540,723</u>	<u>347,218,679</u>
Saudi shareholders' share of zakat base	<u>305,494,694</u>	<u>189,234,180</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

25. ZAKAT AND INCOME TAX (Continued)

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

b) Income tax charge for the year

Income tax relating to the non Saudi shareholders in 2014 amounting to SR 11,869,256 consists of the 2014 year charge, which has been provided for based on the estimated taxable profit at 45.5%. There was no income tax in 2013 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:

	<u>2014</u> <u>SR</u>	<u>2013</u> <u>SR</u>
At the beginning of the year	12,453,909	45,800,704
Charge during the year (1)	7,052,715	4,730,853
Payments in advance	-	(7,641,020)
Payments during the year	-	(30,436,628)
At the end of the year	<u>19,506,624</u>	<u>12,453,909</u>

(1) Zakat and income tax charge for the year is SR 19,506,624. The company had an extra provision of SR 12,453,909 as at 31 December 2013. An amount of SR 7,052,715 has been charged in the statement of comprehensive income to meet the required provision as at 31 December 2014.

d) Status of zakat and tax assessments

The Company has filed its zakat and income tax declarations for the period from 16 April 2007 to 31 December 2013 with the Department of Zakat and Income Tax (DZIT) and the assessments of the same years have not been completed yet. The DZIT has disallowed a deduction of statutory deposit for the year 2012 and this matter led to a Zakat difference amounting to SR 1.19 million. The company has already made the payment and submitted an appeal for this matter.

26. SHARE CAPITAL

The authorized and paid up share capital of the Company is SR 1,000 million divided into 100 million shares of SR 10 each (2013: SR 1,000 million 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.

28. 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

29. 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:

	2014	2013
	SR	SR
Less than one year	-	-
One to five years	20,585,150	22,234,215
	<u>20,585,150</u>	<u>22,234,215</u>

c) *Contingencies and capital commitments*

As at 31 December 2014, the Company's banker has issued letters of guarantee of SR 15,024,955 (2013: SR 7,050,489) to various customers, motor agencies and workshops as per the terms of the agreements with them (note 7). The Company had no capital commitments in 2014 (2013: nil).

30. 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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30. SEGMENTAL INFORMATION (Continued)

Operating segments

For the year ended 31 December 2014

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Others SR</i>	<i>Total SR</i>
Insurance operations				
Gross premiums written	2,973,946,998	685,938,313	756,107,719	4,415,993,030
Net premiums written	2,527,956,673	574,760,362	95,329,858	3,198,046,893
Net premiums earned	2,571,315,949	464,754,363	91,117,004	3,127,187,316
Net claims incurred	(2,204,605,385)	(398,054,245)	(19,013,612)	(2,621,673,242)
Policy acquisition costs	(110,049,067)	(27,422,469)	(25,219,462)	(162,690,998)
Reinsurance commission income	23,999,752	10,473,381	44,120,263	78,593,396
Net underwriting result	280,661,249	49,751,030	91,004,193	421,416,472
General and administrative expenses				(290,726,088)
Special commission income and other income				79,263,066
Insurance operations' surplus				209,953,450

For the year ended 31 December 2013

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Others SR</i>	<i>Total SR</i>
Insurance operations				
Gross premiums written	3,010,993,691	394,001,233	732,517,444	4,137,512,368
Net premiums written	2,453,077,394	342,756,446	96,434,926	2,892,268,766
Net premiums earned	2,228,107,553	287,390,263	82,150,595	2,597,648,411
Net claims incurred	(2,386,078,573)	(232,211,612)	(13,182,387)	(2,631,472,572)
Policy acquisition costs	(66,855,113)	(26,592,961)	(27,501,660)	(120,949,734)
Reinsurance commission income	45,164,905	8,228,388	54,825,067	108,218,360
Net underwriting result	(179,661,228)	36,814,078	96,291,615	(46,555,535)
General and administrative expenses				(233,812,050)
Special commission income and other income				82,432,173
Insurance operations' deficit				(197,935,412)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

30. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

<i>As at 31 December 2014</i>	<i>Medicul SR</i>	<i>Motor SR</i>	<i>Others SR</i>	<i>Total SR</i>
<i>Insurance operations' assets</i>				
Reinsurers' share of unearned premiums	199,407,761	61,598,321	772,645,336	1,033,651,418
Reinsurers' share of outstanding claims	99,855,122	43,776,078	508,048,035	651,679,235
Deferred policy acquisition costs	156,856,792	12,506,742	31,122,474	200,486,008
Unallocated assets	-	-	-	2,491,499,650
				<u>4,377,316,311</u>
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	1,329,385,070	307,991,603	846,362,405	2,483,739,078
Unearned reinsurance commission	20,609,453	8,112,774	44,735,640	73,457,867
Gross outstanding claims	622,120,487	114,966,245	535,214,385	1,272,301,117
Unallocated liabilities	-	-	-	547,818,249
				<u>4,377,316,311</u>
 <i>As at 31 December 2013</i>	 <i>Medicul SR</i>	 <i>Motor SR</i>	 <i>Others SR</i>	 <i>Total SR</i>
<i>Insurance operations' assets</i>				
Reinsurers' share of unearned premiums	242,708,330	24,749,519	651,945,079	919,402,928
Reinsurers' share of outstanding claims	168,344,497	22,158,634	415,184,034	605,687,165
Deferred policy acquisition costs	142,318,219	5,371,905	27,163,971	174,854,095
Unallocated assets	-	-	-	2,642,695,166
				<u>4,342,639,354</u>
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	1,416,044,916	161,136,803	721,449,292	2,298,631,011
Unearned reinsurance commission	-	557,769	39,214,903	39,772,672
Gross outstanding claims	913,459,313	99,791,953	438,654,648	1,451,905,914
Unallocated liabilities	-	-	-	552,329,757
				<u>4,342,639,354</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

31. 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 audited annually 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 937,500 (31 December 2013: SR 937,500)

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 further enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company. The Company has a quota-share treaty ceding 15% of its risks.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

31. 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 9,835,652 (31 December 2013: SR 10,110,393) 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:

	<i>2014</i> <i>SR</i>	<i>2013</i> <i>SR</i>
Middle East	132,289,708	90,853,075
Europe	519,389,527	514,834,090
	<u>651,679,235</u>	<u>605,687,165</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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 DECEMBER 2014

31. 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:

	2014		2013	
	<i>Insurance Operations SR</i>	<i>Shareholders' Operations SR</i>	<i>Insurance Operations SR</i>	<i>Shareholders' Operations SR</i>
Bank balances and cash	688,436,434	241,618,786	686,260,377	315,793,912
Time deposits	227,222,265	-	129,639,726	126,149,039
Investments	97,732,546	270,415,402	90,875,000	211,127,052
Statutory deposit	-	107,382,259	-	106,308,807
Premiums and reinsurance balances receivable	1,325,049,622	-	1,240,053,958	-
Advances to employees	8,566,528	-	7,933,707	-
Advances to suppliers	7,552,910	-	12,804,735	-
Accrued special commission income	1,088,706	1,678,647	1,243,534	2,787,249
Reinsurers' share of outstanding claims	651,679,235	-	605,687,165	-
Due from related parties	73,751,591	-	68,969,606	-
	<u>3,081,079,837</u>	<u>621,095,094</u>	<u>2,843,467,808</u>	<u>762,166,059</u>

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 2014

31. 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:

	2014			2013		
	Up to one year SR	More than one year SR	Total SR	Up to one year SR	More than one year SR	Total SR
INSURANCE OPERATIONS' FINANCIAL LIABILITIES						
Gross outstanding claims	1,074,758,205	197,542,912	1,272,301,117	1,300,225,856	151,680,058	1,451,905,914
Accounts and commission payable	180,814,057	-	180,814,057	73,314,933	-	73,314,933
Reinsurance balances payable	84,139,436	-	84,139,436	294,402,083	-	294,402,083
Accrued expenses and other liabilities	78,245,287	-	78,245,287	78,858,790	-	78,858,790
Surplus distribution payable	20,995,345	85,595,806	106,591,151	-	85,595,806	85,595,806
	<u>1,438,952,330</u>	<u>283,138,718</u>	<u>1,722,091,048</u>	<u>1,746,801,662</u>	<u>237,275,864</u>	<u>1,984,077,526</u>
SHAREHOLDERS' FINANCIAL LIABILITIES						
Accrued expenses and other liabilities	2,391,777	-	2,391,777	899,500	-	899,500
Provision for zakat and income tax	19,506,624	-	19,506,624	4,730,853	7,723,056	12,453,909
	<u>21,898,401</u>	<u>-</u>	<u>21,898,401</u>	<u>5,630,353</u>	<u>7,723,056</u>	<u>13,353,409</u>
TOTAL FINANCIAL LIABILITIES	<u>1,460,850,731</u>	<u>283,138,718</u>	<u>1,743,989,449</u>	<u>1,752,432,015</u>	<u>244,998,920</u>	<u>1,997,430,935</u>

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
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended 31 December 2014

31. 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 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.

	2014				2013			
	Saudi Riyals SR	US Dollar SR	Others SR	Total SR	Saudi Riyals SR	US Dollar SR	Others SR	Total SR
INSURANCE OPERATIONS' ASSETS								
Bank balances and cash	626,694,828	62,272,298	-	688,967,126	576,197,306	110,397,664	-	686,594,970
Time deposits	227,222,265	-	-	227,222,265	129,639,726	-	-	129,639,726
Premiums and reinsurance balances receivable	1,199,316,547	118,099,060	7,634,015	1,325,049,622	1,037,496,469	200,389,034	2,168,455	1,240,053,958
Due from related parties	73,751,591	-	-	73,751,591	68,969,606	-	-	68,969,606
Due from shareholders' operations	-	-	-	-	268,878,984	-	-	268,878,984
Reinsurers' share of outstanding claims	594,595,128	56,923,322	160,785	651,679,235	605,687,165	-	-	605,687,165
Investments	59,704,733	38,027,813	-	97,732,546	52,341,125	38,533,875	-	90,875,000
Prepayments and other assets	27,043,771	168,750	-	27,212,521	117,728,531	367,617	-	118,096,148
Reinsurers' share of unearned premium	1,033,651,418	-	-	1,033,651,418	919,402,928	-	-	919,402,928
Deferred policy acquisition costs	200,486,008	-	-	200,486,008	174,854,095	-	-	174,854,095
Property and equipment, net	51,563,979	-	-	51,563,979	39,586,774	-	-	39,586,774
TOTAL INSURANCE OPERATIONS' ASSETS	4,094,030,268	275,491,243	7,794,800	4,377,316,311	3,990,782,709	349,688,190	2,168,455	4,342,639,354
SHAREHOLDERS' ASSETS								
Cash and cash equivalents	229,865,001	11,750,363	3,422	241,618,786	105,327,900	210,462,590	3,422	315,793,912
Time deposits	-	-	-	-	66,805,289	59,343,750	-	126,149,039
Due from insurance operations	60,873,479	-	-	60,873,479	-	-	-	-
Investment in an associate	6,000,000	-	-	6,000,000	6,000,000	-	-	6,000,000
Investments	151,749,394	118,666,008	-	270,415,402	136,229,443	74,897,609	-	211,127,052
Prepayments and other assets	236,156	1,442,491	-	1,678,647	926,395	1,860,854	-	2,787,249
Land	30,000,000	-	-	30,000,000	30,000,000	-	-	30,000,000
Statutory deposit	107,382,259	-	-	107,382,259	106,308,807	-	-	106,308,807
Goodwill	480,000,000	-	-	480,000,000	480,000,000	-	-	480,000,000
TOTAL SHAREHOLDERS' ASSETS	1,066,106,289	131,858,862	3,422	1,197,968,573	931,597,834	346,564,803	3,422	1,278,166,059
TOTAL ASSETS	5,160,136,557	407,350,105	7,798,222	5,575,284,884	4,922,380,543	696,252,993	2,171,877	5,620,805,413

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 2014

31. RISK MANAGEMENT (Continued)

f) Foreign currency risk (Continued)

	2014				2013			
	SR	US Dollar	Other	Total	SR	US Dollar	Other	Total
	SR	SR	SR	SR	SR	SR	SR	SR
INSURANCE OPERATIONS' LIABILITIES								
Gross outstanding claims	1,214,418,611	57,703,856	178,650	1,272,301,117	1,451,905,914	-	-	1,451,905,914
Accounts and commission payable	180,814,057	-	-	180,814,057	73,314,933	-	-	73,314,933
Reinsurance balances payable	74,661,930	8,306,622	1,170,884	84,139,436	110,151,189	183,562,512	688,382	294,402,083
Due to shareholders' operations	60,873,479	-	-	60,873,479	-	-	-	-
Accrued expenses' and other liabilities	78,245,287	-	-	78,245,287	78,858,790	-	-	78,858,790
Surplus distribution payable	106,591,151	-	-	106,591,151	85,595,806	-	-	85,595,806
Unearned reinsurance commission	73,457,867	-	-	73,457,867	39,772,672	-	-	39,772,672
Gross unearned premiums	2,483,739,078	-	-	2,483,739,078	2,298,631,011	-	-	2,298,631,011
Other reserves	7,131,898	-	-	7,131,898	6,327,378	-	-	6,327,378
Due to related parties	28,178,554	-	-	28,178,554	12,211,276	-	-	12,211,276
TOTAL INSURANCE OPERATIONS' LIABILITIES	4,308,111,912	66,010,478	1,349,534	4,375,471,924	4,156,768,969	183,562,512	688,382	4,341,019,863
SHAREHOLDERS' LIABILITIES								
Accrued expenses and other liabilities	2,391,777	-	-	2,391,777	899,500	-	-	899,500
Provision for zakat and income tax	19,506,624	-	-	19,506,624	12,453,909	-	-	12,453,909
Due to insurance operations	-	-	-	-	268,878,984	-	-	268,878,984
TOTAL SHAREHOLDERS' LIABILITIES	21,898,401	-	-	21,898,401	282,232,393	-	-	282,232,393
TOTAL LIABILITIES	4,330,010,313	66,010,478	1,349,534	4,397,370,325	4,439,001,362	183,562,512	688,382	4,623,252,256

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 2014

31. 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 certain of its 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 2014		
Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 4,320,404
	- 50 basis points	SR (4,320,404)
31 December 2013		
Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 4,705,225
	- 50 basis points	SR (4,705,225)

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 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 is set out below:

	Change in market price	Effect on statement of shareholders comprehensive operations SR
2014	+5%	8,908,212
	-5%	(8,908,212)
2013	+5%	8,476,666
	-5%	(8,476,666)

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 2014

31. 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 Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares. In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to capital management objectives, policies and processes from the previous year.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 22 Rabi Al-Akhar 1436H corresponding to 11 February, 2015.