
**THE MEDITERRANEAN AND GULF COOPERATIVE INSURANCE
AND REINSURANCE COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL INFORMATION AND
INDEPENDENT AUDITORS' LIMITED REVIEW REPORT**

**FOR THE THREE AND SIX MONTH PERIODS ENDED
30 JUNE 2017**

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

Unaudited Interim Condensed Financial Information and Independent Auditors' Limited Review Report
For the three and six month periods ended 30 June 2017

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

INTRODUCTION

We have reviewed the accompanying interim statement of financial position of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (a Saudi Joint Stock Company) (the "Company") as at 30 June 2017 and the related interim statements of income and accumulated surplus and comprehensive income - insurance operations, income and comprehensive income - shareholders' operations for the three month and six month period ended 30 June 2017 and interim statements of changes in shareholders' equity and cash flows for insurance and shareholders' operations for the six month period then ended and other explanatory notes (the interim condensed financial information). Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) and Saudi Arabian Monetary Authority (SAMA) guidance on accounting for zakat and income taxes. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and income taxes.

EMPHASIS OF MATTER

1. We draw attention to Note 16 to the accompanying interim condensed financial information which states that on 30 March 2016, the Saudi Arabian Monetary Authority ("SAMA") issued a letter to the Company that highlighted the deteriorating solvency margin of the Company and the rectification measures to be taken by the Company according to Article 68 of the Insurance Implementing Regulations. The Company was not able to meet the solvency margin requirement by 30 September 2016 as instructed by SAMA and had not submitted the final approved plan as required by the aforesaid letter. On 27 December 2016, SAMA issued another letter binding the Company to provide an approved plan to meet the requirement of solvency margin by 18 January 2017 and take necessary measures to ensure fulfilment of the rights of the policy holders. The detailed plan was subsequently provided to SAMA during the period ended 31 March 2017, after approval by the Company's Board of Directors. During the three month period ended 30 June 2017, the accumulated deficit of the Company increased to Saudi Riyals 734 million, which resulted in further deterioration in the solvency margin of the

Company. Due to continuous decline in the financial performance of the Company, the management does not expect to meet the solvency margin requirements by 2018 as previously planned and communicated to SAMA by the management based on the consultant report. The Company is in the process of revising its business plan, which management believes is expected to gradually improve the Company's financial position and increase the solvency margin.

2. We draw attention to Note 1 to the accompanying interim condensed financial information which indicates that the Company incurred a net loss of Saudi Riyals 417 million and Saudi Riyals 510 million for the three month and six month period ended 30 June 2017, respectively, and had accumulated deficit of Saudi Riyals 734 million as at 30 June 2017 which exceeds one half of its share capital as of that date. In accordance with the requirements of the Regulations for Companies (the "Regulations"), the Board of Directors of the Company shall invite an extraordinary general assembly meeting within period specified by the Regulations to decide whether to increase or decrease the Company's share capital under the provisions of the Regulations to the extent to reduce the losses to less than one half of the paid up capital or to dissolve the Company before its term set in its Bye laws. The Company shall be deemed terminated in the following cases:
- (i) Extraordinary general assembly fails to meet within the period specified in the Regulations;
 - (ii) Extraordinary general assembly meeting fails to issue a resolution in this regard;
 - (iii) Subscriptions in pursuance of resolution passed by extraordinary general assembly meeting raised within period specified by the Regulations are insufficient to reduce the losses to less than one half of the paid up capital.

These conditions, along with other matters as set forth in Note 16, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The Board of Directors of the Company in their meeting held on 10 August 2017 have resolved to call for an extraordinary general assembly meeting within the period specified in the Regulations and reduce the share capital of the Company in order to comply with the requirements of the Regulations. However, it is subject to the approval by SAMA and the Company's shareholders.

Our conclusion is not qualified in respect of the above matters.

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21 Dul Qaada 1438H
13 August 2017



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

INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

(Amounts in SR'000)

	Notes	30 June 2017 (Unaudited)	31 December 2016 (Audited)
INSURANCE OPERATIONS' ASSETS			
Bank balances and cash	5	314,488	487,122
Time deposits	6	314,797	225,504
Policyholders' and reinsurance balances receivable	7	1,061,312	1,243,775
Investments	8a,11a(ii)	28,337	28,308
Due from related parties	11a	8,066	2,065
Due from shareholders' operations		483,758	66,600
Reinsurers' share of outstanding claims		607,732	595,941
Reinsurers' share of unearned premiums		515,831	536,383
Deferred policy acquisition costs		160,011	122,797
Prepayments and other assets		192,839	187,017
Property and equipment, net		29,806	51,155
TOTAL INSURANCE OPERATIONS' ASSETS		3,716,977	3,546,667
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	104,412	211,677
Interest on statutory deposit		14,170	11,072
Investments	8b,11a(ii)	142,687	146,076
Prepayments and other assets		1,540	2,598
Investment in an associate	9	14,802	14,802
Land		30,000	30,000
Statutory deposit	10,11a(i)	150,000	150,000
Goodwill		480,000	480,000
TOTAL SHAREHOLDERS' ASSETS		937,611	1,046,225
TOTAL ASSETS		4,654,588	4,592,892

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2017

(Amounts in SR'000)

	Notes	30 June 2017 (Unaudited)	31 December 2016 (Audited)
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims		1,285,113	1,323,956
Due to related party	11a	13,191	5,643
Accounts and commission payable		114,297	123,710
Accrued expenses and other liabilities		220,244	184,354
Reinsurance balances payable		99,172	86,172
Surplus distribution payable		111,566	111,566
Unearned reinsurance commission		30,412	36,584
Gross unearned premiums		1,796,386	1,629,251
Other claim reserves		46,290	45,154
TOTAL INSURANCE OPERATIONS' LIABILITIES		3,716,671	3,546,390
INSURANCE OPERATIONS' SURPLUS			
Cumulative change in fair values of available for sale investments	8a	306	277
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		3,716,977	3,546,667
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities		635	635
Interest payable on statutory deposit		14,170	11,072
Provision for zakat and income tax		21,786	15,398
Due to insurance operations		483,758	66,600
TOTAL SHAREHOLDERS' LIABILITIES		520,349	93,705
SHAREHOLDERS' EQUITY			
Share capital	14	1,000,000	1,000,000
Statutory reserve	15	146,135	146,135
Accumulated deficit		(733,970)	(199,101)
Cumulative change in fair values of available for sale investments	8b	5,097	5,486
TOTAL SHAREHOLDERS' EQUITY		417,262	952,520
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		937,611	1,046,225
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		4,654,588	4,592,892

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF INCOME AND ACCUMULATED SURPLUS - INSURANCE
OPERATIONS
(Amounts in SR'000)

		<i>For the three month period ended</i>		<i>For the six month period ended</i>	
		30 June	30 June	30 June	30 June
		2017	2016	2017	2016
	<i>Notes</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Gross premiums written	12	869,031	891,381	1,653,045	2,124,963
Reinsurance premiums ceded		(163,346)	(143,188)	(256,799)	(297,913)
Excess of loss premiums		(3,350)	(4,134)	(6,699)	(7,958)
NET PREMIUMS WRITTEN		702,335	744,059	1,389,547	1,819,092
Change in unearned premiums, net		(116,021)	(4,255)	(187,687)	(272,448)
NET PREMIUMS EARNED		586,314	739,804	1,201,860	1,546,644
Gross claims paid and other expenses		(632,530)	(841,822)	(1,295,053)	(1,722,880)
Reinsurers' share of gross claims paid		70,221	88,831	138,964	221,782
Change in outstanding claims, net		30,670	102,092	50,634	180,904
Change in other claim reserves		(8,155)	(6,490)	(1,136)	(11,421)
NET CLAIMS INCURRED		(539,794)	(657,389)	(1,106,591)	(1,331,615)
Policy acquisition costs	12	(36,709)	(36,318)	(74,032)	(96,405)
Reinsurance commission income	12	12,659	10,848	36,985	48,526
NET UNDERWRITING RESULT		22,470	56,945	58,222	167,150
General and administrative expenses		(76,957)	(90,503)	(149,452)	(180,663)
Impairment on discontinued ERP system		(25,688)	-	(25,688)	-
Provision for doubtful debts	7,11	(358,064)	(20,000)	(432,564)	(35,000)
Impairment losses on available for sale investments		-	-	-	(725)
Special commission income		2,143	6,483	6,337	9,312
Other income		19,112	12,352	32,590	20,204
INSURANCE OPERATIONS' DEFICIT		(416,984)	(34,723)	(510,555)	(19,722)
Shareholders' appropriation from insurance operations' deficit	2	416,984	34,723	510,555	19,722
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION		-	-	-	-

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF COMPREHENSIVE INCOME - INSURANCE OPERATIONS

(Amounts in SR'000)

	<i>Notes</i>	<u><i>For the three month period ended</i></u>		<u><i>For the six month period ended</i></u>	
		<i>30 June</i> <i>2017</i> <i>(Unaudited)</i>	<i>30 June</i> <i>2016</i> <i>(Unaudited)</i>	<i>30 June</i> <i>2017</i> <i>(Unaudited)</i>	<i>30 June</i> <i>2016</i> <i>(Unaudited)</i>
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION		-	-	-	-
Other comprehensive income:					
Items that will not be reclassified to interim statement of income in subsequent period					
Impairment loss transferred to interim statement of income	8 (a)	-	-	-	725
Items that may be reclassified to interim statement of income in subsequent period					
<u>Available for sale investments</u>					
Change in fair values	8 (a)	12	(2,415)	29	(2,313)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		12	(2,415)	29	(1,588)

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS

(Amounts in SR'000)

		<u>For the three month period ended</u>		<u>For the six month period ended</u>	
		30 June 2017	30 June 2016	30 June 2017	30 June 2016
	Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
INCOME					
Shareholders' appropriation from insurance operations' deficit	2	(416,984)	(34,723)	(510,555)	(19,722)
Special commission income		1,430	3,165	3,146	4,906
Realised gain on sale of available for sale investments		-	12,838	-	12,838
Dividend income on available for sale investments		-	326	-	326
		(415,554)	(18,394)	(507,409)	(1,652)
EXPENSES					
General and administrative		(1,764)	(1,290)	(2,880)	(2,154)
Impairment loss available for sale investments		-	-	-	(616)
		(1,764)	(1,290)	(2,880)	(2,770)
NET LOSS FOR THE PERIOD		(417,318)	(19,684)	(510,289)	(4,422)
BASIC AND DILUTED LOSSES PER SHARE FOR THE PERIOD	13	(4.17)	(0.20)	(5.10)	(0.04)

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS
(Amounts in SR'000)

	<u>For the three month period ended</u>		<u>For the six month period ended</u>	
	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>	<u>30 June</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
				(Restated)
				refer to note 4
				(a)
NET LOSS FOR THE PERIOD				
Other comprehensive (loss) / income:				
Items that will not be reclassified to interim statement of income in subsequent period				
Impairment loss transferred to interim statement of income	8 (b)	-	-	616
Items that may be reclassified to interim statement of income in subsequent period				
Available for sale investments				
Change in fair values	8 (b)	182	(6,953)	(8,252)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(417,136)	(510,678)	(12,058)

 



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

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six month period ended 30 June 2017
(Amounts in SR'000)

	Share capital	Statutory reserve	Accumulated deficit	Cumulative change in fair value of available for sale investments	Total
Balance at 1 January 2017 (Audited)	1,000,000	146,135	(199,101)	5,486	952,520
Zakat	-	-	(24,580)	-	(24,580)
Total comprehensive loss for the period:					
Net loss for the period	-	-	(510,289)	-	(510,289)
Change in fair values	-	-	-	(389)	(389)
Balance at 30 June 2017 (Unaudited)	1,000,000	146,135	(733,970)	5,097	417,262
Balance at 1 January 2016 (Audited)	1,000,000	146,135	(249,265)	15,261	912,131
Zakat	-	-	(3,525)	-	(3,525)
Income tax	-	-	(2,686)	-	(2,686)
Total comprehensive loss for the period:					
Net loss for the period	-	-	(4,422)	-	(4,422)
Change in fair values	-	-	-	(8,252)	(8,252)
Impairment loss transferred to interim statement of income shareholders' operations	-	-	-	616	616
Balance at 30 June 2016 (Unaudited)	1,000,000	146,135	(259,898)	7,625	893,862

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the six month period ended 30 June 2017

(Amounts in SR'000)

	Note	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		-	-
<i>Adjustments to reconcile insurance operations' surplus after shareholders' appropriation to net cash generated from / (used in) operating activities:</i>			
Shareholders' appropriation from insurance operations' deficit		(510,555)	(19,722)
Depreciation		4,710	4,727
Special commission income		(6,337)	(9,312)
Provision for doubtful debts		432,564	35,000
Gain on sale of property and equipment, net		(5)	-
Realised gain on sale of available for sale investments		-	(1,683)
Impairment on discontinued ERP system		25,688	-
Impairment losses on available for sale investment		-	725
<i>Cash from / (used in) operations</i>		(53,935)	9,735
<i>Changes in operating assets and liabilities:</i>			
Gross unearned premiums		167,135	232,080
Reinsurers' share of unearned premiums		20,552	40,368
Policyholders' and reinsurance balances receivable		(250,101)	(143,909)
Due from related parties		(6,001)	71,967
Due to related parties		7,548	14,792
Reinsurers' share of outstanding claims		(11,791)	(4,904)
Deferred policy acquisition costs		(37,214)	(21,652)
Prepayments and other assets		(5,822)	(97,403)
Deposit against letters of guarantee		820	1,259
Gross outstanding claims		(38,843)	(176,000)
Accounts and commissions payable		(9,413)	(27,476)
Accrued expenses and other liabilities		35,890	(1,874)
Reinsurance balances payable		13,000	61,203
Shareholders' appropriation from insurance operations' deficit		510,555	19,722
Unearned reinsurance commission		(6,172)	(670)
Other reserves		1,136	11,421
Net cash generated from / (used in) operating activities		337,344	(11,341)
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		(89,293)	74,847
Special commission income		6,337	9,312
Proceeds from sale of available for sale investment		-	31,326
Proceeds from sale of property and equipment		20	-
Purchase of property and equipment		(9,064)	(3,876)
Net cash (used in) / generated from investing activities		(92,000)	111,609
CASH FLOWS FROM FINANCING ACTIVITY			
Due from shareholders' operations, net		(417,158)	(34,123)
Net cash used in financing activity		(417,158)	(34,123)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(171,814)	66,145
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5	460,611	574,244
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	288,797	640,389
Non-cash transaction:			
Change in fair values of available for sale investments	8 (a)	29	(1,588)

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

INTERIM STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the six month period ended 30 June 2017

(Amounts in SR'000)

	Note	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		(510,289)	(4,422)
<i>Adjustments for:</i>			
Special commission income		(3,146)	(4,906)
Dividend income on available for sale investments		-	(326)
Realised gain on sale of available for sale investments		-	(12,838)
Income from investment in associate		-	-
Impairment losses on available for sale investment		-	616
Cash used in operations		(513,435)	(21,876)
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		1,058	(782)
Zakat paid		(18,192)	(2,871)
Net cash used in operating activities		(530,569)	(25,529)
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		-	96,052
Proceeds from sale of available for sale investment	8 (b)	3,000	49,782
Purchase of available for sale investments		-	-
Special commission income		3,146	4,906
Dividend income on available for sale investments		-	326
Increase in statutory deposit		-	(50,000)
Net cash generated from investing activities		6,146	101,066
CASH FLOWS FROM FINANCING ACTIVITY			
Due to insurance operations, net		417,158	34,123
Net cash generated from financing activity		417,158	34,123
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(107,265)	109,660
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5	211,677	108,912
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	104,412	218,572
<i>Non-cash transactions:</i>			
Change in fair values of available for sale investments	8 (b)	(389)	(7,636)

The accompanying notes 1 to 19 form an integral part of these interim condensed financial information.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 June 2017

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 Al-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).

The Company incurred a net loss of Saudi Riyals 417 and 510 million for the three month and six month period ended 30 June 2017, respectively, and has accumulated losses of Saudi Riyals 734 million as at 30 June 2017 which exceeds one half of its share capital as of that date. In accordance with the requirements of the Regulations for Companies (the "Regulations"), the Board of Directors of the Company shall invite an extraordinary general assembly within period specified by the Regulations to decide whether to increase or decrease the Company's share capital under the provisions of the Regulations to the extent to reduce the losses to less than one half of the paid up capital or to dissolve the Company before its term set in its Bye laws. The Company shall be deemed terminated in the following cases:

- (i) Extra ordinary general assembly fails to meet within the period specified within the regulations;
- (ii) Extra ordinary general assembly fails to issue a resolution in this regard;
- (iii) Subscriptions in pursuance of resolution passed by extra ordinary general assembly raised within period specified by the regulation are insufficient to reduce the losses to less than one half of the paid up capital.

These conditions, along with other matters as set forth in Note 16, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The Board of Directors of the Company in their meeting dated 18 Dhul Qa`dah 1438 Hijri (corresponding to 10 August 2017) have resolved to call for an extraordinary general assembly meeting within the period specified within the Regulations and reduce the share capital of the Company in order to comply with the requirements of the Regulations. However, it is subject to the approval by SAMA and the Company's shareholders.

As indicated in Note 16, due to continuous decline in the financial performance of the Company, the management does not expect to meet the solvency margin requirements by 2018 as previously planned and communicated to SAMA by the management based on the consultant report. The Company is in the process of revising its business plan, which management believes is expected to gradually improve the Company's financial position and increase the solvency margin. (Also see Note 16).

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

30 June 2017

2. BASIS OF PREPARATION

Basis of measurement

The interim condensed financial statements (interim condensed financial information) 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

During 2017, SAMA issued a circular number 381000074519 dated 14 Rajab 1438H (April 11, 2017) ("Circular") and subsequent amendments through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments is that zakat and tax will be recognized in the interim statement of changes in shareholders' equity with a corresponding liability in the interim statement of financial position.

Applying the above framework, the interim condensed financial information of the Company as of and for the six month period ended 30 June 2017 have been prepared using the International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") and SAMA guidance for the accounting of zakat and income tax.

Until 2016, the interim condensed financial information of the Company were prepared in accordance with the IAS 34. This change in framework resulted in a change in the presentation of zakat and income tax (as disclosed in note 4(a)) to the interim condensed financial information.

The accompanying interim condensed financial information do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as of and for the year ended 31 December 2016.

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' deficit of the Company for the six month period ended 30 June 2017 amounted to SR 510,555 thousand (30 June 2016: deficit of SR 19,722 thousand). Accordingly, no transfer from insurance operations to the shareholders' operations (30 June 2016: no transfer from insurance operations to the shareholders' operations).

In management's opinion, the interim condensed financial information reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim periods presented. The interim results may not be indicative of the Company's annual results.

As required by Saudi Arabian Insurance Regulations, the Company maintains separate accounts for insurance and shareholders' operations and presents the financial information accordingly. Income and expenses clearly attributable to the relevant activity are recorded in the respective books of accounts. The basis of allocation of expenses from joint operations is determined by Management and Board of Directors.

3. FUNCTIONAL AND PRESENTATION CURRENCY

These unaudited interim condensed financial information has been presented in Saudi Arabian Riyal (SR), being the functional and presentational currency of the Company. All financial information presented has been rounded off to the nearest SR thousands.

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
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4. SIGNIFICANT ACCOUNTING POLICIES AND AMENDMENTS TO STANDARDS

The accounting policies and risk management policy used in the preparation of the interim condensed financial information are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2016, except:

- a. The Company used to charge zakat and income tax to the interim statement of changes in shareholders' equity through the interim statement of shareholders' comprehensive income. As a result of the Circular, the Company has changed its presentation relating to zakat and income tax and has started to charge zakat and income tax directly to the interim statement of shareholders' equity. The Company has accounted for this change retrospectively, which has resulted in the increase in other comprehensive income by SR 1,936 and SR 6,211 for the three month and six month period ended 30 June 2016 respectively. The effect of restatement is as follows:

	As previously stated	Effect of zakat and tax restatement	Amount restated
Three month period ended 30 June 2016			
Interim statement of comprehensive income – shareholder's operations	(28,573)	1,936	(26,637)
Six month period ended 30 June 2016			
Interim statement of comprehensive income – shareholder's operations	(18,269)	6,211	(12,058)

The above change did not have any impact on total of the shareholders' equity of prior periods presented earlier; and earning per share.

- b. The adoption of amendments to the existing standards, as mentioned below, which has had no significant financial impact on the financial information of the Company.

Amendments to existing standards

-Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

-Amendments to IAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses: Annual periods beginning on or after 1 January 2017. These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to IASs- Disclosure Initiative" applicable from 1 January 2017.

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 condensed 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.

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

Standards issued but not yet effective (Continued)

IFRS 9 Financial Instruments

The implementation of IFRS 9 is expected to result in a significant portion of financial assets currently classified as available-for-sale being re-classified as at fair value through profit or loss or fair value through other comprehensive income (OCI). Credit allowances for financial assets carried at amortized cost and debt securities measured at fair value, with changes in fair value recognized in OCI, are expected to increase due to the introduction of the expected credit loss methodology. Upon implementation of the revised standard IFRS 4 'Insurance Contracts', more assets may be classified as at fair value through profit or loss under the fair value option. The Company continues to monitor the IASB progress on amendments to IFRS 4 which also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. The Company expects that it will be eligible for this temporary exemption and will consider deferring the implementation of IFRS 9 until a later date, but no later than 1 January 2021.

IFRS 17 - Insurance Contracts

IFRS 17 applies to virtually all insurance contracts (including reinsurance contracts) that an entity issues, reinsurance contracts that it holds and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021.

The following new or amended standards are not expected to have significant impact on the financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 16 Leases

5. BANK BALANCES AND CASH

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	SR'000	SR'000	SR'000	SR'000
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>
Cash in hand and at banks	71,848	4,825	31,535	24,739
Short-term time deposits	216,949	99,587	429,076	186,938
<i>Cash and cash equivalents in the statement of cash flows</i>	288,797	104,412	460,611	211,677
Deposits against letters of guarantee	25,691	-	26,511	-
	314,488	104,412	487,122	211,677

Short term time deposits are placed with counterparties who have credit ratings equivalent to BBB+ 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 1.33% per annum (31 December 2016: 3.25% per annum).

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. The deposits against letters of guarantee cannot be withdrawn before the end of guarantee and are restricted in nature.

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6. TIME DEPOSITS

Time deposits are placed with counterparties that have credit ratings equivalent to A- to BB+ 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 1.53% per annum (31 December 2016: 3.15% per annum).

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

7. POLICYHOLDERS' AND REINSURANCE BALANCES RECEIVABLE

	<i>30 June 2017 (Unaudited) SR'000</i>	<i>31 December 2016 (Audited) SR'000</i>
Policyholders' balances receivable	1,314,159	1,094,322
Less: Provision for doubtful debts	(289,363)	(182,862)
	1,024,796	911,460
Reinsurance balances receivable	363,828	335,954
Less: Provision for doubtful debts	(327,312)	(3,639)
	36,516	332,315
Total policyholders' and reinsurance balances receivable	1,061,312	1,243,775

7.1 During the period, the Company has provided SR 155 million and SR 1.5 million provision on amounts receivable from related parties in respect of reinsurance arrangements and policyholders' receivable respectively. (Also refer Note 11)

7.2 Reinsurance arrangements include certain reinsurance agreements entered through Group Corporate Reinsurance Centre (CRC). Accordingly, invoices and settlement are routed through CRC.

7.3 Major settlements including adjustment of the receivable balances, if any, subsequent to the period end are considered for adjusting the provision for doubtful debts.

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8. INVESTMENTS

Investments are classified as set out below:

(a) Insurance operations – Available for sale investments

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Mutual funds	3,337	3,308
Sukuk	25,000	25,000
Total	28,337	28,308

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

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
At the beginning of the period / year	28,308	60,224
Sold during the period / year	-	(31,326)
	28,308	28,898
Realised gain	-	1,683
Impairment loss	-	(725)
Net change in fair values	29	(1,548)
At the end of the period / year	28,337	28,308

The cumulative change in fair values of available for sale investments for insurance operations amounting to SR 306 thousand (31 December 2016: SR 277 thousand) is presented within insurance operations' surplus' in the statement of financial position.

(b) Shareholders' operations – Available for sale investments

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Mutual funds	54,999	55,626
Bonds	47,765	47,527
Sukuk	38,000	41,000
Equities	1,923	1,923
Total	142,687	146,076

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(Continued)

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8. INVESTMENTS (Continued)

(b) Shareholders' operations – Available for sale investments (Continued)

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

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
At the beginning of the period / year	146,076	242,014
Sold during the period / year	(3,000)	(99,282)
	143,076	142,732
Realised gain	-	13,735
Impairment loss	-	(616)
Net change in fair values	(389)	(9,775)
At the end of the period / year	142,687	146,076

The cumulative change in fair values of available for sale investments for shareholders' operations amounting to SR 5,097 thousand (31 December 2016: SR 5,486 thousand) is presented within shareholders' equity in the statement of financial position.

(c) 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 interim condensed financial information. 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 market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.
- Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy cumulatively for insurance and shareholders operations:

(i) Insurance operations – Fair Value

	30 June 2017 (Unaudited)		
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000
Available for sale investments			Total SR'000
Mutual funds	3,337	-	3,337
Sukuk	-	25,000	25,000
Total available for sale investments	3,337	25,000	28,337

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8. INVESTMENTS (Continued)

(c) Fair value (Continued)

(i) Insurance operations – Fair Value (Continued)

	31 December 2016(Audited)			Total SR'000
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	
Available for sale investments				
Mutual funds	3,308	-	-	3,308
Sukuk	-	25,000	-	25,000
Total available for sale investments	3,308	25,000	-	28,308

(ii) Shareholders' operations –Fair value

	30 June 2017 (Unaudited)			Total SR'000
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	
Available for sale investments				
Mutual funds	54,999	-	-	54,999
Bonds	9,998	37,767	-	47,765
Sukuk	-	38,000	-	38,000
Equities	-	-	1,923	1,923
Total available for sale investments	64,997	75,767	1,923	142,687

	31 December 2016(Audited)			Total SR'000
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	
Available for sale investments				
Mutual funds	55,626	-	-	55,626
Bonds	9,998	37,529	-	47,527
Sukuk	-	41,000	-	41,000
Equities	-	-	1,923	1,923
Total available for sale investments	65,624	78,529	1,923	146,076

9. INVESTMENT IN AN ASSOCIATE

Investment in an associate comprises of an equity investment in Al-Waseel for Electronic Transportation amounting to SR 14,802 thousand (a 25% equity interest) (2016: SR 14,802), in an unquoted company (the “associate”), registered in the Kingdom of Saudi Arabia.

10. STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. Further, SAMA has increased the statutory deposit by 5% and accordingly the Company has transferred the same to arrive at 15% statutory deposit (refer to note 16). This statutory deposit cannot be withdrawn without the consent of the Saudi Arabian Monetary Authority (“SAMA”).

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		30 June 2017	30 June 2016	30 June 2017	31 December 2016
		Unaudited	Unaudited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Due from related parties					
Medgulf BSC - Head office account (parent company)	-Claims recoveries on behalf of parent company	325	639	-	-
	-Payment received during the period	-	23,879	-	-
	-Balance due from at period / year end	-	-	2,390	2,065
	-Provision for doubtful debts	-	-	(2,390)	-
	-Net Balance due from at period / year end	-	-	-	2,065
Medgulf BSC - Operation account (parent company)	-Payment received during the period	-	24,206	-	-
Medgulf Egypt (fellow subsidiary)	-Payment received during the period	-	58	-	-
Medgulf Jordan (fellow subsidiary)	-Payment received during the period	-	25	-	-
Motion al-Saudia (fellow subsidiary) (in liquidation)	-Payment received during the period	-	10,924	-	-
Addison Bradley Arabia- KSA – (fellow subsidiary)	-Payment received during the period	-	13,066	-	-

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		30 June 2017	30 June 2016	30 June 2017	31 December 2016
		Unaudited	Unaudited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
<u>Due from related parties</u>					
Al Samiya Trading Co (fellow subsidiary)	-Payment received during the period	-	448	-	-
	-Due from Al Samiya (refer note 11.a (vi))	-	-	8,066	-
	Total due from related parties			8,066	2,065
<u>Due to related party</u>					
Medivisa KSA (fellow subsidiary)	-Insurance premium for employees of fellow subsidiary	3,646	3,843	-	-
	-Third party administration fees	40,359	52,339	-	-
	-Claim incurred	22	46	-	-
	-Payment received	11	37	-	-
	-Premium refundable	307	213	-	-
	-Payment on third party administration fees	29,500	34,000	-	-
	-Balance due to at period / year end	-	-	53,780	46,232
	-Amount set off in favour of Medgulf BSC (refer 11.a(iv))	-	-	(40,589)	(40,589)
	-Balance due to at period / year end			13,191	5,643
	Total due to related party			13,191	5,643

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(Continued)

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
Others related parties transactions and balances – due from / (due to)		30 June 2017	30 June 2016	30 June 2017	31 December 2016
		Unaudited	Unaudited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
The Saudi Investment Bank, (Founding shareholders)	-Current account and time deposits	162,365	29,365	183,185	20,820
	-Statutory deposit (refer note 11.a (i))	3,098	50,928	164,170	161,072
	-Gross written premiums	299	161	-	-
	-Premiums refundable	-	-	(1,057)	(1,013)
	-Claims incurred / adjustment	3	783	-	-
	-Outstanding claims	-	-	(601)	(597)
Saudi Orix (Shareholders of the parent company)	-Gross written premiums	18,928	25,694	-	-
	-Premiums receivable	-	-	1,878	1,313
	-Provision for doubtful debts	-	-	(207)	-
	-Net Balance receivable at period / year end	-	-	1,671	-
	-Claims incurred	12,237	12,263	-	-
	-Outstanding claims	-	-	(275)	(56)
Safari Group of companies (common Directorship)	-Gross written premiums	9,057	15,696	-	-
	-Premiums receivable	-	-	6,520	188
	-Provision for doubtful debts	-	-	(633)	-
	-Net Balance receivable at period / year end	-	-	5,887	-
	-Claims incurred	5,433	7,033	-	-
	-Claims payable	-	-	(177)	(20)

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		30 June 2017	30 June 2016	30 June 2017	31 December 2016
		Unaudited SR'000	Unaudited SR'000	Unaudited SR'000	Audited SR'000
Medivisa KSA (fellow subsidiary)	-Medical claim	1,552	1,446	2,879	1,327
	Jordan / balance				
	-Medical claim	302	277	667	365
	Lebanon / balance				
Al Istithmar Capital (subsidiary of SIB-founding shareholders)	-Medical claim	52	141	129	77
	Egypt / balance				
	-Discretionary				
	portfolio arrangement	864	28	54,762	55,626
Khalid A. Al Shathry Construction Co. (Under common directorship)	(refer 11.a (ii))				
	-GCC Equity Fund	-	9,272	-	-
	-Gross Written Premium	-	24	-	-
	-Premiums refundable	-	-	(38)	(38)
Khalid A. Al Shathry Construction Co. (Under common directorship)	-Gross written premiums	281	12	-	-
	-Premiums receivable	-	-	173	143
	-Provision for doubtful debts	-	-	(125)	-
	-Net Balance receivable at period / year end	-	-	48	-
Sanaya Dental Care (Under common directorship)	-Claims incurred	7	25	-	-
	- Outstanding (claims) / recovery	-	-	1	1
	-Medical claim	55	84	-	-
	-Payment on account	63	93	-	-
Saleh Al-Sagri (individual motor policies of Director)	-Balance due from / to at period / year end	-	-	1	(8)
	-Gross written premiums	9	64	-	-
	-Claims incurred	-	2	-	-
	-Gross written premiums	7	-	-	-
Lutfi Fadel El Zein - board member	-Premiums receivable	-	-	286	286
	-Provision for doubtful debts	-	-	(258)	-
	-Net Balance receivable at period / year end	-	-	28	-

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		30 June 2017	30 June 2016	30 June 2017	31 December 2016
		Unaudited SR'000	Unaudited SR'000	Unaudited SR'000	Audited SR'000
Medgulf BSC (parent company)	-Claim recoveries	-	25,801	-	-
	-Balance receivable at period / year end	-	126,586	163,385	206,255
	-Amount set off in favour of Medgulf BSC (refer 11.a(iv))	-	-	(40,589)	(40,589)
	-Provision for doubtful debts	-	-	(122,796)	-
	-Net Balance receivable at period / year end (refer 11.a(iv))	-	-	-	165,666
Khalid A. Al Shathry- board member (individual motor policies)	-Gross written premiums	-	7	-	-
	-Premiums receivables	-	-	349	522
	-Provision for doubtful debts	-	-	(323)	-
	-Net Balance receivable at period / year end	-	-	26	-
	-Outstanding (claims) / recovery	-	-	10	10
Al Jasamah establishment (Under common directorship) note 11.a(iii)	-Claims incurred	-	74	-	-
	-Payment received	-	54,527	-	-
Addison Bradley Overseas (fellow subsidiary)	-Payment received from reinsurer through a related party for run off treaty (Refer 11.a (V))	15,000	-	-	-
	-Payment received by Addison Bradley / Medgulf Lebanon in favour of Medgulf KSA for run off treaty (Refer 11.a (V))	-	-	32,276	-
	-Provision for doubtful debts	-	-	(32,276)	-
	-Net Balance due from at period / year end	-	-	-	-

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the year ended		Balance	
		30 June 2017	30 June 2016	30 June 2017	31 December 2016
		Unaudited SR'000	Unaudited SR'000	Unaudited SR'000	Audited SR'000
Creative Solutions Restaurants Co. (Under common directorship) note 11.a(iii)	-Gross written premiums	-	218	-	-
	-Claims incurred	-	186	-	-
SIB LLC (UAE) (fellow subsidiary)	-Payment received during the period	-	31	-	-
	-Balance due to at period / year end	-	-	-	-
Addison Bradley Arabia-KSA (fellow subsidiary)	-Payment received during the period	-	4,570	-	-
Emad J. Baban (individual motor policies of Director) note 11.a(iii)	-Gross written premiums	-	20	-	-
Addison Bradley Arabia Holding LLC (UAE) (fellow subsidiary)	-Reinsurance claim recoveries payable	-	2	-	-
	-Payment received during the period	-	2,692	-	-

11.a(i) Statutory deposit is placed with the Saudi Investment Bank, at the commission rate of 0.7% per annum

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

11.a(iii) Creative Solution Restaurants Co., Al Jasamah establishment and Emad J. Baban are no longer a related party. The transactions and balances are presented for comparison only.

11.a(iv) Balance due from Medgulf BSC (parent company) amounting to SR 122.796 million is after setting off SR 40.5 million due to Medivisa KSA, which was withheld by the Company for its dues from Medgulf BSC in accordance with mutual agreement of all parties. Subsequently, the shareholders of Medivisa KSA (fellow subsidiary) has issued a credit note of SR 40.5 million to this effect. Further a net doubtful debt provision amounting to of SR 122.79 million has been provided against receivable from Medgulf BSC due to significant delays and uncertainty in settling the balance.

11.a(v) This represent payment received by related parties for reinsurance agreements that was arranged through Group Corporate Reinsurance Centre (CRC). Management believes that SR 32 million has been collected by the related parties in respect of reinsurance arrangements and the recovery of the balance from the related parties is considered doubtful.

11.a(vi) The full amount was received from Al Samiya trading company during August 2017.

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(Continued)

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

11.b Compensation of key management personnel

The remuneration of the Board of Directors and other key management personnel during the period is as follows:

	30 June 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Short term benefits	5,918	16,577
End of service benefits	171	1,089
	6,089	17,666

12. 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 administrative 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.

Shareholders' operations is a non-operating segment. Certain direct operating expenses, other overhead expenses and surplus from the insurance operations are allocated to this segment on an appropriate basis as approved by management.

Operating segments

**For the six-month period ended
June 2017 (Unaudited)**

	Medical SR'000	Motor SR'000	Other SR'000	Total SR'000
Insurance operations				
Gross premiums written	1,184,761	237,821	230,463	1,653,045
Net premiums written	1,184,761	169,246	35,540	1,389,547
Net premiums earned	1,028,504	137,354	36,002	1,201,860
Net claims incurred	(1,019,059)	(87,450)	(82)	(1,106,591)
Policy acquisition costs	(49,939)	(11,761)	(12,332)	(74,032)
Reinsurance commission income	-	20,417	16,568	36,985
Net underwriting result	(40,494)	58,560	40,156	58,222
General and administrative expenses				(149,452)
Impairment on discontinued ERP system				(25,688)
Provision for doubtful debts				(432,564)
Special commission income and other income				38,927
Insurance operations' deficit				(510,555)

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

30 June 2017

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

*For the six-month period ended
June 2016 (Unaudited)*

	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Other SR'000</i>	<i>Total SR'000</i>
Insurance operations				
Gross premiums written	1,517,065	382,122	225,776	2,124,963
Net premiums written	1,516,065	263,668	39,359	1,819,092
Net premiums earned	1,280,919	221,545	44,180	1,546,644
Net claims incurred	(1,132,870)	(188,990)	(9,755)	(1,331,615)
Policy acquisition costs	(62,270)	(19,467)	(14,668)	(96,405)
Reinsurance commission income	-	22,517	26,009	48,526
Net underwriting result	85,779	35,605	45,766	167,150
General and administrative expenses and impairment charge on available for sale investment				(181,388)
Provision for doubtful debts				(35,000)
Special commission income and other income				29,516
Insurance operations' deficit				(19,722)

*For the three month period ended
June 2017 (Unaudited)*

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Other SR</i>	<i>Total SR</i>
Insurance operations				
Gross premiums written	580,032	151,521	137,478	869,031
Net premiums written	580,032	108,241	14,062	702,335
Net premiums earned	505,165	62,030	19,119	586,314
Net claims incurred	(527,093)	(14,184)	1,483	(539,794)
Policy acquisition costs	(25,664)	(4,855)	(6,190)	(36,709)
Reinsurance commission income	-	5,837	6,822	12,659
Net underwriting result	(47,592)	48,828	21,234	22,470
General and administrative expenses				(76,957)
Discontinued ERP system				(25,688)
Provision for doubtful debts				(358,064)
Special commission income and other income				21,255
Insurance operations' deficit				(416,984)

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

30 June 2017

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

*For the three month period ended
June 2016 (Unaudited)*

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Other SR</i>	<i>Total SR</i>
<i>Insurance operations</i>				
Gross premiums written	633,958	143,143	114,280	891,381
Net premiums written	633,958	97,713	12,388	744,059
Net premiums earned	613,620	110,581	15,603	739,804
Net claims incurred	(556,216)	(96,410)	(4,763)	(657,389)
Policy acquisition costs	(30,775)	1,644	(7,187)	(36,318)
Reinsurance commission income	-	(502)	11,350	10,848
Net underwriting result	26,629	15,313	15,003	56,945
General and administrative expenses and impairment charge on available for sale investment				(90,503)
Provision for doubtful debts				(20,000)
Special commission income and other income				18,835
Insurance operations' deficit				(34,723)

*As at 30 June 2017
(Unaudited)*

	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Other SR'000</i>	<i>Total SR'000</i>
<i>Insurance operations' assets</i>				
Reinsurers' share of unearned premiums	-	57,388	458,443	515,831
Reinsurers' share of outstanding claims	-	54,893	552,839	607,732
Deferred policy acquisition costs	121,628	16,847	21,536	160,011
Unallocated assets				2,433,403
				3,716,977
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	1,083,208	206,853	506,325	1,796,386
Unearned reinsurance commission	-	4,313	26,099	30,412
Gross outstanding claims	516,718	184,565	583,830	1,285,113
Unallocated liabilities				605,066
				3,716,977

**The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

30 June 2017

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

<i>As at 31 December 2016 (Audited)</i>	<i>Medical SR'000</i>	<i>Motor SR'000</i>	<i>Other SR'000</i>	<i>Total SR'000</i>
<i>Insurance operations' assets</i>				
Reinsurers' share of unearned premiums	-	50,389	485,994	536,383
Reinsurers' share of outstanding claims	3,099	87,584	505,258	595,941
Deferred policy acquisition costs	91,258	9,949	21,590	122,797
Unallocated assets				2,291,546
				<u>3,546,667</u>
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	926,951	167,962	534,338	1,629,251
Unearned reinsurance commission	-	11,058	25,526	36,584
Gross outstanding claims	536,346	247,263	540,347	1,323,956
Unallocated liabilities				556,876
				<u>3,546,667</u>

13. BASIC AND DILUTED EARNINGS / (LOSSES) PER SHARE

Basic and diluted earnings per share for the period was calculated by dividing the loss for the period by the weighted average number of shares issued and outstanding during the period amounting to 100 million shares.

14. 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. 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. The Share capital represents foreign shareholders by 45.5% and Saudi shareholders by 54.5% as at the period end.

15. STATUTORY RESERVE

In accordance with its By-laws, the Company shall allocate 20% of its net income 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. Since there was accumulated deficit for the period ended 30 June 2017 and year ended 31 December 2016, there was null transfer to statutory reserve.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

30 June 2017

16. SOLVENCY MARGIN

During the period ended 31 March 2016, SAMA issued a letter to the Company under Ref. 371000070025 dated 30 March 2016. The letter highlighted the deteriorating solvency margin of the Company and the rectification measures to be taken by the Company according to Article 68 of the Insurance Implementing Regulations. SAMA in its aforesaid letter instructed the Company to meet the solvency margin requirement by 30 September 2016 and increase its statutory deposit from 10% to 15% of the paid up capital before 21 April 2016. Further, SAMA directed the Company to appoint a consultant to study the reasons for the deterioration of the financial position and formulate a strategy to overcome the deterioration. The letter also indicated that detailed progress report on the consultant's work, on a monthly and quarterly basis, and final report should be submitted to SAMA. During the three month period ended 30 June 2016, the Company increased the statutory deposit to 15% of the paid up capital, appointed a consultant and started submitting the consultant's monthly and quarterly reports to SAMA as advised. The Company was not able to meet the solvency margin requirement by 30 September 2016 as instructed by SAMA and had not submitted the final approved plan as required by the aforesaid letter. On 27 December 2016, SAMA issued another letter binding the Company to provide an approved plan to meet the requirement of solvency margin by 18 January 2017 and take necessary measures to ensure fulfilment of the rights of the policy holders. The detailed plan was subsequently provided to SAMA during the period ended 31 March 2017, after approval of the Company's Board of Directors. During the three month period ended 30 June 2017, the accumulated deficit of the Company increased to Saudi Riyals 734 million, which resulted in further deterioration in the solvency margin of the Company. Due to continuous decline in the financial performance of the Company, the management does not expect to meet the solvency margin requirements by 2018 as previously planned and communicated to SAMA by the management based on the consultant report. The Company is in the process of revising its business plan, which management believes is expected to gradually improve the Company's financial position and increase the solvency margin.

17. STATUS OF ZAKAT, WITHHOLDING AND INCOME TAXES

The Company has filed an appeal for Zakat, income tax and withholding tax for assessment years 2009 to 2012. The management has made appropriate provisions in these interim condensed financial statements based on the advice of Company's Zakat and Income Tax consultant.

18. COMPARATIVE INFORMATION

Comparative information has been reclassified to conform with current period presentation.

19. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial information have been approved by the Board of Directors on 18 Dhul Qa'dah 1438 Hijri (corresponding to 10 August 2017).