
**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 TWELVE MONTH PERIODS ENDED
31 DECEMBER 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 twelve month periods ended 31 December 2017**

INDEX	PAGE
Independent Auditors' Review Report	1 – 3
Interim Statement of Financial Position	4 – 5
Interim Statement of Income - Insurance Operations	6
Interim Statement of Comprehensive Income - Insurance Operations	7
Interim Statement of Income - Shareholders' Operations	8
Interim Statement of Comprehensive Income - Shareholders' Operations	9
Interim Statement of Changes in Shareholders' Equity	10
Interim Statement of Insurance Operations' Cash Flows	11
Interim Statement of Shareholders' Cash Flows	12
Notes to the Interim Condensed Financial Information	13 – 35

**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 31 December 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 twelve month periods ended 31 December 2017 and interim statements of changes in shareholders' equity and cash flows for insurance and shareholders' operations for the twelve 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) as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on this interim financial information based on our review.

SCOPE OF REVIEW

Except as explained in the following paragraphs, 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 that are 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

- 1) As disclosed in note 11 to the accompanying interim condensed financial information, all reinsurance treaties up to the underwriting year 2014 were managed by the Medgulf Group Corporate Reinsurance Center ("CRC"), a related party, who dealt with the Company's transactions, along with those of other related parties, on a consolidated basis with the reinsurers and brokers. All transactions with reinsurers and brokers were routed through CRC and the settlement of balances with these reinsurers and brokers were also made by CRC. The Company, together with CRC, have now initiated an exercise to separate the Company's transactions and balances with the respective reinsurers and brokers from those of other related parties. This exercise is still on-going and on completion certain parties included in the policyholders' and reinsurance balances receivable under note 7 amounting to Saudi Riyals 120.2 million may be identified as receivable from related parties and therefore may need to be disclosed under due from related parties. The underlying transactions with such related parties will then also require disclosure under related party transactions. Accordingly, management is currently unable to provide a complete list of all related parties balances and transactions which impacts both the presentation and disclosure of related party balances and transactions. Consequently, we were unable to determine whether any adjustments to the presentation and disclosure of the related party balances and transactions were necessary in the accompanying interim condensed financial information.
- 2) As disclosed in note 3, the Company is accounting for its reinsurance transactions related to the general line of business based on their understanding of the contractual terms of the reinsurance agreements. However, such accounting of reinsurance transactions may be subject to different interpretations. As a result, the Company's interim condensed financial information may require adjustments, if the terms of reinsurance agreements are interpreted differently. Management is still securing clarity on the terms of the reinsurance agreements. In the absence of information in this regard, we were unable to determine whether adjustments would be required in the accompanying interim condensed financial information.

QUALIFIED CONCLUSION

Based on our review, except for the possible effects of the matters described in the Basis for Qualified Conclusion paragraphs, 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 as modified by SAMA for the accounting of zakat and income tax.

EMPHASES OF MATTER

Without further qualifying our conclusion, we draw attention to the following matters:

1. Note 1 and note 16 to the accompanying interim condensed financial information, which details various communications from SAMA to the Company. The Company did not meet the solvency margin requirements as at 31 December 2017 and consequently SAMA issued a letter dated 29 January 2018 preventing the Company from writing any new policies and renewing the existing policies. SAMA also instructed the Company to increase its share capital before 30 July 2018 to address the issue of its deteriorating solvency margin. Subsequent to the year ended 31 December 2017, the Company's Board of Directors in their meeting held on 6 February 2018, recommended a rights issue amounting to Saudi Riyals 400 million in order to improve the solvency margin and the Company's future business activities. Such rights issue is subject to approval of the regulatory authorities and general assembly of the Company. The aforesaid approvals were in process till the signing of this report. As stated in note 1, these events and conditions, along with other matters set forth in note 16, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.
2. 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.

PricewaterhouseCoopers
P. O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia



Bader I. Benmohareb
Certified Public Accountant
Licence No. 471



Aldar Audit Bureau
Abdullah Al Basri & Co.
P. O. Box 2195
Riyadh 11451
Kingdom of Saudi Arabia



Abdullah M. Al Basri
Certified Public Accountant
Licence No. 171



29 Rajab, 1439H
April 15, 2018

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

INTERIM STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

(Amounts in SR'000)

		31 December 2017 (Unaudited)	31 December 2016 (Audited) Restated (Note 4c)
	<i>Notes</i>		
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents'	5	378,349	487,122
Time deposits	6	401,250	225,504
Policyholders' and reinsurance balances receivable	7	659,105	1,210,705
Investments	8a,	28,358	28,308
Due from a related party	11a	63	2,065
Due from shareholders' operations		346,744	99,670
Reinsurers' share of outstanding claims		481,140	595,941
Reinsurers' share of unearned premiums		464,063	536,383
Deferred policy acquisition costs		85,065	91,465
Prepayments and other assets		236,650	218,349
Property and equipment, net		23,211	27,663
Intangible assets, net		3,319	23,492
TOTAL INSURANCE OPERATIONS' ASSETS		3,107,317	3,546,667
SHAREHOLDERS' ASSETS			
Cash and cash equivalents'	5	5,176	211,677
Time deposits	6	70,000	-
Interest on statutory deposit		15,546	11,072
Investments	8b,	125,018	146,076
Prepayments and other assets		1,427	2,598
Investment in an associate	9	9,341	14,802
Land		30,000	30,000
Statutory deposit	10,11a(i)	150,000	150,000
Goodwill		480,000	480,000
TOTAL SHAREHOLDERS' ASSETS		886,508	1,046,225
TOTAL ASSETS		3,993,825	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 31 December 2017

(Amounts in SR'000)

	Notes	31 December 2017 (Unaudited)	31 December 2016 (Audited) Restated (Note 4c)
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims		1,094,437	1,323,956
Due to a related party	11a	3,886	5,643
Accounts and commission payable		121,768	123,710
Accrued expenses and other liabilities		152,257	158,307
Employees' end of service benefits		20,887	26,047
Reinsurance balances payable		135,761	86,172
Surplus distribution payable		111,566	111,566
Unearned reinsurance commission		35,206	36,584
Gross unearned premiums		1,405,228	1,629,251
Other claim reserves		26,296	45,154
TOTAL INSURANCE OPERATIONS' LIABILITIES		3,107,292	3,546,390
INSURANCE OPERATIONS' SURPLUS			
Cumulative change in fair values of available for sale investments	8a	327	277
Re-measurement of defined benefit liability – employees benefits		(302)	-
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		3,107,317	3,546,667
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities		635	635
Provision for zakat and income tax		25,022	15,398
Due to insurance operations		346,744	99,670
Commission payable on statutory deposit		15,546	11,072
TOTAL SHAREHOLDERS' LIABILITIES		387,947	126,775
SHAREHOLDERS' EQUITY			
Share capital	14	400,000	1,000,000
Statutory reserve	15	146,135	146,135
Accumulated deficit		(53,002)	(232,171)
Cumulative change in fair values of available for sale investments	8b	5,428	5,486
TOTAL SHAREHOLDERS' EQUITY		498,561	919,450
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		886,508	1,046,225
TOTAL LIABILITIES, INSURANCE OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY		3,993,825	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 - INSURANCE OPERATIONS
(Amounts in SR'000)

	Notes	<i>For the three month period ended</i>		<i>For the twelve month period ended</i>	
		<i>31 December 2017</i>	<i>31 December 2016</i>	<i>31 December 2017</i>	<i>31 December 2016</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Gross premiums written	12	499,616	558,405	2,665,838	3,194,334
Reinsurance premiums ceded		(136,300)	(97,366)	(477,175)	(482,785)
Excess of loss premiums		(7,293)	(2,924)	(17,504)	(14,345)
NET PREMIUMS WRITTEN	12	356,023	458,115	2,171,159	2,697,204
Change in unearned premiums, net		200,300	226,724	151,703	248,422
NET PREMIUMS EARNED	12	556,323	684,839	2,322,862	2,945,626
Gross claims paid and other expenses		(615,602)	(714,862)	(2,542,871)	(3,104,021)
Reinsurers' share of gross claims paid		61,170	84,863	345,713	384,371
Change in outstanding claims, net		38,291	24,648	114,718	265,459
Change in other claim reserves		17,982	11,452	18,858	(10,804)
NET CLAIMS INCURRED	12	(498,159)	(593,899)	(2,063,582)	(2,464,995)
Policy acquisition costs	12	(43,695)	(44,911)	(160,677)	(190,970)
Reinsurance commission income	12	18,480	22,388	64,063	85,002
NET UNDERWRITING RESULT	12	32,949	68,417	162,666	374,663
General and administrative expenses		(74,710)	(86,575)	(306,833)	(358,520)
Impairment on discontinued ERP system		-	-	(25,688)	-
Reversal / (Provision) for doubtful debts	7,11	48,594	-	(295,260)	(35,000)
Impairment on available for sale investments		-	-	-	(725)
Special commission income		2,122	5,976	10,286	20,832
Other income		20,520	18,712	64,430	48,497
INSURANCE OPERATIONS' (DEFICIT) / SURPLUS		29,475	6,530	(390,399)	49,747
Shareholders' appropriation from insurance operations' deficit / (surplus)	2	(29,475)	(5,877)	390,399	(44,772)
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION		-	653	-	4,975
ACCUMULATED SURPLUS AT THE BEGINNING OF THE PERIOD		111,566	110,913	111,566	106,591
ACCUMULATED SURPLUS AT THE END OF THE PERIOD		111,566	111,566	111,566	111,566

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 twelve month period ended</u>	
	<u>31 December</u> <u>2017</u> <u>Notes (Unaudited)</u>	<u>31 December</u> <u>2016</u> <u>(Unaudited)</u>	<u>31 December</u> <u>2017</u> <u>(Unaudited)</u>	<u>31 December</u> <u>2016</u> <u>(Audited)</u>
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION	-	653	-	4,975
Other comprehensive income:				
Items that will not be reclassified to interim statement of income in subsequent period				
Impairment loss for the period transferred to interim statement of income	8 (a) -	-	-	725
Re-measurement of defined benefit liability – employees benefits	(302)	-	(302)	-
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) 11	21	50	(2,273)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD	(291)	674	(252)	3,427

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 twelve month period ended</i>	
		<i>31 December 2017 (Unaudited)</i>	<i>31 December 2016 (Unaudited)</i>	<i>31 December 2017 (Unaudited)</i>	<i>31 December 2016 (Audited)</i>
	<i>Notes</i>				
INCOME / (LOSS)					
Shareholders' appropriation from insurance operations' surplus / (deficit)	2	29,475	5,877	(390,399)	44,772
Special commission income		1,230	3,128	5,367	10,304
Realised gain on sale of available for sale investments		-	897	-	13,735
Dividend income on available for sale investments		-	385	-	711
Income from investment in associate	3	2,707	2,619	2,707	2,707
Other income		-	-	-	162
		<u>30,708</u>	<u>12,994</u>	<u>(382,413)</u>	<u>72,391</u>
EXPENSES					
General and administrative expenses		(1,637)	(1,009)	(5,613)	(4,164)
Impairment loss available for sale investments		-	-	-	(616)
		<u>(1,637)</u>	<u>(1,009)</u>	<u>(5,613)</u>	<u>(4,780)</u>
NET (LOSS) / INCOME FOR THE PERIOD		<u>29,071</u>	<u>11,985</u>	<u>(388,026)</u>	<u>67,611</u>
BASIC AND DILUTED (LOSSES) / EARNING PER SHARE FOR THE PERIOD	13	0.73	0.30	(9.70)	1.69

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)**

	<i>For the three month period ended</i>			<i>For the twelve month period ended</i>		
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>Notes</i>					<i>Restated</i>
						<i>(Note 4c)</i>
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 for the period transferred to interim statement of income	8 (b)	-	-	-	-	616
Items that may be reclassified to interim statement of income in subsequent period						
Available for sale investments						
Change in fair values						
(Gain) transferred to interim statement of income	8 (b)	(4)	(872)	(58)	3,344	(13,735)
		-	(897)	-	(13,735)	
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		29,071	11,985	(388,026)	57,836	

[Signature]

[Signature]

[Signature]

**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 2017
(Amounts in SR'000)

	Note	Share capital	Statutory reserve	Accumulated deficit	Cumulative change in fair values of available for sale investments	Total
Balance at 1 January 2017 (Audited) as previously reported		1,000,000	146,135	(199,101)	5,486	952,520
Effect of restatement	4c(ii)	-	-	(33,070)	-	(33,070)
Balance at 1 January 2017 as restated	4c(ii)	1,000,000	146,135	(232,171)	5,486	919,450
Total comprehensive loss for the period:						
Net loss for the period	8 (b)	-	-	(388,026)	-	(388,026)
Change in fair values		-	-	-	(58)	(58)
Zakat	14	-	-	(32,114)	-	(32,114)
Reduction of capital	14	(600,000)	-	600,000	-	-
Transaction cost related to reduction in share capital	14	-	-	(691)	-	(691)
Balance at 31 December 2017 (Unaudited)		400,000	146,135	(53,002)	5,428	498,561
Balance at 1 January 2016 as previously reported		1,000,000	146,135	(249,265)	15,261	912,131
Effect of restatement	4c(ii)	-	-	(33,070)	-	(33,070)
Balance at 1 January 2016 as restated	4c(ii)	1,000,000	146,135	(282,335)	15,261	879,061
Total comprehensive income for the period-restated:						
Net income for the period	4c(i)	-	-	67,611	-	67,611
Change in fair values	8 (b)	-	-	-	3,344	3,344
Gain transferred to interim statement of income shareholders' operations	8 (b)	-	-	-	(13,735)	(13,735)
Impairment loss for the period transferred to interim statement of income shareholders' operations	8 (b)	-	-	-	616	616
Zakat - restated	4c(i)	-	-	(17,447)	-	(17,447)
Balance at 31 December 2016 - restated	4c(ii)	1,000,000	146,135	(232,171)	5,486	919,450

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 twelve month period ended 31 December 2017

(Amounts in SR'000)

	Notes	31 December 2017 Unaudited	31 December 2016 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 generated from / (used in) operating activities:</i>			
Shareholders' appropriation from insurance operations' (deficit) / surplus		(390,399)	44,772
Depreciation		9,764	9,471
Employees' end of service benefits		13,413	12,338
Special commission income		(10,286)	(19,149)
Provision for doubtful debts		295,260	35,000
Gain on sale of property and equipment, net		(737)	(135)
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) / generated from operations		(57,297)	86,314
<i>Changes in operating assets and liabilities:</i>			
Gross unearned premiums		(224,023)	(425,197)
Reinsurers' share of unearned premiums		72,320	176,775
Policyholders' and reinsurance balances receivable		258,730	409,372
Due from a related party		(388)	70,541
Due to a related party		(1,757)	(34,946)
Reinsurers' share of outstanding claims		114,801	75,373
Deferred policy acquisition costs		6,400	90,342
Prepayments and other assets		(18,301)	(163,498)
Deposit against letters of guarantee		(3,054)	(5,437)
Gross outstanding claims		(229,519)	(340,832)
Accounts and commissions payable		(1,942)	(88,127)
Accrued expenses and other liabilities		(6,352)	25,443
Reinsurance balances payable		49,589	(34,044)
Shareholders' appropriation from insurance operations' deficit		390,399	(44,772)
Unearned reinsurance commission		(1,378)	(19,731)
Other claim reserves		(18,858)	10,804
Cash generated from / (used in) operations		329,370	(211,620)
Employees' end of service benefits paid		(18,573)	(10,020)
Net cash generated from / (used in) operating activities		310,797	(221,640)
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		(175,746)	(27,714)
Special commission income		10,286	19,149
Proceeds from sale of available for sale investment	8(a)	-	31,326
Proceeds from sale of property and equipment		791	163
Purchase of property and equipment		(10,881)	(5,435)
Net cash (used in) / generated from investing activities		(175,550)	17,489
CASH FLOWS FROM FINANCING ACTIVITY			
Due from shareholders' operations, net		(247,074)	90,518
Net cash (used in) / generated from financing activity		(247,074)	90,518
NET CHANGE IN CASH AND CASH EQUIVALENTS		(111,827)	(113,633)
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	348,784	460,611
<i>Non-cash transaction:</i>			
Change in fair values of available for sale investments	8(a)	50	(1,548)
Re-measurement of actuarial loss of end of service benefit		(302)	-
Policyholders' and reinsurance receivable adjusted due to correction of error	4e(ii)	-	33,070

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 twelve month period ended 31 December 2017

(Amounts in SR'000)

	Notes	31 December 2017 Unaudited	31 December 2016 Audited
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / income for the period		(388,026)	67,611
<i>Adjustments for:</i>			
Special commission income		(5,367)	(10,304)
Realised gain on sale of available for sale investments		-	(13,735)
Dividend income on available for sale investments		-	(711)
Income from investment in associate		(2,619)	(2,707)
Impairment losses on available for sale investment		-	616
Cash (used in) / from operations		(396,012)	40,770
<i>Changes in operating assets and liabilities:</i>			
Prepayments and other assets		1,171	(816)
Accrued expenses and other liabilities		-	(127)
Cash generated from / (used in) operating activities		(394,841)	39,827
Zakat paid		(22,490)	(2,893)
Net cash (used in) / generated from operating activities		(417,331)	36,934
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		(70,080)	96,052
Proceeds from sale of available for sale investment	8(b)	21,000	99,282
Special commission income		5,367	10,304
Dividend income on available for sale investments		-	711
Increase in statutory deposit		-	(50,000)
Dividend from investment in associate		8,080	-
Commission payable on statutory deposit		4,474	3,315
Commission on statutory deposit		(4,474)	(3,315)
Net cash (used in) / generated from investing activities		(35,553)	156,349
CASH FLOWS FROM FINANCING ACTIVITIES			
Due to insurance operations, net		247,074	(90,518)
Transaction cost related to reduction of share capital	14	(491)	-
Net cash generated from / (used in) financing activities		246,383	(90,518)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(206,501)	102,765
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	5,176	211,677
<i>Non-cash transactions:</i>			
Change in fair values of available for sale investments	8b	(58)	(9,775)
Accumulated deficit adjusted due to correction of error	4c(ii)	-	33,070

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) 31 December 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 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, due to the continuous decline in the financial performance of the Company, the Company did not meet the solvency margin requirements as at 31 December 2017 and consequently SAMA issued a letter number 391000054425 dated 29 January 2018, preventing the Company from writing any new policies and renewing the existing policies. SAMA in its aforesaid letter also instructed the Company to increase its share capital before 30 July 2018 to address the issue of its deteriorating solvency margin. Subsequent to the period ended 31 December 2017, the Company's Board of Directors in their meeting held on 6 February 2018, recommended a rights issue amounting to SAR 400 million in order to improve the solvency margin and the Company's future business activities. Such rights issue is subject to approval of the regulatory authorities and general assembly of the Company. In addition SAMA instructed the Company to submit weekly progress report on the measures taken by the management in this regard and intimated that the above said suspension will continue unless management takes the practical steps to improve the deteriorating solvency margin situation. This condition indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

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 and when they fall due over the next 12 months. As a result, the interim condensed financial information 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, reduction in expenses due to potential cost saving measures and other measures which may be required as a result of suspension of Company's operations.

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. 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 twelve month period ended 31 December 2017.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

2. BASIS OF PREPARATION

Basis of measurement

The interim condensed financial information (interim condensed financial information) has been prepared on a historical cost basis except for the measurement at fair value of available for sale investments.

Statement of compliance

The interim condensed financial information of the Company ("Company") has been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

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 accounting policy for zakat and income tax. Refer note 4a for the accounting policy of zakat and income tax and note 4c(i) for the impact of change in the accounting policy resulting from the SAMA Circular.

As required by Saudi Arabian insurance regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations and presents the financial statements accordingly. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of other revenue and expenses from joint operations is as determined by the management and Board of Directors.

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

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

The insurance operations' full deficit for the period ended 2017 amounted to SR 390,399 thousand (31 December 2016: surplus of SR 49,747 thousand). Accordingly, full deficit amounting to SR 390,399 thousand for the period ended 31 December 2017 has been transfer to shareholders' operations (31 December 2016: 90% of insurance operations surplus amounting to SR 44,772 thousands was transferred to shareholders' operations).

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 period ended 31 December 2016.

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.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

i) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate and involves a significant degree of judgment. There are several sources of uncertainty that needed to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of interim statement of financial position, for which the insured event has occurred prior to the date of interim statement of financial position. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

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

As a first step towards setting appropriate IBNR reserves for the medical and motor line of businesses, a runoff analysis is prepared to assess how the claims reserves determined at the previous valuation dates compare with actual developments. Results from runoff analysis are taken into consideration while setting reserves for IBNR claims. An analysis is carried out by using the following methods:

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

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

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

(ii) Premium deficiency reserve

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

iii) Impairment losses on receivables

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

iv) Goodwill

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Management believes that fair value less cost to sell analysis provides a higher value compared to value in use, and therefore, fair value less cost to sell analyses are used for impairment assessments. Management used a valuation expert to perform fair value less cost to sell analysis through a market based approach to test impairment. The fair value less cost to sell calculation is based on the quoted share price of the Company as of period close and subsequent events that occurred till measurement date. In arriving at the valuation under market approach, the expert also applied certain judgments and factors including analysis of price book value multiples of the comparable companies and comparable transactions. The goodwill will be subject to impairment if the market value / share price of the Company would decline by more than 50% as of the date of this interim condensed financial information.

v) Reinsurance

The Company accounts for its reinsurance transactions based on their understanding of the contractual terms of the reinsurance treaties.

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS

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. As a result of the Circular issued by SAMA, the Company amended its accounting policy relating to zakat and income tax and have started to charge zakat and income tax directly to the statement of changes in shareholders' equity. Previously, the Company used to charge zakat and income tax to the statement of changes in shareholders' equity through the statement of shareholders' comprehensive income. The Company has accounted for this change in accounting policy relating to zakat and income tax retrospectively. Refer note 4c(i).
- b. The adoption of amendments to the existing standards, as mentioned below, which has had no significant financial impact on the interim condensed 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 financial statement 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.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS (Continued)

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 periods 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 9 - "Financial instruments", In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement.

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2021. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The Company is eligible to apply the deferral approach under the amendments to IFRS 4. The impact of the adoption of IFRS 9 on the Company's financial statements will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. IASB through its amendments to IFRS 4 issued in September 2016 had allowed temporary exemption if a Company meets the following criteria:

- a) The Company has not previously applied any version of IFRS 9; and
- b) its activities are predominantly connected with insurance that is defined as total percentage of carrying amount of insurance liabilities is greater than 90% of its total liabilities.

At present it is not possible to provide a reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

IFRS 15 Revenue from contracts with customers

IFRS 15 will replace IAS 18 'Revenue' and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard is being assessed by the Company and is not considered significant.

IFRS 16 - "Leases", applicable for the period beginning on or after 1 January 2019.

The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The Company has decided not to early adopt this new standard.

IFRS 17 - "Insurance Contracts", applicable for the period beginning on or after 1 January 2021, and will supersede IFRS 4 "Insurance Contracts". This IFRS 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.

Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the income statement and the balance sheet. The Company has decided not to early adopt this new standard.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS (Continued)

c) **RESTATEMENTS**

c(i) **Zakat and Tax**

The change in the accounting policy (Refer 4(a)) has the following impact on the interim statement of shareholders' comprehensive income. The above change in accounting policy did not have an impact on interim statements of financial position and cash flows for any of the period presented. The effect of restatement is as follows:

Interim statement of shareholders' Comprehensive Income	As previously stated SR'000	Effect of zakat and tax restatement SR'000	Amount restated SR'000
12 months period ended 31 December 2016			
Zakat charge	(17,447)	17,447	-
Total comprehensive income for the period	40,389	17,447	57,836
3 months period ended 31 December 2016			
Zakat charge	(3,020)	3,020	-
Total comprehensive income for the period	7,196	3,020	10,216

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

c (ii) **Effect of error**

During the twelve month period ended December 31, 2017, the Company has restated the retained earnings as at January 1, 2016 and comparative financial statements as of December 31, 2016 as a result of erroneous recording in prior year of transactions relating to medical reinsurance treaty managed by Medgulf BSC Bahrain (major shareholder) on behalf of the Company. The restated amount was part of receivable from Medgulf BSC Bahrain (Refer note 7) and was confirmed by Medgulf BSC Bahrain in earlier years without any differences. Subsequently, as a result of reconciliation of medical reinsurance treaty, an error pertaining to prior year was identified which was ultimately accepted by Medgulf BSC Bahrain and the Company. Also, there are certain amount reclassified from the previously reported numbers as at December 31, 2016 to conform with the current year presentation. The reclassifications mainly relate to inclusion of TPA, SAMA and CCHI fees in prepayment and other assets and intangible assets which were previously presented in deferred policy acquisition costs and property and equipment respectively in the interim statement of financial position. These changes were made for better presentation of balances in the interim statement of financial position of the Company.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS (Continued)

The tables below set out the impact of the restatement on interim financial statements for the period ended 31 December 2017:

	Balance as at 31 December 2016 reported in previously issued financial statements SR'000	Adjustment referred to in above SR'000	Other reclassifications SR'000	Balance as at 31 December 2016 after the adjustment SR'000
Statement of financial position as at 31 December 2016				
Policyholders and reinsurance balances receivable	1,248,475	(33,070)	(4,700)	1,210,705
Due from shareholders' operations	66,600	33,070	-	99,670
Due to insurance' operations	(66,600)	(33,070)	-	(99,670)
Deferred policy acquisition costs	141,336	-	(49,871)	91,465
Prepayments and other assets	163,778	-	54,571	218,349
Property and equipment, net	51,155	-	(23,492)	27,663
Intangible assets, net	-	-	23,492	23,492
Statement of changes in shareholder's equity as at 31 December 2016				
Accumulated deficit	(199,101)	(33,070)	-	(232,171)
Statement of changes in shareholder's equity as at 31 December 2015				
Accumulated deficit	(249,265)	(33,070)	-	(282,335)
	Balance as at 31 December 2016 reported in previously issued financial statements SR'000	Adjustment referred to in above SR'000	Other reclassifications SR'000	Balance as at 31 December 2016 after the adjustment SR'000
Interim statement of income and accumulated surplus – Insurance operations for nine month period ended 30 September 2017				
Provision for doubtful debts	(376,924)	33,070	-	(343,854)
Insurance operations Deficit	(452,944)	33,070	-	(419,874)
Shareholder's appropriation from insurance operation' deficit	452,944	(33,070)	-	419,874
Interim statement of income – Shareholders operations for nine month period ended 30 September 2017				
Shareholder's appropriation from insurance operation' deficit	(452,944)	33,070	-	(419,874)
Net Loss for the period	(450,167)	33,070	-	(417,097)
Basic and Diluted Losses per share	(11.25)	0.82	-	(10.43)
Interim statement of comprehensive income – Shareholders operations for nine month period ended 30 September 2017				
Net Loss for the period	(450,167)	33,070	-	(417,097)
Total comprehensive income for the period	(450,221)	33,070	-	(417,151)

Impact on previously issued Quarters for the period ending 31 March, 2017, 30 June 2017 and 30 September 2017

The above restatement has the impact on previously issued interim condensed financial information for the quarters ended 31 March, 2017, 30 June 2017 and 30 September 2017 and therefore, the impact of restatement will be reflected in the comparatives of the quarterly interim condensed financial information for the year ending 31 December 2018.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

5. CASH AND CASH EQUIVALENTS'

	31 December 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	97,035	5,176	31,535	24,739
Short-term time deposits	251,749	-	429,076	186,938
Cash and cash equivalents in the interim statement of cash flows	348,784	5,176	460,611	211,677
Deposits against letters of guarantee	29,565	-	26,511	-
	378,349	5,176	487,122	211,677

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

Short-term time deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with an original maturity of less than three months from the date of acquisition and earned special commission income at an average rate of 1.7% per annum (2016: 3.25% per annum). The carrying amounts disclosed above reasonably approximate the fair value at the interim statement of financial position date.

Deposits against letters of guarantee comprise amounts placed with a local bank against issuance of payment guarantees in favour of the Company's customers and service providers. As 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 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 2.14% per annum (31 December 2016: 3.15% per annum).

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

7. POLICYHOLDERS' AND REINSURANCE BALANCES RECEIVABLE

	31 December 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Policyholders' balances receivable	868,978	1,094,322
Less: Provision for doubtful debts	(290,942)	(182,862)
	578,036	911,460
Reinsurance balances receivable	302,568	335,954
Less: Provision for doubtful debts	(221,499)	(36,709)
	81,069	299,245
Total policyholders' and reinsurance balances receivable	659,105	1,210,705

As disclosed in note 11, the Company, together with CRC, have now initiated an exercise to separate the Company's transactions and balances with the respective reinsurers and brokers from those of other related parties. This exercise is still on-going and on completion certain parties included above in reinsurance balances receivable amounting to Saudi Riyals 120.2 million may be identified as receivable from related parties and therefore may need to be disclosed under due from related parties in note 11.

8. INVESTMENTS

Investments are classified as set out below:

(a) Insurance operations – Available for sale investments

	31 December 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Mutual funds	3,358	3,308
Sukuk	25,000	25,000
Total	28,358	28,308

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

	31 December 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	50	(1,548)
At the end of the period / year	28,358	28,308

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

8. INVESTMENTS (Continued)

(a) Insurance operations – Available for sale investments (Continued)

The cumulative change in fair values of available for sale investments for insurance operations amounting to SR 327 thousand (31 December 2016: SR 277 thousand) is presented within insurance operations' surplus' in the interim statement of financial position.

(b) Shareholders' operations – Available for sale investments

	31 December 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Mutual funds	55,524	55,626
Bonds	47,571	47,527
Sukuk	20,000	41,000
Equities	1,923	1,923
Total	125,018	146,076

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

	31 December 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	(21,000)	(99,282)
	125,076	142,732
Realised gain	-	13,735
Impairment loss	-	(616)
Net change in fair values	(58)	(9,775)
At the end of the period / year	125,018	146,076

The cumulative change in fair values of available for sale investments for shareholders' operations amounting to SR 5,428 thousand (31 December 2016: SR 5,486 thousand) is presented within shareholders' equity in the interim 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.

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The unlisted security of SR1.92 million (31 December 2016: SR 1.92 million) held as part of Company's shareholder operations, were stated at cost in the absence of active markets or other means of reliably measuring their fair value.

During the three-month and twelve-month periods ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

8. INVESTMENTS (Continued)

(c) Fair value (continued)

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:

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

(i) Insurance operations – Fair Value

31 December 2017 (Unaudited)				
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
Available for sale investments				
Mutual funds	3,358	-	-	3,358
Sukuk	-	25,000	-	25,000
Total available for sale investments	3,358	25,000	-	28,358
31 December 2016(Audited)				
	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

(ii) Shareholders' operations –Fair value

31 December 2017 (Unaudited)				
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
Available for sale investments				
Mutual funds	55,524	-	-	55,524
Bonds	9,998	37,573	-	47,571
Sukuk	-	20,000	-	20,000
Equities	-	-	1,923	1,923
Total available for sale investments	65,522	57,573	1,923	125,018
31 December 2016(Audited)				
	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
Available for sale investments				
Mutual funds	55,626	-	-	55,626
Bonds	9,998	37,529	-	47,527
Sukuk	-	41,000	-	41,000
Equities	-	-	1,923	1,923
Total available for sale investments	65,624	78,529	1,923	146,076

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

9. INVESTMENT IN AN ASSOCIATE

Investment in an associate comprises of an equity investment in Al-Waseel for Electronic Transportation amounting to SR 9,341 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. This statutory deposit cannot be withdrawn without the consent of SAMA. During the period ended 31 December 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.

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Related parties	Nature of transaction	Amount of transaction for the twelve month period ended		Balance	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
		Unaudited	audited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Due from a related party					
Medgulf BSC - Head office account (major shareholder)	-Claims recoveries on behalf of major shareholder	388	2,065	-	-
	-Payment received during the period	-	23,879	-	-
	-Balance due from at period / year end	-	-	2,453	2,065
	-Provision for doubtful debts	-	-	(2,390)	-
	-Net balance due from at period / year end	-	-	63	2,065
Medgulf BSC - Operation account (major shareholder)	-Payment received during the period	-	24,206	-	-
Medgulf Egypt (affiliate)	-Payment received during the period	-	58	-	-
Medgulf Jordan (affiliate)	-Payment received during the period	-	25	-	-
Motion al-Saudia (affiliate) (in liquidation)	-Payment received during the period	-	10,924	-	-

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the twelve month period ended		Balance	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
		Unaudited	audited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Due from related parties					
Addison Bradley Arabia- KSA – (affiliate)	-Payment received during the period	-	13,066	-	-
Al Samiya Trading Co (affiliate)	-Payment received during the period (Refer 11.a (vi))	8,066	448	-	-
Total due from related parties				63	2,065
Due to a related party					
Medivisa KSA (affiliate)	-Insurance premium for employees of fellow subsidiary	3,792	3,894	-	-
	-Third party administration fees	59,032	77,061	-	-
	-Claim incurred	59	66	-	-
	-Payment received	15	43	-	-
	-Premium refundable	428	367	-	-
	-Payment on third party administration fees	98,088	68,000	-	-
	-Balance due to at period / year end	-	-	3,886	46,232
	-Amount set off in favour of Medgulf BSC (refer 11.a(iv))	-	-	-	(40,589)
	-Balance due to at period / year end			3,886	5,643
Total due to related party				3,886	5,643

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the twelve month period ended		Balance	
Other related parties transactions and balances – due from / (due to)		31 December 2017	31 December 2016	31 December 2017	31 December 2016
		Unaudited	audited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
The Saudi Investment Bank, (Founding shareholder)	-Current account and time deposits	798	1,352	997	1,795
	-Statutory deposit (refer note 11.a (i))	4,474	53,315	165,546	161,072
	-Gross written premiums	4,051	2,965	-	-
	-Premiums (refundable)	-	-	(1,163)	(1,013)
	-Claims incurred / adjustment	65	928	-	-
	-Outstanding claims	-	-	(607)	(597)
Saudi Orix (Shareholder of the Medgulf BSC)	-Gross written premiums	27,439	27,788	-	-
	-Premiums receivable	-	-	774	1,313
	-Provision for doubtful debts	-	-	(23)	-
	-Net Balance receivable at period / year end	-	-	751	-
	-Claims incurred	16,254	19,659	-	-
	-Outstanding claims	-	-	(593)	(56)
Safari Group of companies (Under common Directorship)	-Gross written premiums	9,884	16,680	-	-
	-Premiums receivable	-	-	1,802	188
	-Provision for doubtful debts	-	-	(42)	-
	-Net balance receivable at period / year end	-	-	1,760	-
	-Claims incurred	10,498	15,030	-	-
	-Claims payable	-	-	(186)	(20)

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the twelve month period ended		Balance	
Other related parties transactions and balances – due from / (due to)		31 December 2017	31 December 2016	31 December 2017	31 December 2016
		Unaudited	audited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Medivisa KSA (affiliate)	-Medical claim Jordan / balance	265	1,168	1,592	1,327
	-Medical claim Lebanon / balance	164	365	529	365
	-Medical claim Egypt / balance	77	58	-	77
Al Istithmar Capital (subsidiary of SIB-founding shareholder)	-Discretionary portfolio arrangement (refer 11.a (ii))	102	463	55,524	55,626
	-Current account	18,505	18,945	520	19,025
	-Gross written premium / (adjustment)	-	(24)	-	-
	-Premiums refundable	-	-	(38)	(38)
	-Gross written premiums	367	25	-	-
Khalid A. Al Shathry Construction Co. (Under common directorship)	-Premiums receivable	-	-	259	143
	-Provision for doubtful debts	-	-	(137)	-
	-Net balance receivable at period / year end	-	-	122	-
	-Claims incurred	132	56	-	-
	- Outstanding recovery	-	-	1	1
	-Medical claim	87	137	-	-
Sanaya Dental Care (Under common directorship)	-Payment on account	94	135	-	-
	-Balance due to at period / year end	-	-	(1)	(8)
	-Gross written premiums	28	64	-	-
Saleh Al-Sagri (individual motor policies of director)	-Claims incurred	34	2	-	-
	-Outstanding claims	-	-	1	-
	-Premiums receivable	-	-	166	286
Advanced Petrochemical Company (Under common directorship)	-Provision for doubtful debts	-	-	(124)	-
	-Net balance receivable at period / year end	-	-	42	-

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)					
Related parties	Nature of transaction	Amount of transaction for the twelve month period ended		Balance	
Other related parties transactions and balances – due from / (due to)		31 December 2017	31 December 2016	31 December 2017	31 December 2016
		Unaudited	audited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Medgulf BSC (major shareholder)	-Claim recoveries	7	26,949	-	-
	-Reinsurance recovery (refer 11.a(ix))	-	-	5,962	-
	-Provision for doubtful debts	-	-	(5,962)	-
	-Net balance receivable at period / year end	-	-	-	-
	-Balance receivable at period / year end	-	126,586	-	206,255
	-Amount set off in favour of Medgulf BSC (refer 11.a(iv))	-	-	-	(40,589)
	-Adjustment during the period	(43,573)	-	-	-
	-Payment received	122,093	-	-	-
	-Net Balance receivable at period / year end (refer 11.a(iv))	-	-	-	165,666
	Khalid A. Al Shathry (individual motor policies of director)	-Gross written premiums	-	7	-
-Premiums receivables		-	-	215	522
-Provision for doubtful debts		-	-	(169)	-
-Net balance receivable at period / year end		-	-	46	-
-Claims incurred		-	14	-	-
-Outstanding recovery		-	-	10	10
Addison Bradley Overseas / Addison Bradley & Co. (affiliate)	-Payment received	-	54,527	-	-
	-Balance receivable at period / year end	-	-	3,856	3,856
	-Provision for doubtful debts	-	-	(3,856)	-
	-Net balance due from at period / year end	-	-	-	3,856

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	Nature of transaction	Amount of transaction for the twelve month period ended		Balance	
Other related parties transactions and balances – due from / (due to)		31 December 2017	31 December 2016	31 December 2017	31 December 2016
		Unaudited	audited	Unaudited	Audited
		SR'000	SR'000	SR'000	SR'000
Addison Bradley International / Medgulf Lebanon (affiliate)	-Payment received by Addison Bradley /Medgulf Lebanon in favour of Medgulf KSA for run off treaty (Refer 11.a (V&11.c))	30,242	-	-	-
	-Balance receivable at period / year end	-	-	30,242	-
	-Provision for doubtful debts	-	-	(30,242)	-
	-Net balance due from at period/ year end	-	-	-	-
Lutfi Fadel El Zein Ex board member (Refer 11.a (x))	-Gross written premiums	9	87	-	-
SIB LLC (UAE) (affiliate)	-Payment received during the period	-	31	-	-
Addison Bradley Arabia-KSA (affiliate)	-Payment received during the period	-	4,570	-	-
Addison Bradley International (affiliate)	-Reinsurance recoveries (Refer 11.a (vii))	13,453	-	-	-
	-Balance due from at period/ year end	-	-	13,453	-
	- Provision for doubtful debts	-	-	(10,090)	-
	- Net balance due from at period / year end	-	-	3,363	-
Addison Bradley Arabia Holding LLC (UAE) (affiliate)	-Payment made during the period	-	2,692	-	-
	-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 0.70% 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) the board member resigned subsequent to the period ended Decemebr 31, 2017.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

11.a(iv) The balance due from Medgulf BSC (major shareholder) as at 31 December 2016 amounting to SR 165.6 million was after setting off SR 40.5 million due to Medivisa KSA (affiliate), which was withheld by the Company for its dues from Medgulf BSC in accordance with mutual agreement of all the 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. Further, the balance was adjusted by SR 43.5 million to reach SR 122 million as a result of the exercise performed by the consultant during June 2017. During the period, 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. During the period ended 31 December 2017, the full amount has been collected from the bank guarantee.

11.a(v) This represent payment received by related party for reinsurance agreements that was managed through Group Corporate Reinsurance Centre (CRC) (refer note 11.c). Management believes that SR 30 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 run-off treaties for the underwriting years up to 2014 have been collected by the related party either directly or through a broker (refer note 11.c).

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.a(ix) This represent overpayment of premium ceded to Medgulf Bahrain for reinsurance placement.

11.a(x) the board member resigned on October 10, 2017

11.b Compensation of key management personnel

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

	31 December 2017 (Unaudited) SR'000	31 December 2016 (Audited) SR'000
Short term benefits	12,109	16,577
End of service benefits	339	1,089
	12,448	17,666

11.c All reinsurance treaties up to the underwriting year 2014 were managed by the Medgulf Group Corporate Reinsurance Center ("CRC"), a related party, who dealt with the Company's transactions, along with those of other related parties, on a consolidated basis with the reinsurers and brokers. All transactions with reinsurers and brokers were routed through CRC and the settlement of balances with these reinsurers and brokers were also made by CRC. The Company, together with CRC, have now initiated an exercise to separate the Company's transactions and balances with the respective reinsurers and brokers from those of other related parties. This exercise is still on-going and on completion certain parties included in the policyholders' and reinsurance balances receivable under note 7 amounting to Saudi Riyals 120.2 million may be identified as receivable from related parties and therefore may need to be disclosed under due from related parties. The underlying transactions with such related parties will then also require disclosure under related party transactions.

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.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

12. SEGMENTAL INFORMATION (Continued)

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 2017 (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	1,718,661	546,448	400,729	2,665,838
Net premiums written	1,718,661	390,737	61,761	2,171,159
Net premiums earned	1,962,487	290,682	69,693	2,322,862
Net claims incurred	(1,895,397)	(160,408)	(7,777)	(2,063,582)
Policy acquisition costs	(109,696)	(26,352)	(24,629)	(160,677)
Reinsurance commission income	-	24,421	39,642	64,063
Net underwriting result	(42,606)	128,343	76,929	162,666
General and administrative expenses				(306,833)
Impairment on discontinued ERP system				(25,688)
Provision for doubtful debts				(295,260)
Special commission income and other income				74,716
Insurance operations' deficit				(390,399)

For the twelve-month period ended December 2016 (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	2,266,987	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	(123,486)	(37,578)	(29,906)	(190,970)
Reinsurance commission income	-	39,327	45,675	85,002
Net underwriting result	191,762	106,775	76,126	374,663
General and administrative expenses and impairment charge on available for sale investment				(359,245)
Provision for doubtful debts				(35,000)
Special commission income and other income				69,329
Insurance operations' surplus				49,747

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

For the three month period ended December 2017 (Unaudited)

	<i>Medical SR</i>	<i>Motor SR</i>	<i>Other SR</i>	<i>Total SR</i>
<i>Insurance operations</i>				
Gross premiums written	231,271	155,199	113,146	499,616
Net premiums written	231,271	111,856	12,896	356,023
Net premiums earned	456,230	84,667	15,426	556,323
Net claims incurred	(441,372)	(48,759)	(8,028)	(498,159)
Policy acquisition costs	(29,739)	(8,009)	(5,947)	(43,695)
Reinsurance commission income	-	5,352	13,128	18,480
Net underwriting result	(14,881)	33,251	14,579	32,949
General and administrative expenses				(74,710)
Provision for doubtful debts				48,594
Special commission income and other income				22,642
Insurance operations' surplus				29,475

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>
<i>Insurance operations</i>				
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	(29,698)	(7,686)	(7,527)	(44,911)
Reinsurance commission income	-	6,418	15,970	22,388
Net underwriting result	8,970	37,588	21,859	68,417
General and administrative expenses and impairment charge on available for sale investment				(86,575)
Provision for doubtful debts				
Special commission income and other income				24,688
Insurance operations' surplus				6,530

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

12. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

<i>As at 31 December 2017 (Unaudited)</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	-	82,650	381,413	464,063
Reinsurers' share of outstanding claims	-	44,102	437,038	481,140
Deferred policy acquisition costs	46,970	22,052	16,043	85,065
Unallocated assets				2,077,049
				3,107,317
<i>Insurance operations' liabilities and surplus</i>				
Gross unearned premiums	683,124	300,279	421,825	1,405,228
Unearned reinsurance commission	-	17,547	17,659	35,206
Gross outstanding claims	476,321	144,965	473,151	1,094,437
Unallocated liabilities				572,446
				3,107,317
<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	63,449	9,109	18,907	91,465
Unallocated assets				2,322,878
				3,546,667
<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
				3,546,667

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 twelve month period ended 31 December 2017 amounting to 40 million shares (31 December 2016: 40 million shares). The basic and diluted earnings / (losses) per share for the corresponding period was adjusted to reflect the reduction in share capital.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

14. SHARE CAPITAL

The authorized and paid up share capital of the Company was 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, was 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, the Company incurred transaction cost of SR 691 thousand in respect of reduction in share capital, which has been charged directly to the interim statement of changes in shareholders' equity.

Subsequent to the period ended 31 December 2017, the Company's Board of Directors in their meeting held on 6 February 2018, recommended a rights issue amounting to SAR 400 million. Such rights issue is subject to approval of the regulatory authorities and general assembly of the Company.

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 31 December 2017 and period ended 31 December 2016, no transfer was made to statutory reserve.

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 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. 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. Accordingly, the plan was 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, recoveries from policyholders and related parties and finally 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. As explained in Note 1, the Company did not meet the solvency margin requirements as at 31 December 2017 and consequently SAMA issued a letter dated 29 January 2018, preventing the Company from writing any new policies and renewing the existing policies. SAMA also instructed the Company to increase its share capital before 30 July 2018 to address the issue of its deteriorating solvency margin. Subsequent to the period ended 31 December 2017, the Company's Board of Directors in their meeting held on 6 February 2018, recommended a rights issue amounting to SAR 400 million in order to improve the solvency margin and the Company's future business activities. Such rights issue is subject to approval of the regulatory authorities and general assembly of the Company. 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.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

(Continued)

31 December 2017

17. STATUS OF ZAKAT, WITHHOLDING AND INCOME TAXES

The Company has filed its zakat and income tax declarations for the year from 16 April 2007 to 31 December 2016 with the General Authority of Zakat and Income Tax (GAZT). Further, 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 this interim condensed financial information based on the advice of the Company's zakat and tax consultant.

18. CONTINGENCIES AND COMMITMENTS

a) Legal proceedings

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

b) Operating lease commitments

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

	2017 SR'000	2016 SR'000
Less than one year	-	-
One to five years	19,061	22,831
	<u>19,061</u>	<u>22,831</u>

c) Contingencies and capital commitments

As at 31 December 2017, the Company's banker has issued letters of guarantee of SR 29,565 thousand (31 December 2016: SR 26,511 thousand) to various customers, motor agencies and workshops as per the terms of the agreements with them (also see note 5). The Company had no capital commitments in 2017 (31 December 2016: nil).

d) Contingent liability

The Company, is subject to a litigation, based on independent legal advice, the Company does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

19. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information have been approved by the Board of Directors on 24 Rajab 1439H corresponding to 10 April, 2018.