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

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

**FOR THE THREE AND TWELVE MONTH PERIODS ENDED
31 DECEMBER 2016**

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

**Unaudited Interim Condensed Financial Statements and Independent Auditors' Limited Review Report
For the three and twelve month periods ended 31 December 2016**

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

SCOPE OF REVIEW

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 31 December 2016 and the related interim statement of income - insurance operations and accumulated surplus, interim statement of comprehensive income for insurance operations, interim statements of income and comprehensive income - shareholders' operations for the three-month and twelve-month periods then ended and interim statement of changes in shareholders' equity and interim statements of cash flows for insurance and shareholders' operations for the twelve-month period ended 31 December 2016 and the related notes 1 to 17 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Accounting Standard - 34 "Interim Financial Reporting" (IAS 34) and submitted to us together with all the information and explanations which we required.

We conducted our review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

CONCLUSION

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with IAS 34.



EMPHASES OF MATTER

1. We draw attention to Note 16 of the accompanying interim condensed financial statements which states that during the nine-month period ended 30 September 2016, the Saudi Arabian Monetary Authority ("SAMA") issued a letter to the Company that highlighted the deteriorating solvency margin of the Company and the rectification measures to be taken by the Company according to Article 68 of the Insurance Implementing Regulations. The Company was not able to meet the solvency margin requirement by 30 September 2016 as instructed by SAMA and had not submitted the final approved plan as required by the aforesaid letter. On 27 December 2016, SAMA issued another letter binding the Company to provide an approved plan to meet the requirement of solvency margin by 18 January 2017 and take necessary measures to ensure fulfilment of the rights of the policy holders. The detailed plan has subsequently been provided to SAMA after approval by the Company's board of directors. The Company continues to take the necessary actions as advised by SAMA, through implementation of corrective action plan as advised by the consultant and approved by the Company's board of directors; which is expected to gradually improve the Company's financial position and increase the solvency margin.
2. We also draw attention to Note 2 of the accompanying interim condensed financial statements which states that during the three-month period 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 has also prohibited the Company from issuing any new motor insurance policies with effect from 29 November 2016. The Company will however be allowed to add vehicles to existing insurance policies and renew insurance policies issued prior to 29 November 2016. The Company continues to take necessary actions, as advised by SAMA, and has already submitted a detailed report as required by SAMA. Management believes that it will be able to resolve the matter in the near future.
3. We draw attention to the fact that these interim condensed financial statements are prepared in accordance with IAS 34 and not in accordance with the Standard on Interim Financial Reporting issued by SOCPA.

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21 Rabi Al-Thani 1438H
19 January 2017



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

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016 (Unaudited)	31 December 2015 (Audited)
INSURANCE OPERATIONS' ASSETS			
Bank balances and cash	5	487,122	595,318
Time deposits	6	225,504	197,790
Policyholders' and reinsurance balances receivable	7	1,289,064	1,688,147
Investments	8a, 11a(ii)	28,308	60,224
Due from related parties	11a	2,065	72,606
Due from shareholders' operations		66,600	157,118
Reinsurers' share of outstanding claims		595,941	671,314
Reinsurers' share of unearned premiums		536,383	713,158
Deferred policy acquisition costs		141,336	181,807
Prepayments and other assets		163,778	54,851
Property and equipment, net		51,155	55,219
TOTAL INSURANCE OPERATIONS' ASSETS		3,587,256	4,447,552
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	211,677	108,912
Time deposits	6	-	96,052
Interest on statutory deposit		11,072	7,757
Investments	8b, 11a(ii)	146,076	242,014
Prepayments and other assets		2,598	1,782
Investment in an associate	9	14,802	12,095
Land		30,000	30,000
Statutory deposit	10, 11a(i)	150,000	100,000
Goodwill		480,000	480,000
TOTAL SHAREHOLDERS' ASSETS		1,046,225	1,078,612
TOTAL ASSETS		4,633,481	5,526,164

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016 (Unaudited)	31 December 2015 (Audited)
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims		1,323,956	1,664,788
Due to related parties	11a	46,232	40,589
Accounts and commission payable		123,710	211,837
Accrued expenses and other liabilities		184,354	156,593
Reinsurance balances payable		86,172	120,216
Surplus distribution payable		111,566	106,591
Unearned reinsurance commission		36,584	56,315
Gross unearned premiums		1,629,251	2,054,448
Other claim reserves		45,154	34,350
TOTAL INSURANCE OPERATIONS' LIABILITIES		3,586,979	4,445,727
INSURANCE OPERATIONS' SURPLUS			
Cumulative change in fair values of available for sale investments	8a	277	1,825
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		3,587,256	4,447,552
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities		635	762
Interest payable on statutory deposit		11,072	7,757
Provision for zakat and income tax		15,398	844
Due to insurance operations		66,600	157,118
TOTAL SHAREHOLDERS' LIABILITIES		93,705	166,481
SHAREHOLDERS' EQUITY			
Share capital	14	1,000,000	1,000,000
Statutory reserve	15	146,135	146,135
Accumulated deficit		(199,101)	(249,265)
Cumulative change in fair values of available for sale investments	8b	5,486	15,261
TOTAL SHAREHOLDERS' EQUITY		952,520	912,131
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		1,046,225	1,078,612
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		4,633,481	5,526,164

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

INTERIM STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS

(Amounts in SR'000)

	<i>For the three month period ended</i>		<i>For the twelve month period ended</i>	
	<i>31 December 2016</i>	<i>31 December 2015</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Note	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Gross premiums written	558,405	583,479	3,194,334	4,001,934
Reinsurance premiums ceded	(97,366)	(129,493)	(482,785)	(629,566)
Excess of loss premiums	(2,924)	(5,565)	(14,345)	(13,853)
NET PREMIUMS WRITTEN	458,115	448,421	2,697,204	3,358,515
Change in unearned premiums, net	226,724	409,290	248,422	108,798
NET PREMIUMS EARNED	684,839	857,711	2,945,626	3,467,313
Gross claims paid and other expenses	(714,862)	(918,072)	(3,104,021)	(3,557,372)
Reinsurers' share of gross claims paid	84,863	149,036	384,371	688,741
Change in outstanding claims, net	24,648	(67,397)	265,459	(372,853)
Change in other claim reserves	11,452	(16,665)	(10,804)	(27,218)
NET CLAIMS INCURRED	(593,899)	(853,098)	(2,464,995)	(3,268,702)
Policy acquisition costs	(41,626)	(57,655)	(187,685)	(227,317)
Reinsurance commission income	22,388	19,552	85,002	110,880
NET UNDERWRITING RESULT	71,702	(33,490)	377,948	82,174
General and administrative expenses	(89,860)	(114,824)	(396,805)	(397,469)
Impairment losses on available for sale investments	-	-	(725)	-
Special commission income	5,976	1,987	20,832	5,902
Other income	18,712	20,461	48,497	60,173
INSURANCE OPERATIONS' SURPLUS / (DEFICIT)	6,530	(125,866)	49,747	(249,220)
Shareholders' appropriation from insurance operations' surplus / (deficit)	2 (5,877)	(125,866)	(44,772)	(249,220)
ACCUMULATED SURPLUS AT THE END OF THE PERIOD	653	-	4,975	-

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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)

Note	<u>For the three month period ended</u>		<u>For the twelve month period ended</u>	
	<u>31 December</u> <u>2016</u> <u>(Unaudited)</u>	<u>31 December</u> <u>2015</u> <u>(Unaudited)</u>	<u>31 December</u> <u>2016</u> <u>(Unaudited)</u>	<u>31 December</u> <u>2015</u> <u>(Audited)</u>
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION	653	-	4,975	-
Other comprehensive loss:				
Items that may be reclassified to statement of income in subsequent period				
<u>Available for sale investments</u>				
Change in fair values	8a 21	115	(2,273)	(19)
Impairment loss transferred to interim statement of income	8a -	-	725	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	674	115	3,427	(19)

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

INTERIM STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS

(Amounts in SR'000)

		<i>For the three month period ended</i>		<i>For the twelve month period ended</i>	
	<i>Notes</i>	<i>31 December 2016 (Unaudited)</i>	<i>31 December 2015 (Unaudited)</i>	<i>31 December 2016 (Unaudited)</i>	<i>31 December 2015 (Audited)</i>
INCOME / (LOSS)					
Shareholders' appropriation from insurance operations' surplus / (deficit)	2	5,877	(125,866)	44,772	(249,220)
Special commission income		3,128	2,112	10,304	7,110
Realised gain on sale of available for sale investments	8b	897	61	13,735	774
Dividend income on available for sale investments		385	(225)	711	996
Income from investment in an associate		2,707	3,372	2,707	6,095
Other income		-	-	162	-
		12,994	(120,546)	72,391	(234,245)
EXPENSES					
General and administrative		(1,009)	(2,770)	(4,164)	(10,829)
Impairment losses on available for sale investments	8b	-	(2,442)	(616)	(16,193)
		(1,009)	(5,212)	(4,780)	(27,022)
NET INCOME / (LOSS) FOR THE PERIOD		11,985	(125,758)	67,611	(261,267)
BASIC AND DILUTED EARNING / (LOSS) PER SHARE FOR THE PERIOD	13	0.12	(1.26)	0.68	(2.61)

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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>31 December</u>		<u>For the twelve month period ended</u> <u>31 December</u>	
<u>Note</u>	<u>(Unaudited)</u>	<u>2015</u> <u>(Unaudited)</u>	<u>2016</u> <u>(Unaudited)</u>	<u>2015</u> <u>(Audited)</u>
NET INCOME / (LOSS) FOR THE PERIOD	11,985	(125,758)	67,611	(261,267)
Other comprehensive (loss) / income:				
Items that will not be reclassified to interim statement of income in subsequent period				
<u>Zakat and income tax</u>	(3,020)	(1,438)	(17,447)	(7,988)
Items that may be reclassified to interim statement of income in subsequent period				
<u>Available for sale investments</u>				
Change in fair values	(872)	(5,224)	3,344	(10,103)
(Gain) transferred to interim statement of income	(897)	(61)	(13,735)	(774)
Impairment loss transferred to statement of income	-	2,442	616	16,193
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	7,196	(130,039)	40,389	(263,939)

8b

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the twelve month period ended 31 December 2016
(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 2016 (Audited)	1,000,000	146,135	(249,265)	15,261	912,131
Total comprehensive income for the period:					
Net income for the period	-	-	67,611	-	67,611
Zakat and income tax	-	-	(17,447)	-	(17,447)
Change in fair values	-	-	-	3,344	3,344
(Gain) transferred to interim statement of income shareholders' operations				(13,735)	(13,735)
Impairment loss transferred to interim statement of income shareholders' operations	-	-	-	616	616
Balance at 31 December 2016 (Unaudited)	1,000,000	146,135	(199,101)	5,486	952,520
Balance at 1 January 2015 (Audited)	1,000,000	146,135	19,990	9,945	1,176,070
Total comprehensive loss for the period:					
Net loss for the period	-	-	(261,267)	-	(261,267)
Zakat and income tax	-	-	(7,988)	-	(7,988)
Change in fair values	-	-	-	(10,103)	(10,103)
Gain transferred to interim statement of income shareholders' operations	-	-	-	(774)	(774)
Impairment loss transferred to statement of income shareholders' operations	-	-	-	16,193	16,193
Balance at 31 December 2015 (Audited)	1,000,000	146,135	(249,265)	15,261	912,131

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

INTERIM STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the twelve month period ended 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016 (Unaudited)	31 December 2015 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		4,975	-
<i>Adjustments to reconcile insurance operations' surplus after shareholders' appropriation to net cash (used in) / from operating activities:</i>			
Shareholders' appropriation from insurance operations' surplus		44,772	-
Depreciation		9,471	9,073
Special commission income		(19,149)	(5,892)
Provision for doubtful debts		35,000	10,000
Gain on sale of property and equipment, net		(135)	(90)
Realised gain on sale of available for sale investments	8a	(1,683)	(10)
Impairment losses on available for sale investment	8a	725	-
Cash from operations		73,976	13,081
<i>Changes in operating assets and liabilities:</i>			
Gross unearned premiums		(425,197)	(429,291)
Reinsurers' share of unearned premiums		176,775	320,493
Policyholders' and reinsurance balances receivable		364,083	(373,097)
Due from related parties		70,541	1,146
Due to related parties		5,643	12,410
Reinsurers' share of outstanding claims		75,373	(19,634)
Deferred policy acquisition costs		40,471	18,679
Prepayments and other assets		(108,927)	(27,640)
Deposit against letters of guarantee		(5,437)	(6,049)
Gross outstanding claims		(340,832)	392,487
Accounts and commissions payable		(88,127)	31,023
Accrued expenses and other liabilities		27,761	78,348
Reinsurance balances payable		(34,044)	36,077
Shareholders' appropriation from insurance operations' surplus		(44,772)	-
Unearned reinsurance commission		(19,731)	(17,143)
Other claims reserves		10,804	27,218
Net cash (used in) / generated from operating activities		(221,640)	58,108
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		(27,714)	29,432
Special commission income		19,149	5,892
Proceeds from sale of available for sale investment	8a	31,326	37,500
Proceeds from sale of property and equipment		163	241
Purchase of property and equipment		(5,435)	(12,879)
Net cash generated from investing activities		17,489	60,186
CASH FLOWS FROM FINANCING ACTIVITIES			
Due from shareholders' operations, net		90,518	(217,992)
Net cash from / (used in) financing activities		90,518	(217,992)
DECREASE IN CASH AND CASH EQUIVALENTS		(113,633)	(99,698)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5	574,244	673,942
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	460,611	574,244
Non-cash transaction:			
Change in fair values of available for sale investments		(1,548)	(19)

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

INTERIM STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the twelve month period ended 31 December 2016

(Amounts in SR'000)

	Notes	31 December 2016 (Unaudited)	31 December 2015 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the period		67,611	(261,267)
<i>Adjustments for:</i>			
Special commission income		(10,304)	(7,110)
Dividend income on available for sale investments		(711)	(996)
Realised gain on sale of available for sale investments	8b	(13,735)	(774)
Income from investment in an associate		(2,707)	(6,095)
Impairment losses on available for sale investment	8b	616	16,193
Cash from / (used in) operations		40,770	(260,049)
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		(816)	(103)
Accrued expenses and other liabilities		3,188	6,127
Zakat and income tax paid		43,142 (2,893)	6,024 (26,651)
Net cash generated from / (used in) operating activities		40,249	(280,676)
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		96,052	(96,052)
Proceeds from sale of available for sale investment		99,282	18,298
Special commission income		10,304	7,110
Dividend income on available for sale investments		711	996
Increase in statutory deposit		(50,000)	-
Interest on statutory deposit		(3,315)	(375)
Net cash generated from / (used in) investing activities		153,034	(70,023)
CASH FLOWS FROM FINANCING ACTIVITIES			
Due (from) / to insurance operations, net		(90,518)	217,992
Net cash (used in) / generated from financing activities		(90,518)	217,992
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		102,765	(132,707)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5	108,912	241,619
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5	211,677	108,912
<i>Non-cash transactions:</i>			
Change in fair values of available for sale investments		(9,775)	5,316

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) 31 December 2016

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010231925 dated 8 Rabi 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).

2. BASIS OF PREPARATION

Basis of measurement

The interim condensed 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 accompanying interim condensed financial statements for the twelve month period ended 31 December 2016 are prepared in accordance with IAS 34 – Interim Financial Reporting.

The accompanying interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended 31 December 2015.

As indicated in Note 16 to the accompanying interim condensed financial statements, the Company continues to take the necessary actions as advised by SAMA to comply with the solvency margin. The management of the Company believes that it will be able to comply with the underlying requirements in the near future through implementation of corrective action plan as advised by the consultant and approved by the Company's board of directors. Accordingly, these accompanying interim condensed financial statements are prepared on a going concern basis (Also see Note 16).

During the three-month period 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 has also prohibited the Company from issuing any new motor insurance policies with effect from 29 November 2016. The Company will however be allowed to add vehicles to existing insurance policies and renew insurance policies issued prior to 29 November 2016. The Company continues to take necessary actions, as advised by SAMA, and has already submitted a detailed report as required by SAMA. Management believes that it will be able to resolve the matter in the near future.

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

In management's opinion, the interim condensed financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim periods presented. The 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 statements 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.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

31 December 2016

3. FUNCTIONAL AND PRESENTATION CURRENCY

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

4. SIGNIFICANT ACCOUNTING POLICIES AND AMENDMENTS TO STANDARDS

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

New and amended standards issued and adopted

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

Amendments to existing standards

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

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

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

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

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

Amendments to existing standards (continued)

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

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

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

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

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

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

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

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

Standards issued but not yet effective

The following new or amended standards are not expected to have significant impact on the financial statements and the Company has chosen not to early adopt the following standards:

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

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

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

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5. BANK BALANCES AND CASH

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

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

Short term time deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 3.25% per annum (31 December 2015: 1.95% 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.

6. TIME DEPOSITS

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

Time deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with a maturity of more than three months from the date of original acquisition and earned special commission income at an average rate of 3.15% per annum (31 December 2015: 1.38% 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

	31 December 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000
Policyholders' balances receivable	1,099,022	1,291,600
Less: Provision for doubtful debts	(182,862)	(147,862)
	916,160	1,143,738
Reinsurance balances receivable	376,543	548,048
Less: Provision for doubtful debts	(3,639)	(3,639)
	372,904	544,409
Total policyholders' and reinsurance balances receivable	1,289,064	1,688,147

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8. INVESTMENTS

Investments are classified as set out below:

(a) Insurance operations – Available for sale investments

	31 December 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000
Mutual funds	3,308	33,070
Sukuk	25,000	25,000
Equities	-	2,154
Total	28,308	60,224

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

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

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

(b) Shareholders' operations – Available for sale investments

	31 December 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000
Mutual funds	55,626	74,843
Bonds	47,527	96,139
Sukuk	41,000	51,060
Equities	1,923	19,972
Total	146,076	242,014

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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:

	31 December 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000
At the beginning of the period / year	242,014	270,415
Sold during the period / year	(99,282)	(18,298)
	142,732	252,117
Realised gain	13,735	774
Impairment loss	(616)	(16,193)
Net change in fair values	(9,775)	5,316
At the end of the period / year	146,076	242,014

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

(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 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 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*

	31 December 2016 (Unaudited)			
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total 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

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8. INVESTMENTS (Continued)

(c) Fair value (Continued)

(i) Insurance operations – Fair Value (Continued)

	31 December 2015 (Audited)			Total SR'000
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	
<i>Available for sale investments</i>				
Mutual funds	33,070	-	-	33,070
Sukuk	-	25,000	-	25,000
Equities	-	-	2,154	2,154
<i>Total available for sale investments</i>	<u>33,070</u>	<u>25,000</u>	<u>2,154</u>	<u>60,224</u>

(ii) Shareholders' operations – Fair value

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

	31 December 2015 (Audited)			Total SR'000
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	
<i>Available for sale investments</i>				
Mutual funds	74,843	-	-	74,843
Bonds	9,998	86,141	-	96,139
Sukuk	10,064	40,996	-	51,060
Equities	18,049	-	1,923	19,972
<i>Total available for sale investments</i>	<u>112,954</u>	<u>127,137</u>	<u>1,923</u>	<u>242,014</u>

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) (2015: SR 12,095), 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 Agency ("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:

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

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the period ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
Due from related parties (continued)					
Addison Bradley Arabia- KSA – (fellow subsidiary)	-Payment received during the period	13,066	-	-	-
	-Balance due from at year end	-	-	-	13,066
Al Samiya Trading Co (fellow subsidiary)	-Payment received during the period	448	-	-	-
	-Gross written premium	-	20	-	-
	-Balance due from at year end	-	-	-	448
Medgulf Lebanon (fellow subsidiary)	-Claims paid by fellow subsidiary on behalf of Medgulf KSA	-	1,075	-	-
				2,065	72,606
Due to related parties					
Medivisa KSA (fellow subsidiary)	-Insurance premium for employees of fellow subsidiary	3,894	3,392	-	-
	-Third party administration fees	77,061	98,500	-	-
	-Payment medical claim	-	1,746	-	-
	-Claim incurred	66	164	-	-
	-Payment received	43	80	-	-
	-Premium refundable	367	264	-	-
	-Payment on third party administration fees	68,000	84,737	-	-
	-5% Service fees paid on behalf on Medgulf KSA (Jordan)	-	84	-	-
	-Balance due to at year end	-	-	46,232	40,589
				46,232	40,589

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the period ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
The Saudi Investment Bank, (Founding shareholders)	-Current account and time deposits	20,297	9,350	20,820	523
	-Statutory deposit (refer note 11.a (i))	53,315	375	161,072	107,757
	-Gross written premiums	2,965	4,363	-	-
	-Premiums refundable	-	-	(1,013)	(664)
	-Claims incurred	928	1,599	-	-
	-Outstanding claims payable	-	-	(597)	(361)
	-Discretionary portfolio arrangement (refer 11.a (ii))	463	28	55,626	55,163
Al Istithmar Capital (subsidiary of SIB-founding shareholders)	-GCC Equity Fund	-	1,133	-	9,272
	-Gross Written Premium	(24)	228	-	-
	-Premiums refundable	-	-	(38)	(14)
	-Gross Written Premium	76,102	-	-	-
Saudi Ground Services (Under common directorship) Note 11.a(iv)	-Premiums receivable	-	-	19,408	-
	-Claims incurred	21,057	-	-	-
	-Outstanding claims payable	-	-	(1)	-
Banque de Credit National (Common ownership and directors)	-Current account and time deposits	-	19	-	-
Creative Solutions Restaurants Co. (Under common directorship) note 11.a(iii)	-Gross written premiums	-	506	-	-
	-Claims incurred	-	189	-	-
	-Premiums receivable	-	-	-	2
Sanaya Dental Care (Under common directorship)	-Medical claim	137	107	-	-
	-Payment on account	135	114	-	-
	-Balance due to at year end	-	-	8	9
Prime Health insurance (fellow subsidiary)	-Payment to fellow subsidiary	-	177	-	-

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the period ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
Medivisa KSA (fellow subsidiary)	-Medical claim Jordan / balance	1,168	2,246	1,327	159
	-Medical claim Lebanon / balance	365	4,351	365	-
	-Medical claim Egypt / balance	58	328	77	19
	-Payment to Medivisa KSA	-	278	-	-
	-Investment in Sukuk/ repayment	-	7,500	-	-
Saudi Orix (Shareholders of the parent company)	-Income on Sukuk	-	185	-	-
	-Gross written premiums	27,788	30,644	-	-
	-Premiums receivable	-	-	1,313	1,925
	-Claims incurred	19,659	22,777	-	-
	-Outstanding claims payable / recovery	-	-	(56)	(220)
Safari Group of companies (common Directorship)	-Gross written premiums	16,680	13,974	-	-
	-Premiums receivable	-	-	188	1,126
	-Claims incurred	15,030	12,842	-	-
	-Claims payable	-	-	(20)	(785)
	-Gross written premiums	25	49	-	-
Khalid A. Al Shathry Construction Co. (Under common directorship)	-Premiums receivable	-	-	143	119
	-Claims incurred	56	48	-	-
	- Outstanding claims payable / (recovery)	-	-	1	-
	-Gross written premiums	7	51	-	-
	-Premiums receivables	-	-	523	831
Khalid A. Al Shathry- board member (individual motor policies)	-Claims incurred	14	43	-	-
	-Outstanding claims	-	-	10	(11)
	-Gross written premiums	-	152	-	-
	-Premiums receivables	-	-	-	4
	-Claims incurred	-	409	-	-
Al Jasamah establishment (Under common directorship) note 11.a(iii)	-Outstanding claims	-	-	-	(8)

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

<i>Related parties</i>	<i>Nature of transaction</i>	<i>Amount of transaction for the period ended</i>		<i>Balance</i>	
		<i>31 December 2016</i>	<i>31 December 2015</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
		<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Medgulf BSC (parent company)	-Claim recoveries receivable	26,948	268,728	-	-
	-Reinsurance premium ceded	-	3,610	-	-
	-Payment received during the period	126,586	-	-	-
	-Reinsurance Commission income	-	361	-	-
	-Balance Receivable at the end of the year	-	-	206,255	305,892
	-Reinsurance premiums ceded	-	61	-	-
	-Reinsurance claim recoveries	-	15,227	-	-
Addison Bradley Overseas (fellow subsidiary)	-Payment received	-	14,000	-	-
	-Payment received during the period	54,527	-	-	-
	-Balance at the end of year	-	-	-	54,527
	-Reinsurance claim recoveries payable	-	2	-	(2,692)
	-Commission cancellation	-	10	-	-
SIB LLC (UAE) (fellow subsidiary)	-Payment made during the period	2,692	-	-	-
	-Payment received during the period	31	-	-	-
	-Balance due to at year end	-	-	-	(31)
Addison Bradley Arabia-KSA (fellow subsidiary)	-Reinsurance receivable	-	-	-	3,164
	-Premiums receivable	-	-	-	1,406
	-Payment received during the period	4,570	-	-	-

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the period ended		Balance	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
		SR'000	SR'000	SR'000	SR'000
Addison Bradley Arabia- KSA – reinsurance broker (fellow subsidiary)	-Reinsurance premiums ceded	-	6	-	-
	-Reinsurance claim recoveries	-	3,888	-	-
	-Direct payment to reinsurer	-	1,920	-	-
	-Collection from recoveries	-	6,149	-	-
Addison Bradley Arabia- KSA – Brokerage commission (fellow subsidiary)	-Brokerage commission	-	20	-	-
Emad J. Baban (individual motor policies of Director) note 11.a(iii)	-Gross written premiums	-	19	-	-
	-Claims incurred	-	33	-	-
Saleh Al-Sagri (individual motor policies of Director)	-Gross written premiums	64	148	-	-
	-Premiums refundable	-	-	-	(8)
	-Claims incurred	2	25	-	-
Lutfi Fadel El Zein - board member	-Gross written premiums	87	-	-	-
	-Premiums receivable	-	-	-	-

11.a(i) Statutory deposit has been 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 not a related party for the current period. The transactions and balances are presented for comparison only.

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

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:

	31 December 2016	31 December 2015
	(Unaudited) SR'000	(Audited) SR'000
Short term benefits	16,577	23,903
End of service benefits	1,089	2,446
	17,666	26,349

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

The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
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(Continued)

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12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

*For the twelve-month period ended
December 2015 (Audited)*

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

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

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Other SR</i>	<i>Total SR</i>
Insurance operations				
Gross premiums written	423,678	30,943	103,784	558,405
Net premiums written	423,678	20,466	13,971	458,115
Net premiums earned	562,153	99,589	23,097	684,839
Net claims incurred	(523,485)	(60,733)	(9,681)	(593,899)
Policy acquisition costs	(26,413)	(7,686)	(7,527)	(41,626)
Reinsurance commission income	-	6,418	15,970	22,388
Net underwriting result	12,255	37,588	21,859	71,702
General and administrative expenses and impairment charge on available for sale investment				(89,860)
Special commission income and other income				24,688
Insurance operations' surplus				6,530

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

31 December 2016

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

*For the three month period ended
December 2015 (Unaudited)*

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Other SR</i>	<i>Total SR</i>
<i>Insurance operations</i>				
Gross premiums written	377,475	85,547	120,457	583,479
Net premiums written	376,293	57,196	14,932	448,421
Net premiums earned	710,089	126,867	20,755	857,711
Net claims incurred	(649,141)	(202,245)	(1,712)	(853,098)
Policy acquisition costs	(44,256)	(7,700)	(5,699)	(57,655)
Reinsurance commission income	158	5,487	13,907	19,552
Net underwriting result	16,850	(77,591)	27,251	(33,490)
General and administrative expenses				(114,824)
Special commission income and other income				22,448
Insurance operations' deficit				(125,866)

*As at 31 December 2016
(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	-	50,389	485,994	536,383
Reinsurers' share of outstanding claims	3,099	87,584	505,258	595,941
Deferred policy acquisition costs	109,797	9,949	21,590	141,336
Unallocated assets				2,313,596
				3,587,256
<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				597,465
				3,587,256

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(Continued)

31 December 2016

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

<i>As at 31 December 2015 (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	-	77,523	635,635	713,158
Reinsurers' share of outstanding claims	27,353	87,015	556,946	671,314
Deferred policy acquisition costs	137,520	14,955	29,332	181,807
Unallocated assets	-	-	-	2,881,273
				<u>4,447,552</u>
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	1,091,222	258,450	704,776	2,054,448
Unearned reinsurance commission	-	15,502	40,813	56,315
Gross outstanding claims	823,776	256,209	584,803	1,664,788
Unallocated liabilities	-	-	-	672,001
				<u>4,447,552</u>

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

Basic and diluted earnings per share for the period was calculated by dividing the net income / (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.

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 the retained earnings at current year end are negative, there was null transfer to statutory reserve.

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(Continued)

31 December 2016

16. SOLVENCY MARGIN

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

17. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements have been approved by the Board of Directors on Rabih` Al-Tani 17, 1438H (corresponding to January 15, 2017).