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

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

**FOR THE THREE AND NINE MONTH PERIODS ENDED
30 SEPTEMBER 2017**

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

**Unaudited Interim Condensed Financial Information and Independent Auditors' Review Report
For the three and nine month periods ended 30 September 2017**

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**INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED
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 September 2017 and the related interim statements of income and accumulated surplus and comprehensive income - insurance operations, interim statements of income and comprehensive income - shareholders' operations for the three month and nine month periods ended 30 September 2017 and interim statements of changes in shareholders' equity and cash flows for insurance and shareholders' operations for the nine 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

Except as explained in the following paragraph, 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.

BASIS FOR QUALIFIED CONCLUSION

As disclosed in Note 11 to the accompanying interim condensed financial information, during the three-month period ended 30 September 2017, the Company appointed a consultant to carry out an exercise that includes identification of all related party relationships and related party balances within reinsurance balances receivable and reinsurance balances payable. This exercise is still on-going and on completion certain parties included in the net reinsurance balance receivable of Saudi Riyals 174.3 million and reinsurance balance payable of Saudi Riyals 64.2 million may be identified as related parties which may eventually require such balances to be reclassified to related party balances. The underlying transactions with such related parties will then require disclosure under related party transactions. As the exercise is still on-going, management is unable to provide a complete list of all related parties balances and transactions which impacts both the presentation and disclosure of related parties. Had we been able to complete our review procedures on the completeness of related parties, matters might have come to our attention indicating that adjustments may be necessary to the accompanying interim condensed financial information.

QUALIFIED CONCLUSION

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, 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.

EMPHASES OF MATTER

Without further qualifying our conclusion:

1. We draw attention to Note 1 and Note 16 to the accompanying interim condensed financial information which states that on 2 October 2017, SAMA issued a follow-up letter to the Company to comply with the solvency margin requirement by 31 December 2017 and intimated that failure to do so will result in the suspension of the Company's operations. Further, on 23 October 2017, SAMA issued another letter highlighting the critical financial condition of the Company and significant deterioration in its solvency margin despite repeated follow-ups. SAMA in its aforesaid letter also highlighted the serious irregularities in governance issues and delays in the collection of long outstanding related party balances. SAMA in its letter also urged the Company's Board of Directors to come up with urgent and effective solution for its critical financial condition. In addition, SAMA reiterated that it may suspend the operations of the Company at any time even before 31 December 2017 if no tangible actions are taken to improve the deteriorating solvency margin situation. Due to the continuous decline in the financial performance of the Company, management does not expect to meet the solvency margin requirements by 31 December 2017. This condition indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.
2. We draw attention to Note 1 to the accompanying interim condensed financial information which states that the Company in its extra-ordinary general meeting held on 22 September 2017 approved the reduction of share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million to absorb the accumulated losses in order to comply with the requirements of the Regulations for Companies. This resulted in the accumulated losses to decline below one-half of the Company's share capital as at 30 September 2017. The reduction of capital has been approved by the regulatory authorities.

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9 November 2017

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

INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

(Amounts in SR'000)

	<i>Notes</i>	30 September 2017 (Unaudited)	31 December 2016 (Audited)
INSURANCE OPERATIONS' ASSETS			
Bank balances and cash	5	502,415	487,122
Time deposits	6	56,526	225,504
Policyholders' and reinsurance balances receivable	7	993,554	1,243,775
Investments	8a, 11a(ii)	28,347	28,308
Due from related parties	11a	64	2,065
Due from shareholders' operations		400,057	66,600
Reinsurers' share of outstanding claims		480,637	595,941
Reinsurers' share of unearned premiums		469,712	536,383
Deferred policy acquisition costs		103,408	108,893
Prepayments and other assets		263,328	200,921
Property and equipment, net		28,016	51,155
TOTAL INSURANCE OPERATIONS' ASSETS		3,326,064	3,546,667
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	5	75,861	211,677
Commission on statutory deposit		14,170	11,072
Investments	8b, 11a(ii)	143,022	146,076
Prepayments and other assets		1,320	2,598
Investment in an associate	9	17,420	14,802
Land		30,000	30,000
Statutory deposit	10, 11a(i)	150,000	150,000
Goodwill		480,000	480,000
TOTAL SHAREHOLDERS' ASSETS		911,793	1,046,225
TOTAL ASSETS		4,237,857	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 September 2017

(Amounts in SR'000)

	Notes	30 September 2017 (Unaudited)	31 December 2016 (Audited)
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims		1,132,225	1,323,956
Due to related party	11a	11,787	5,643
Accounts and commission payable		158,814	123,710
Accrued expenses and other liabilities		156,017	184,354
Reinsurance balances payable		64,233	86,172
Surplus distribution payable		111,566	111,566
Unearned reinsurance commission		35,651	36,584
Gross unearned premiums		1,611,177	1,629,251
Other claim reserves		44,278	45,154
TOTAL INSURANCE OPERATIONS' LIABILITIES		3,325,748	3,546,390
INSURANCE OPERATIONS' SURPLUS			
Cumulative change in fair values of available for sale investments	8a	316	277
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		3,326,064	3,546,667
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities		826	635
Commission payable on statutory deposit		14,170	11,072
Provision for zakat and income tax		23,219	15,398
Due to insurance operations		400,057	66,600
TOTAL SHAREHOLDERS' LIABILITIES		438,272	93,705
SHAREHOLDERS' EQUITY			
Share capital	14	400,000	1,000,000
Statutory reserve	15	146,135	146,135
Accumulated deficit		(78,046)	(199,101)
Cumulative change in fair values of available for sale investments	8b	5,432	5,486
TOTAL SHAREHOLDERS' EQUITY		473,521	952,520
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		911,793	1,046,225
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		4,237,857	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)

		<u>For the three month period ended</u>		<u>For the nine month period ended</u>	
		<u>30 September</u>	<u>30 September</u>	<u>30 September</u>	<u>30 September</u>
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>Notes</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Gross premiums written	12	513,177	510,966	2,166,222	2,635,929
Reinsurance premiums ceded		(84,076)	(87,506)	(340,875)	(385,419)
Excess of loss premiums		(3,512)	(3,463)	(10,211)	(11,421)
NET PREMIUMS WRITTEN	12	425,589	419,997	1,815,136	2,239,089
Change in unearned premiums, net		139,090	294,146	(48,597)	21,698
NET PREMIUMS EARNED	12	564,679	714,143	1,766,539	2,260,787
Gross claims paid and other expenses		(632,216)	(666,279)	(1,927,269)	(2,389,159)
Reinsurers' share of gross claims paid		145,579	77,726	284,543	299,508
Change in outstanding claims, net		25,793	59,907	76,427	240,811
Change in other claim reserves		2,012	(10,835)	876	(22,256)
NET CLAIMS INCURRED	12	(458,832)	(539,481)	(1,565,423)	(1,871,096)
Policy acquisition costs	12	(42,950)	(45,404)	(116,982)	(146,059)
Reinsurance commission income	12	8,598	14,088	45,583	62,614
NET UNDERWRITING RESULT	12	71,495	143,346	129,717	306,246
General and administrative expenses		(82,671)	(95,532)	(232,123)	(271,945)
Impairment on discontinued ERP system		-	-	(25,688)	-
Reversal / (Provision) for doubtful debts	7,11	55,640	-	(376,924)	(35,000)
Impairment losses on available for sale investments		-	-	-	(725)
Special commission income		1,827	5,544	8,164	14,856
Other income		11,320	9,581	43,910	29,785
INSURANCE OPERATIONS' SURPLUS / (DEFICIT)		57,611	62,939	(452,944)	43,217
Shareholders' appropriation from insurance operations' (surplus) / deficit	2	(57,611)	(58,617)	452,944	(38,895)
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION		-	4,322	-	4,322

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)

		<u>For the three month period ended</u>		<u>For the nine month period ended</u>	
		<u>30 September</u>	<u>30 September</u>	<u>30 September</u>	<u>30 September</u>
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>Notes</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION		-	4,322	-	4,322
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)	10	19	39	(2,294)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		10	4,341	39	2,753



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)

		<i>For the three month period ended</i>	<i>For the nine month period ended</i>	
		30 September	30 September	30 September
		2017	2016	2017
	Notes	(Unaudited)	(Unaudited)	(Unaudited)
INCOME				
Shareholders' appropriation from insurance operations' surplus / (deficit)	2	57,611	58,617	(452,944)
Special commission income		991	2,270	4,137
Realised gain on sale of available for sale investments		-	-	-
Dividend income on available for sale investments		-	-	-
Other income		-	162	-
Income from investment in associate		2,618	-	2,618
		61,220	61,049	(446,189)
EXPENSES				
General and administrative expenses		(1,098)	(1,001)	(3,978)
Impairment loss available for sale investments		-	-	-
		(1,098)	(1,001)	(3,978)
NET INCOME / (LOSS) FOR THE PERIOD		60,122	60,048	(450,167)
BASIC AND DILUTED EARNING / (LOSSES) PER SHARE FOR THE PERIOD	13	1.50	1.50	(11.25)

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>30 September</u> <u>2017</u>		<u>For the nine month period ended</u> <u>30 September</u> <u>2017</u>		<u>For the nine month period ended</u> <u>30 September</u> <u>2016</u>	
Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Restated) refer to note 4 (a)
NET INCOME / (LOSS) FOR THE PERIOD						
Other comprehensive income / (loss):						
Items that will not be reclassified to interim statement of income in subsequent period						
Impairment loss transferred to interim statement of income	8 (b)	-	-	-	(450,167)	55,626
Items that may be reclassified to interim statement of income in subsequent period						
Available for sale investments	8 (b)	335	(370)	(54)	(8,622)	
Change in fair values						
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		60,457	59,678	(450,221)	47,620	

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

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine month period ended 30 September 2017

(Amounts in SR'000)

	<i>Note</i>	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Accumulated deficit</i>	<i>Cumulative change in fair value of available for sale investments</i>	<i>Total</i>
Balance at 1 January 2017 (Audited)		1,000,000	146,135	(199,101)	5,486	952,520
Zakat		-	-	(28,087)	-	(28,087)
Total comprehensive loss for the period:						
Net loss for the period		-	-	(450,167)	-	(450,167)
Change in fair values		-	-	-	(54)	(54)
Reduction of capital (Note 14)	14	(600,000)	-	600,000	-	-
Transaction cost related to reduction in share capital	14	-	-	(691)	-	(691)
Balance at 30 September 2017 (Unaudited)		400,000	146,135	(78,046)	5,432	473,521
Balance at 1 January 2016 (Audited)		1,000,000	146,135	(249,265)	15,261	912,131
Zakat		-	-	(14,427)	-	(14,427)
Income tax		-	-	-	-	-
Total comprehensive loss for the period:						
Net loss for the period		-	-	55,626	-	55,626
Change in fair values		-	-	-	(8,622)	(8,622)
Impairment loss transferred to interim statement of income shareholders' operations		-	-	-	616	616
Balance at 30 September 2016 (Unaudited)		1,000,000	146,135	(208,066)	7,255	945,324

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 nine month period ended 30 September 2017

(Amounts in SR'000)

	Notes	30 September 2017 (Unaudited)	30 September 2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation		-	4,322
<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		(452,944)	38,895
Depreciation		7,254	7,103
Special commission income		(8,164)	(13,173)
Provision for doubtful debts		376,924	35,000
Gain on sale of property and equipment, net		(675)	-
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
Cash (used in) / from operations		(51,917)	71,189
<i>Changes in operating assets and liabilities:</i>			
Gross unearned premiums		(18,074)	(138,077)
Reinsurers' share of unearned premiums		66,671	116,379
Policyholders' and reinsurance balances receivable		(124,313)	128,897
Due from related parties		(389)	71,537
Due to related parties		6,144	8,836
Reinsurers' share of outstanding claims		115,304	(36,909)
Deferred policy acquisition costs		5,485	12,726
Prepayments and other assets		(62,407)	(46,584)
Deposit against letters of guarantee		(1,284)	755
Gross outstanding claims		(191,731)	(203,901)
Accounts and commissions payable		35,104	(25,701)
Accrued expenses and other liabilities		(28,337)	10,421
Reinsurance balances payable		(21,939)	8,574
Shareholders' appropriation from insurance operations' deficit		452,944	(38,895)
Unearned reinsurance commission		(933)	(9,185)
Other claim reserves		(876)	22,256
Net cash generated from / (used in) operating activities		179,452	(47,682)
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		168,978	74,847
Special commission income		8,164	13,173
Proceeds from sale of available for sale investment		-	31,326
Proceeds from sale of property and equipment		701	-
Purchase of property and equipment		(9,829)	(4,408)
Net cash generated from investing activities		168,014	114,938
CASH FLOWS FROM FINANCING ACTIVITY			
Due from shareholders' operations, net		(333,457)	50,285
Net cash (used in) / generated from financing activity		(333,457)	50,285
INCREASE IN CASH AND CASH EQUIVALENTS		14,009	117,541
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	474,620	691,785
Non-cash transaction:			
Change in fair values of available for sale investments	8 (a)	39	(1,569)

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 nine month period ended 30 September 2017

(Amounts in SR'000)

	Notes	30 September 2017 (Unaudited)	30 September 2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss)/ income for the period		(450,167)	55,626
<i>Adjustments for:</i>			
Special commission income		(4,137)	(7,176)
Realised gain on sale of available for sale investments		-	(12,838)
Dividend income on available for sale investments		-	(326)
Income from investment in associate		(2,618)	-
Impairment losses on available for sale investment		-	616
Cash (used in) / from operations		(456,922)	35,902
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		1,278	(766)
Accrued expenses and other liabilities		191	(127)
Zakat paid		(20,266)	(2,871)
Net cash (used in)/ generated from operating activities		(475,719)	32,138
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		4,137	7,176
Dividend income on available for sale investments		-	326
Increase in statutory deposit		-	(50,000)
Commission payable on statutory deposit		3,098	928
Commission on statutory deposit		(3,098)	(928)
Net cash generated from investing activities		7,137	103,336
CASH FLOWS FROM FINANCING ACTIVITY			
Due to insurance operations, net		333,457	(50,285)
Transaction cost related to reduction of share capital	14	(691)	-
Net cash generated from / (used in) financing activity		332,766	(50,285)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(135,816)	85,189
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	75,861	194,101
<i>Non-cash transactions:</i>			
Change in fair values of available for sale investments	8 (b)	(54)	(8,006)

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 September 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 in its extra-ordinary general meeting held on 22 September 2017 approved the reduction of share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million to absorb the accumulated losses in order to comply with the requirements of the Regulations for Companies. This resulted in the accumulated losses to decline below one-half of the Company's share capital as at 30 September 2017. The reduction of capital has been approved by the regulatory authorities.

As indicated in Note 16, on 2 October 2017, SAMA issued a follow-up letter to the Company to comply with the solvency margin requirement by 31 December 2017 and intimated that failure to do so will result in the suspension of the Company's operations. Further, on 23 October 2017, SAMA issued another letter highlighting the critical financial condition of the Company and significant deterioration in its solvency margin despite repeated follow-ups and urged the Company's Board of Directors to come up with urgent and effective solution for its critical financial condition (Refer Note 16 for further details).

As further indicated in Note 16, due to the continuous decline in the financial performance of the Company, the management does not expect to meet the solvency margin requirements by 31 December 2017. This condition indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, management has performed an assessment of its going concern assumption under different scenarios. Based on the underlying cash flow projections under the various scenarios, management believes that the Company will be able to continue the business and meet its obligations as they fall due over the next 12 months. As a result, the financial statements have been prepared on a going concern basis. Management's assessment is based on number of estimates and assumptions including significant recoveries from major policyholders, reinsurers and related parties including liquidation of bank guarantee from a related party, reduction in expenses due to potential cost saving measures and other measures which may be required as a result of potential suspension of Company's operations. The Company's Board of Directors in their meeting held on 2 October 2017 resolved to appoint a new consultant to formulate a new business plan and submit its report to SAMA before 31 December 2017. Subsequently, the plan submitted by the consultant has been approved by the Board of Directors in their meeting held on 1 November 2017. As per the revised business plan, the solvency margin situation is expected to improve gradually after taking certain measures as mentioned in the plan, including, amongst others, exiting unprofitable accounts, reinsurance of medical business and in the event of certain measures not materializing a capital injection amount that may vary depending on the strategic measures adopted as outlined in the plan in order to be in full compliance with the solvency margin requirement. The plan is subject to approval by the SAMA (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 to provide a detailed plan with procedures and timeframes approved by the Company's board of directors to address the current situation. The detailed plan was subsequently submitted to SAMA after approval by the Company's Board of Directors. The Company continues to take the necessary 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 during the six month period ended 30 June 2017 which was under development.

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2. BASIS OF PREPARATION

Basis of measurement

The interim condensed financial information (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 nine month period ended 30 September 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 nine month period ended 30 September 2017 amounted to SR 452,944 thousand (30 September 2016: deficit of SR 43,217 thousand). Accordingly, no transfer from insurance operations to the shareholders' operations (30 September 2016: SR 4,322 thousands has been transfer to 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.

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 8,216 thousand and SR 14,427 thousand for the three month and nine month periods ended 30 September 2016, respectively. The effect of restatement is as follows:

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

	As previously stated SR'000	Effect of zakat and tax restatement SR'000	Amount restated SR'000
Three month period ended 30 September 2016			
Interim statement of comprehensive income – shareholder's operations	51,462	8,216	59,678
Nine month period ended 30 September 2016			
Interim statement of comprehensive income – shareholder's operations	33,193	14,427	47,620

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 interim condensed financial information are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Further, the Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards, which have been published and are mandatory for compliance for the Company with effect from future dates.

IFRS 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 Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting years beginning on or after 1 January 2017 and is currently assessing their impact. Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 1, 2017:

IFRS 9 Financial Instruments

IFRS 15 Revenue from contracts with customers

IFRS 16 Leases

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5. BANK BALANCES AND CASH

	30 September 2017 (Unaudited)		31 December 2016 (Audited)	
	SR'000	SR'000	SR'000	SR'000
	Insurance operations	Shareholders' operations	Insurance operations	Shareholders' operations
Cash in hand and at banks	136,730	5,861	31,535	24,739
Short-term time deposits	337,890	70,000	429,076	186,938
<i>Cash and cash equivalents in the statement of cash flows</i>	474,620	75,861	460,611	211,677
Deposits against letters of guarantee	27,795	-	26,511	-
	502,415	75,861	487,122	211,677

Short term time deposits are placed with counterparties who have credit ratings of at least 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 the 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 1.49% 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 the period of the guarantee and are restricted in nature.

6. TIME DEPOSITS

Time deposits are placed with counterparties that have credit ratings of at least 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 1.86% 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

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Policyholders' balances receivable	1,167,023	1,094,322
Less: Provision for doubtful debts	(347,812)	(182,862)
	819,211	911,460
Reinsurance balances receivable	387,566	335,954
Less: Provision for doubtful debts	(213,223)	(3,639)
	174,343	332,315
Total policyholders' and reinsurance balances receivable	993,554	1,243,775

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7. POLICYHOLDERS' AND REINSURANCE BALANCES RECEIVABLE (Continued)

7.1 During the period, the Company has provided SR 46.4 million and SR 1.3 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 in adjusting the provision for doubtful debts.

8. INVESTMENTS

Investments are classified as set out below:

(a) Insurance operations – Available for sale investments

	30 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Mutual funds	3,347	3,308
Sukuk	25,000	25,000
Total	28,347	28,308

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

	30 September 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	39	(1,548)
At the end of the period / year	28,347	28,308

The cumulative change in fair values of available for sale investments for insurance operations amounting to SR 316 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 September 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Mutual funds	55,240	55,626
Bonds	47,859	47,527
Sukuk	38,000	41,000
Equities	1,923	1,923
Total	143,022	146,076

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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 September 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	(54)	(9,775)
At the end of the period / year	143,022	146,076

The cumulative change in fair values of available for sale investments for shareholders' operations amounting to SR 5,432 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 September 2017 (Unaudited)		
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000
Available for sale investments			
Mutual funds	3,347	-	-
Sukuk	-	25,000	-
Total available for sale investments	3,347	25,000	-

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8. INVESTMENTS (Continued)

(c) Fair value (Continued)

(i) Insurance operations – Fair Value (Continued)

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

(ii) Shareholders' operations –Fair value

	30 September 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
	SR'000	SR'000	SR'000	SR'000
<i>Available for sale investments</i>				
Mutual funds	55,240	-	-	55,240
Bonds	9,998	37,861	-	47,859
Sukuk	-	38,000	-	38,000
Equities	-	-	1,923	1,923
<i>Total available for sale investments</i>	<u>65,238</u>	<u>75,861</u>	<u>1,923</u>	<u>143,022</u>

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

9. INVESTMENT IN AN ASSOCIATE

Investment in an associate comprises of an equity investment in Al-Waseel for Electronic Transportation amounting to SR 17,420 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

In accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. The Company is required to maintain a statutory deposit at 10%. 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 SAMA. During the period ended 30 September 2017, the Company in its extraordinary general meeting held on 22 September 2017 reduced the share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million. (Refer Note 1). The Company is in the process of seeking SAMA's guidance in respect of effect on statutory deposit for the said reduction in share capital.

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the three month period ended 30 September 2017, the Company appointed a consultant to carry out an exercise that includes identification of all related parties relationships and balances within reinsurance balances receivable and reinsurance balances payable. This exercise is still on-going and on completion certain parties included in the net reinsurance balance receivable of Saudi Riyals 174.3 million and reinsurance balance payable of Saudi Riyals 64.2 million may be identified as related parties which may eventually require such balances to be reclassified to related party balances. The underlying transactions with such related parties will then require disclosure under related party transactions.

- (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 nine month period ended		Balance	
		30 September 2017	30 September 2016	30 September 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	388	1,069	-	-
	-Payment received during the period	-	23,879	-	-
	-Balance due from at period / year end	-	-	2,454	2,065
	-Provision for doubtful debts	-	-	(2,390)	-
	-Net Balance due from at period / year end	-	-	64	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 nine month period ended		Balance	
		30 September 2017	30 September 2016	30 September 2017	31 December 2016
		Unaudited	Unaudited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Due from related parties					
Al Samiya Trading Co (fellow subsidiary)	-Payment received during the period	8,066	448	-	-
	-Due from Al Samiya (refer note 11.a (vi))	-	-	-	-
	Total due from related parties			64	2,065
Due to related party					
Medivisa KSA (fellow subsidiary)	-Insurance premium for employees of fellow subsidiary	3,757	3,875	-	-
	-Third party administration fees	50,940	62,276	-	-
	-Claim incurred	45	140	-	-
	-Payment received	14	46	-	-
	-Premium refundable	401	344	-	-
	-Payment on third party administration fees	82,088	50,000	-	-
	-Balance due to at period / year end	-	-	11,787	46,232
	-Amount set off in favour of Medgulf BSC (refer 11.a(iv))	-	-	-	(40,589)
	-Balance due to at period / year end			11,787	5,643
	Total due to related party			11,787	5,643

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the nine month period ended		Balance	
Others related parties transactions and balances – due from / (due to)		30 September 2017 <i>Unaudited</i> <i>SR'000</i>	30 September 2016 <i>Unaudited</i> <i>SR'000</i>	30 September 2017 <i>Unaudited</i> <i>SR'000</i>	31 December 2016 <i>Audited</i> <i>SR'000</i>
The Saudi Investment Bank, (Founding shareholders)	-Current account and time deposits	42,115	3,760	62,935	20,820
	-Statutory deposit (refer note 11.a (i))	3,098	50,928	164,170	161,072
	-Gross written premiums	3,655	2,516	-	-
	-Premiums receivable/ (refundable)	-	-	2,299	(1,013)
	-Claims incurred / adjustment	74	1,128	-	-
	-Outstanding claims	-	-	(601)	(597)
Saudi Orix (Shareholders of the parent company)	-Gross written premiums	20,305	27,750	-	-
	-Premiums receivable	-	-	279	1,313
	-Provision for doubtful debts	-	-	(119)	-
	-Net Balance receivable at period / year end	-	-	160	-
	-Claims incurred	12,770	15,509	-	-
	-Outstanding claims	-	-	(70)	(56)
Safari Group of companies (common Directorship)	-Gross written premiums	9,799	16,370	-	-
	-Premiums receivable	-	-	3,815	188
	-Provision for doubtful debts	-	-	(604)	-
	-Net Balance receivable at period / year end	-	-	3,211	-
	-Claims incurred	7,735	10,329	-	-
	-Claims payable	-	-	(149)	(20)

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the nine month period ended		Balance	
		30 September 2017	30 September 2016	30 September 2017	31 December 2016
		Unaudited	Unaudited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Medivisa KSA (fellow subsidiary)	-Medical claim Jordan / balance	769	1,973	2,096	1,327
	-Medical claim Lebanon / balance	49	596	316	365
	-Medical claim Egypt / balance	107	55	184	77
	-Discretionary portfolio arrangement (refer 11.a (ii))	386	125	55,240	55,626
Al Istithmar Capital (subsidiary of SIB-founding shareholders)	-GCC Equity Fund	-	9,272	-	-
	-Gross Written Premium	-	(24)	-	-
	-Premiums refundable	-	-	(38)	(38)
	-Gross written premiums	371	24	-	-
Khalid A. Al Shathry Construction Co. (Under common directorship)	-Premiums receivable	-	-	263	143
	-Provision for doubtful debts	-	-	(138)	-
	-Net Balance receivable at period / year end	-	-	125	-
	-Claims incurred	49	56	-	-
Sanaya Dental Care (Under common directorship)	- Outstanding recovery	-	-	1	1
	-Medical claim	75	113	-	-
	-Payment on account	82	113	-	-
	-Balance due to at period / year end	-	-	(1)	(8)
Saleh Al-Sagri (individual motor policies of Director)	-Gross written premiums	9	64	-	-
	-Claims incurred	-	2	-	-
Advanced Petrochemical Company (Under common directorship)	-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 nine month period ended		Balance	
		30 September 2017	30 September 2016	30 September 2017	31 December 2016
		Unaudited	Unaudited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Medgulf BSC (parent company)	-Claim recoveries	7	26,766	-	-
	-Reinsurance recovery	-	-	5,962	-
	-Provision for doubtful debts	-	-	(5,962)	-
	-Net Balance receivable at period / year end	-	-	-	-
	-Balance receivable at period / year end	-	126,586	122,093	206,255
	-Amount set off in favour of Medgulf BSC (refer 11.a(iv))	-	-	-	(40,589)
	-Payment received	700	-	-	-
	-Net Balance receivable at period / year end (refer 11.a(iv))	-	-	122,093	165,666
	-Gross written premiums	-	7	-	-
	-Premiums receivables	-	-	281	522
Khalid A. Al Shathry- board member (individual motor policies)	-Provision for doubtful debts	-	-	(218)	-
	-Net Balance receivable at period / year end	-	-	63	-
	-Outstanding recovery	-	-	10	10
	-Payment received	-	54,527	-	-
Addison Bradley Overseas / Addison Bradley & Co. (fellow subsidiary)	-Payment received from reinsurer by a related parties for run off treaty (Refer 11.a (V))	32,267	-	-	-
	-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 nine month period ended		Balance	
		30 September 2017	30 September 2016	30 September 2017	31 December 2016
		Unaudited SR'000	Unaudited SR'000	Unaudited SR'000	Audited SR'000
Lutfi Fadel El Zein - board member	-Gross written premiums	9	87	-	-
SIB LLC (UAE) (fellow subsidiary)	-Payment received during the period	-	31	-	-
Addison Bradley Arabia-KSA (fellow subsidiary)	-Payment received during the period	-	4,570	-	-
Addison Bradley International (fellow subsidiary)	-Reinsurance recoveries (Refer 11.a (vii))	13,453	-	-	-
	-Balance due from at period/ year end	-	-	13,453	-
	- Provision for doubtful debts	-	-	(6,726)	-
	- Net Balance due from at period / year end	-	-	6,727	-
Addison Bradley Arabia Holding LLC (UAE) (fellow subsidiary)	-Balance due from at period / year end	-	-	1,472	1,472
	- Provision for doubtful debts	-	-	(1,472)	-
	- Net Balance due from at period / year end (Refer 11.a (viii))	-	-	-	1,472

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) The balance due from Medgulf BSC (parent company) amounting to SR 122.093 million is after setting off SR 40.5 million due to Medivisa KSA (fellow subsidiary), 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 had issued a credit note in the first half of 2017 amounting to SR 40.5 million to this effect. During the three month period ended September 30, 2017, an irrevocable and unconditional bank guarantee was issued in favour of Medgulf KSA by a major shareholder of Medgulf Bahrain BSC amounting to SR 122 million for the settlement of balances due from Medgulf BSC. As a result, the provision maintained as at June 30, 2017 was reversed.

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

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

11.a(vii) This represent reinsurance claims recoverable from Addison Bradley International. Most of the reinsurance claim recoveries in respect of company's reinsurance arrangement have been collected by the related party either directly or through a broker.

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(Continued)

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11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

11.a(viii) Reinsurance placement was made by the said related party. There is a claim recovery from the reinsurer which related party needs to recover.

11.b Compensation of key management personnel

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

	<i>30 September 2017</i> (Unaudited) SR'000	<i>31 December 2016</i> (Audited) SR'000
Short term benefits	8,709	16,577
End of service benefits	327	1,089
	<u>9,036</u>	<u>17,666</u>

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 nine-month period ended
September 2017 (Unaudited)*

	<i>Medical</i> SR'000	<i>Motor</i> SR'000	<i>Other</i> SR'000	<i>Total</i> SR'000
<i>Insurance operations</i>				
Gross premiums written	1,487,390	391,249	287,583	2,166,222
Net premiums written	1,487,390	278,881	48,865	1,815,136
Net premiums earned	1,506,257	206,015	54,267	1,766,539
Net claims incurred	(1,454,025)	(111,649)	251	(1,565,423)
Policy acquisition costs	(79,957)	(18,343)	(18,682)	(116,982)
Reinsurance commission income	-	19,069	26,514	45,583
Net underwriting result	(27,725)	95,092	62,350	129,717
General and administrative expenses				(232,123)
Impairment on discontinued ERP system				(25,688)
Provision for doubtful debts				(376,924)
Special commission income and other income				52,074
Insurance operations' deficit				(452,944)

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(Continued)

30 September 2017

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

*For the nine-month period ended
September 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	1,843,309	499,056	293,564	2,635,929
Net premiums written	1,842,309	344,286	52,494	2,239,089
Net premiums earned	1,868,105	328,516	64,166	2,260,787
Net claims incurred	(1,591,525)	(262,346)	(17,225)	(1,871,096)
Policy acquisition costs	(93,788)	(29,892)	(22,379)	(146,059)
Reinsurance commission income	-	32,909	29,705	62,614
Net underwriting result	182,792	69,187	54,267	306,246
General and administrative expenses and impairment charge on available for sale investment				(272,670)
Provision for doubtful debts				(35,000)
Special commission income and other income				44,641
Insurance operations' surplus				43,217

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

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Other SR</i>	<i>Total SR</i>
Insurance operations				
Gross premiums written	302,629	153,428	57,120	513,177
Net premiums written	302,629	109,635	13,325	425,589
Net premiums earned	477,753	68,661	18,265	564,679
Net claims incurred	(434,966)	(24,199)	333	(458,832)
Policy acquisition costs	(30,018)	(6,582)	(6,350)	(42,950)
Reinsurance commission income	-	(1,348)	9,946	8,598
Net underwriting result	12,769	36,532	22,194	71,495
General and administrative expenses				(82,671)
Provision for doubtful debts				55,640
Special commission income and other income				13,147
Insurance operations' surplus				57,611

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(Continued)

30 September 2017

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

*For the three month period ended
September 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	326,244	116,934	67,788	510,966
Net premiums written	326,244	80,618	13,135	419,997
Net premiums earned	587,186	106,971	19,986	714,143
Net claims incurred	(458,655)	(73,356)	(7,470)	(539,481)
Policy acquisition costs	(27,991)	(10,124)	(7,289)	(45,404)
Reinsurance commission income	-	10,392	3,696	14,088
Net underwriting result	100,540	33,883	8,923	143,346
General and administrative expenses and impairment charge on available for sale investment				(95,532)
Provision for doubtful debts				-
Special commission income and other income				15,125
Insurance operations' surplus				62,939

*As at 30 September 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	-	72,348	397,364	469,712
Reinsurers' share of outstanding claims	-	49,305	431,332	480,637
Deferred policy acquisition costs	69,201	18,295	15,912	103,408
Unallocated assets				2,272,307
				3,326,064
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	908,084	262,787	440,306	1,611,177
Unearned reinsurance commission	-	14,399	21,252	35,651
Gross outstanding claims	507,247	164,246	460,732	1,132,225
Unallocated liabilities				547,011
				3,326,064

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(Continued)

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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	77,354	9,949	21,590	108,893
Unallocated assets				2,305,450
				<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 profit / (loss) for the period by the weighted average number of shares issued and outstanding during the three month period and nine month period ended 30 September 2017 amounting to 40 million shares (30 September 2016: 40 million shares).

14. SHARE CAPITAL

The authorized and paid up share capital of the Company of 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. The Company in its extra ordinary general meeting held on 22 September 2017 approved the reduction of share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million by reducing the number of shares from 100 million to 40 million shares of SR 10 each to comply with the requirements of the Regulations for Companies. This resulted in accumulated losses to decline below one half of Company's share capital. The reduction of capital has been approved by the regulatory authorities. During the period ended 30 September 2017, the company incurred transaction cost of SR 691 thousand in respect of reduction in share capital, which has been charged directly to the Statement of changes in Shareholders' Equity.

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 September 2017 and year ended 31 December 2016, there was nil transfer to statutory reserve.

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NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

30 September 2017

16. SOLVENCY MARGIN

During the period ended 31 March 2016, 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 the 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. On 2 October 2017, SAMA issued a follow-up letter to the Company to comply with solvency margin requirement by 31 December 2017 and intimated that failure to do so will result in the suspension of the Company's operations. Further, on 23 October 2017, SAMA issued another letter highlighting the critical financial condition of the Company and significant deterioration in its solvency margin despite repeated follow-ups. SAMA in its aforesaid letter also highlighted the serious irregularities in governance issues and delays in the collection of long outstanding related parties' balances. Furthermore, SAMA in its letter urged the Company's Board of Directors to come up with an urgent and effective solution for its critical financial condition. Moreover, SAMA reiterated that it may suspend the operations of the Company at any time even before 31 December 2017 if no tangible actions are taken to improve the deteriorating solvency margin situation. Due to continuous decline in the financial performance of the Company, the management does not expect to meet the solvency margin requirement by 31 December 2017. This condition indicates that a material uncertainty exists that cast significant doubt on the Company's ability to continue as a going concern. As explained in Note 1, management has performed an assessment of its going concern assumption under different scenarios and determined that it is appropriate to prepare the financial statements on a going concern basis. The Company's Board of Directors in their meeting held on 2 October 2017 resolved to appoint a new consultant to formulate a new business plan and to submit its report to SAMA by 31 December 2017. Subsequently, the plan submitted by the consultant has been approved by the Board of Directors in their meeting held on 1 November 2017. As per the revised business plan and as further explained in Note 1, the solvency margin situation is expected to improve gradually after taking certain measures as mentioned in the revised business plan and, in the event of certain measures not materializing a capital injection amount that may vary depending on the strategic measures adopted as outlined in the revised business plan to be in full compliance with the solvency margin requirements. The revised business plan is subject to approval by the SAMA. Also refer Note 1. The Company has also initiated measures to address the governance issues in light of matters raised by SAMA that includes reconstitution of the Board and Board committees.

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 information based on the advice of the Company's zakat and tax consultant.

18. COMPARATIVE INFORMATION

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

19. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information have been approved by the Board of Directors on Safar 18, 1439 Hijri (corresponding to November 07, 2017).