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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Financial Statements and Independent Auditors' Report
For the Year Ended 31 December 2017

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Independent Auditors' Report
To the Shareholders of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company)

Report on the audit of the financial statements

Qualified Opinion

We have audited the financial statements of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of income and accumulated surplus and comprehensive income - insurance operations, income and comprehensive income - shareholders' operations, statements of changes in shareholders' equity and cash flows for insurance and shareholders' operations for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 34.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Qualified Opinion

1) As disclosed in note 10 to the accompanying financial statements, 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 9 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 financial statements.

2) As disclosed in note 6, 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 financial statements 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 financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs),that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (continued)

Material uncertainty relating to going concern

We draw attention to note 1 and note 33 to the accompanying financial statements, 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 33, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

Emphasis of matter

We draw attention to note 26 to the accompanying financial statements 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.

Our opinion is not further modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for Qualified Opinion section and the matters set out in material uncertainty relating to going concern and emphasis of matter, we have determined the matters described below to be the key audit matters to be communicated in our report:

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of Goodwill At 31 December 2017, the Company had goodwill amounting to Saudi Riyals 480 million, which represent the difference between the consideration paid and the fair value of net assets or liabilities acquired. Management tests goodwill for impairment annually, and assesses the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. IAS 36 recognises an 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. No impairment was recorded by the management during the year. 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. We considered this as a key audit matter as the valuation is subjective and dependent on the assumptions used, including the Company's ability to continue as a going concern. *Refer to the significant accounting policies note 5 to the financial statements, note 6 which explain the valuation methodology used by the Company and critical judgments and estimates and note 11 for the disclosures of goodwill.*	We performed the following: • We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications, identifying their relationship with the entity, if any, through internal and external research and inquiries of management. • We evaluated the source data used in the management expert's work for relevance, completeness and accuracy by performing the following procedures: - Inquired of the expert to determine how the expert has obtained satisfaction that the data used is relevant, complete and accurate; - Reviewed the data for completeness and internal consistency; and - Agreed a sample of data to supporting documentation. • We evaluated the suitability of the valuation model used by the expert and considered the methods and assumptions used by comparison to external data where possible. • We also considered the adequacy of disclosures in the financial statements with the requirements of International Financial Reporting Standards.

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Valuation of ultimate claim liabilities arising from insurance contracts As at 31 December 2017, gross outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 1,094.4 million as reported in note 11 to the accompanying financial statements. The estimation of ultimate insurance contract liabilities involves a significant degree of judgment. 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. In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgment. A range of methods e.g. Chain ladder method, Bornhuetter ferguson method, expected loss ratio method etc. are used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. We considered this as a key audit matter as the determination of ultimate claim liabilities arising from insurance contracts is subjective and relies on management assumptions and judgments. *Refer to the significant accounting policies note 5 to the financial statements, note 6 which explain the valuation methodology used by the Company and critical judgments and estimates.*	We performed the following: We understood and tested key controls around the claims handling and provision setting processes of the Company. We evaluated the competence, capabilities and objectivity of the management's expert by examining their professional qualifications and experiences and assessing their relationship with the entity. We tested, on a sample basis, the accuracy of underlying claims data utilized by the Company's actuary in estimating the IBNR. We involved our actuary to understand and evaluate the Company's actuarial practices and the provisions established in order to challenge management's methodologies and assumptions. Our actuary: - evaluated whether the Company's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought explanations from management for any significant differences; - assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We challenged these assumptions by comparing them with our expectations based on the Company's historical experience, current trends and our own industry knowledge; and - reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions. We also considered the adequacy of disclosures in the financial statements with the requirements of International Financial Reporting Standards.

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Insurance and reinsurance receivables As at 31 December 2017, the Company had insurance and reinsurance receivables of Saudi Riyals 868.9 million and Saudi Riyals 302.6 million respectively against which an impairment allowance of Saudi Riyals 290.9 million and Saudi Riyals 221.5 million was maintained respectively. During the year, management has revisited their provisioning approach and significantly increased the level of provisioning in respect of insurance and reinsurance receivables. In making this judgment, management evaluates credit risk characteristics that considers past-due status being indicative of the ability to pay all amounts due as per contractual terms. For individually significant receivables, the Company also assesses the impairment individually on a regular basis. During the year certain adjustments were identified by management relating to previously reported numbers which required assessment by management as to whether such adjustments should be recorded in the current period or as a restatement of prior years. We considered this as a key audit matter as: - the assessment of impairment requires subjective judgments with respect to the estimation of the amount and timing of future cash inflows. -the assessment of adjustments to previously reported transactions and determining whether to record them in the current period or as a restatement of prior years is subjective. *Refer to note 5 of the financial statements for the accounting policy relating to the impairment of insurance and reinsurance receivables, note 4 for the restatement of reinsurance balances, note 6 for the critical accounting estimates and judgments, and note 9 for the disclosures of insurance and reinsurance receivable balances.*	We performed the following: • We reviewed the methodology and judgment used and challenged management's key assumptions used in assessing impairment. • We checked, on sample basis, the accuracy of the insurance and reinsurance aging reports by tracing the balances to the source documents. • We requested, on sample basis, external confirmation of the outstanding amount from counterparties and, where there was no response, we performed alternative tests to ensure existence and accuracy of those receivables. • We challenged management's key assumptions over credit risk and the calculation methodology, including correspondence with the insurer and re-insurers to assess recoverability. • We also considered the adequacy of disclosures in the financial statements with the requirements of International Financial Reporting Standards. • We considered the basis on which management have decided to record certain adjustments to previously reported transactions and examined the rationale supporting the decision to record them in the current period or as a restatement of prior years.

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Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (continued)

Other Information

The Board of Directors of the Company (the Directors) are responsible for the other information. The other information comprises the information included in the Company's 2017 annual report, but does not include the financial statements and our auditors' report thereon. The Company's 2017 annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Regulations for Companies and the Company's by-laws, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

Independent Auditors' Report on the Audit of the Financial Statements
To the Shareholders of The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company (A Saudi Joint Stock Company) (continued)

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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29 Rajab, 1439H
15 April, 2018

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محاسبون قانونيون
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PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
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ALDAR AUDIT BUREAU
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The Mediterranean and Gulf Cooperative Insurance and Reinsurance Company
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
As At 31 December 2017
(Amounts in SR'000)

	Notes	*31 December 2017*	*31 December 2016* Restated (Note 4c)
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents'	7	378,349	487,122
Time deposits	8	401,250	225,504
Policyholders' and reinsurance balances receivable	9	659,105	1,210,705
Investments	13 (a)	28,358	28,308
Due from a related party	10	63	2,065
Due from shareholders' operations		346,744	99,670
Reinsurers' share of outstanding claims	11 (a)	481,140	595,941
Reinsurers' share of unearned premiums	15	464,063	536,383
Deferred policy acquisition costs	16	85,065	91,465
Prepayments and other assets	14	236,650	218,349
Property and equipment, net	17 (a)	23,211	27,663
Intangible assets, net	17 (b)	3,319	23,492
TOTAL INSURANCE OPERATIONS' ASSETS		3,107,317	3,546,667
SHAREHOLDERS' ASSETS			
Cash and cash equivalents'	7	5,176	211,677
Time deposits	8	70,000	-
Interest on statutory deposit	28	15,546	11,072
Investments	13 (b)	125,018	146,076
Prepayments and other assets	14	1,427	2,598
Investment in an associate	12	9,341	14,802
Land		30,000	30,000
Statutory deposit	18	150,000	150,000
Goodwill	19	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 34 form an integral part of these financial statements.

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

STATEMENT OF FINANCIAL POSITION (Continued)
As At 31 December 2017
(Amounts in SR'000)

	Notes	*31 December 2017*	*31 December 2016* Restated (Note 4c)
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Gross outstanding claims	11 (a)	1,094,437	1,323,956
Due to a related party	10	3,886	5,643
Accounts and commission payable		121,768	123,710
Accrued expenses and other liabilities	20	152,257	158,307
Employees' end of service benefits	21	20,887	26,047
Reinsurance balances payable		135,761	86,172
Surplus distribution payable		111,566	111,566
Unearned reinsurance commission	22	35,206	36,584
Gross unearned premiums	15	1,405,228	1,629,251
Other claim reserves	11 (b)	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	13 (a)	327	277
Re-measurement of actuarial loss of end of service benefit		(302)	-
TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		3,107,317	3,546,667
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Accrued expenses and other liabilities	20	635	635
Provision for zakat and income tax	25	25,022	15,398
Due to insurance operations		346,744	99,670
Interest payable on statutory deposit	28	15,546	11,072
TOTAL SHAREHOLDERS' LIABILITIES		387,947	126,775
SHAREHOLDERS' EQUITY			
Share capital	26	400,000	1,000,000
Statutory reserve	5	146,135	146,135
Accumulated (deficit)	1	(53,002)	(232,171)
Cumulative change in fair values of available for sale investments	13 (b)	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 34 form an integral part of these financial statements.

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

STATEMENT OF INCOME - INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
For the Year Ended 31 December 2017
(Amounts in SR'000)

	Notes	31 December 2017	31 December 2016
Gross premiums written	15	2,665,838	3,194,334
Less: Reinsurance premiums ceded		(477,175)	(482,785)
Excess of loss premiums		(17,504)	(14,345)
NET PREMIUMS WRITTEN		2,171,159	2,697,204
Change in unearned premiums, net		151,703	248,422
NET PREMIUMS EARNED		2,322,862	2,945,626
Gross claims paid and other expenses	11 (a)	(2,542,871)	(3,104,021)
Reinsurers' share of gross claims paid	11 (a)	345,713	384,371
Change in outstanding claims, net		114,718	265,459
Change in other reserves	11 (b)	18,858	(10,804)
NET CLAIMS INCURRED	11 (a)	(2,063,582)	(2,464,995)
Policy acquisition costs	16 (a,b)	(160,677)	(190,970)
Reinsurance commission income	22	64,063	85,002
NET UNDERWRITING RESULT		162,666	374,663
General and administrative expenses	23	(306,833)	(358,520)
Impairment on discontinued ERP system	17 (b)	(25,688)	-
Provision for doubtful debts	9, 10 (a)	(295,260)	(35,000)
Impairment losses on available for sale investments	13 (a)	-	(725)
Special commission income		10,286	20,832
Other income	24	64,430	48,497
INSURANCE OPERATIONS' (DEFICIT) / SURPLUS	3	(390,399)	49,747
Shareholders' appropriation from insurance operations' deficit / (surplus)	3	390,399	(44,772)
Insurance operations' surplus after shareholders' appropriation		-	4,975
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR		111,566	106,591
ACCUMULATED SURPLUS AT THE END OF THE YEAR		111,566	111,566

The accompanying notes 1 to 34 form an integral part of these financial statements.

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

STATEMENT OF INSURANCE OPERATIONS' COMPREHENSIVE INCOME / (LOSS)
For the Year Ended 31 December 2017
(Amounts in SR'000)

	Note	*31 December 2017*	*31 December 2016*
INSURANCE OPERATION' SURPLUS AFTER SHAREHOLDERS' APPROPRIATION		-	4,975
Other comprehensive income / (loss):			
Items that may not be reclassified to statement of income in subsequent year			
Impairment loss for the year transferred to statement of income	13 (a)	-	725
Re-measurement of end of service benefit	21	(302)	-
Items that may be reclassified to statement of income in subsequent year			
Available for sale investments			
Change in fair values	13 (a)	50	(2,273)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(252)	3,427

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

STATEMENT OF INCOME - SHAREHOLDERS' OPERATIONS
For the Year Ended 31 December 2017
(Amounts in SR'000)

	Notes	*31 December 2017*	*31 December 2016*
INCOME			
Shareholders' appropriation from insurance operations' (deficit) / surplus	3	(390,399)	44,772
Special commission income		5,367	10,304
Realised gain on sale of available for sale investments	13 (b)	-	13,735
Dividend income on available for sale investments		-	711
Income from investment in an associate		2,619	2,707
Other income		-	162
		(382,413)	72,391
EXPENSES			
General and administrative expenses	23	(5,613)	(4,164)
Impairment losses on available for sale investments	13 (b)	-	(616)
		(5,613)	(4,780)
NET (LOSS) / INCOME FOR THE YEAR		(388,026)	67,611
BASIC AND DILUTED (LOSSES) / EARNINGS PER SHARE	27	(9.70)	1.69

The accompanying notes 1 to 34 form an integral part of these financial statements.

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

STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME / (LOSS)
For the Year Ended 31 December 2017
(Amounts in SR'000)

	Note	*31 December 2017*	*31 December 2016* Restated (Note 4c)
NET (LOSS) / INCOME FOR THE YEAR		(388,026)	67,611
Other comprehensive income / (loss):			
Items that may not be reclassified to statement of income – shareholder's operations in subsequent year			
Impairment loss for the year transferred to statement of income	13 (b)	-	616
Items that may be reclassified to statement of income – shareholder's operations in subsequent year			
Available for sale investments			
Change in fair values		(58)	3,344
(Gain) transferred to statement of income	13 (b)	-	(13,735)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(388,084)	57,836

The accompanying notes 1 to 34 form an integral part of these financial statements.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended 31 December 2017
(Amounts in SR'000)

(Audited)	Note	Share capital	Statutory reserve	Accumulated deficit	Cumulative change in fair values of available for sale investments	Total
Balance at 1 January 2017 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 year:						
Net loss for the period		-	-	(388,026)	-	(388,026)
Change in fair values		-	-	-	(58)	(58)
Zakat	25	-	-	(32,114)	-	(32,114)
Reduction of capital	26	(600,000)	-	600,000	-	-
Transaction cost related to reduction in share capital	26	-	-	(691)	-	(691)
Balance at 31 December 2017		**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 year- restated:	4c(i)					
Net income for the period		-	-	67,611	-	67,611
Change in fair values		-	-	-	3,344	3,344
Gain transferred to statement of income shareholders' operations		-	-	-	(13,735)	(13,735)
Impairment loss for the year transferred to statement of income shareholders' operations		-	-	-	616	616
Zakat – restated	4c(i), 25	-	-	(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 34 form an integral part of these financial statements.

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

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS
For the Year Ended 31 December 2017
(Amounts in SR'000)

	Notes	*31 December 2017*	*31 December 2016*
CASH FLOWS FROM OPERATING ACTIVITIES			
Insurance operations' surplus after shareholders' appropriation / absorption		-	4,975
Adjustments to reconcile insurance operations' surplus after shareholders' appropriation / absorption to net cash generated from / (used in) operating activities:			
Shareholders' appropriation from insurance operations' (deficit) / surplus		(390,399)	44,772
Depreciation and amortization	17	9,764	9,471
Employees' end of service benefits	21	13,413	12,338
Special commission income		(10,286)	(19,149)
Provision for doubtful debts	9,10a	295,260	35,000
Gain on sale of property and equipment, net		(737)	(135)
Realised gain on sale of available for sale investments	13(a)	-	(1,683)
Impairment on discontinued ERP system		25,688	-
Impairment losses on available for sale investment	13(a)	-	725
Cash (used in) / generated from operations		(57,297)	86,314
Changes in operating assets and liabilities:			
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 from / (used in) operations		329,370	(211,620)
Employees' end of service benefits paid	21	(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	13(a)	-	31,326
Proceeds from sale of property and equipment		791	163
Purchase of property and equipment	17	(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
DECREASE IN CASH AND CASH EQUIVALENTS		(111,827)	(113,633)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	7	460,611	574,244
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	348,784	460,611
Non-cash transaction:			
Change in fair values of available for sale investments	13(a)	50	(1,548)
Re-measurement of actuarial loss of end of service benefits	21.2	(302)	-
Policyholders' and reinsurance receivable adjusted due to correction of error	4c(ii)	-	33,070

The accompanying notes 1 to 34 form an integral part of these financial statements.

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

STATEMENT OF SHAREHOLDERS' CASH FLOWS
For the Year Ended 31 December 2017
(Amounts in SR'000)

	Notes	*31 December 2017*	*31 December 2016*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / income for the year		(388,026)	67,611
Adjustments for:			
Special commission income		(5,367)	(10,304)
Realised gain on sale of available for sale investments	13(b)	-	(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	13(b)	-	616
Cash (used in) / from operations		(396,012)	40,770
Changes in operating assets and liabilities:			
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	25(c)	(22,490)	(2,893)
Net cash (used in) / generated from operating activities		(417,331)	36,934
CASH FLOWS FROM INVESTING ACTIVITIES			
Time deposits		(70,000)	96,052
Proceeds from sale of available for sale investment	13(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 ACTIVITY			
Due to insurance operations, net		247,074	(90,518)
Transaction cost related to reduction of share capital	26	(691)	-
Net cash generated from / (used in) financing activity		246,383	(90,518)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(206,501)	102,765
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	7	211,677	108,912
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	5,176	211,677
Non-cash transactions:			
Change in fair values of available for sale investments	13 (b)	(58)	(9,775)
Accumulated deficit adjusted due to correction of error	4c(ii)	-	33,070

The accompanying notes 1 to 34 form an integral part of these financial statements.

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 33, due to the continuous decline in the financial performance of the Company, the Company did not meet the solvency margin requirements by 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 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 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 they fall due over the next 12 months. As a result, the financial statements have been prepared on a going concern basis. Management's assessment is based on number of estimates and assumptions including significant recoveries from major policyholders, reinsurers and related parties, 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 six month period ended 30 June 2017 which was under development.

2. BASIS OF PREPARATION

Basis of measurement
The financial statements have been prepared on a historical cost basis except for the measurement at fair value of available for sale investments.

Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (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. Refer note 5 for the accounting policy of zakat and income tax and note 4(c) for the impact of change in the accounting policy resulting from the SAMA circular.

Until 2016, the financial statements were prepared in accordance with IFRS. This change in framework resulted in a change in accounting policy for zakat as disclosed in note 5 and the effects of this change are disclosed in note 4(c)(i) to the financial statements.

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

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

3. SURPLUS DISTRIBUTION

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

The insurance operations' full deficit for the year 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 year 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).

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS

The accounting policies and risk management policy used in the preparation of the financial statement 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 financial statement of the Company.

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS (Continued)

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

IFRS 9 Financial Instruments

IFRS 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.

The Company believes that IFRS 9 would have an impact on the classification of financial instruments required to be measured mandatorily at fair value i.e. Investment in mutual funds currently classified under available for sale investments. Credit quality of the financial instruments are disclosed in note 13(c) to the financial statements. 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.

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS (Continued)

Standards issued but not yet effective (continued)

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.

(c) RESTATEMENTS

c(i) <u>Zakat and Tax</u>

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

Statement of Shareholders' Comprehensive Income	**As previously stated**	**Effect of zakat and tax restatement**	**Amount restated**
	SR'000	***SR'000***	***SR'000***
Year end 31 December 2016			
Zakat charge	(17,447)	17,447	-
Total comprehensive income for the year	40,389	17,447	57,836

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

4. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENTS (Continued)

c ii) Effect of Error

During the year 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 10) 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 statement of financial position. These changes were made for better presentation of balances in the statement of financial position of the Company.

The tables below set out the impact of the restatement on financial statements for the year 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)

	Balance reported in previously issued financial statements *SR'000*	Adjustment referred to in above *SR'000*	Other reclassifications *SR'000*	Balances after the adjustment *SR'000*
Statement of financial position as at 31 December 2015				
Policyholders and reinsurance balances receivable	1,688,147	(33,070)	(4,119)	1,650,958
Due from shareholders` operations	157,118	33,070	-	190,188
Due to insurance` operations	(157,118)	(33,070)	-	(190,188)
Prepayments and other assets	54,851	-	4,119	58,970
Total insurance operations' assets	4,447,552	-	-	4,447,552
Total insurance operations' liabilities	(4,445,727)	-	-	(4,445,727)
Total shareholders' assets	1,078,612	-	-	1,078,612
Total shareholders' liabilities	(166,481)	(33,070)	-	(199,551)
Statement of changes in shareholder's equity as at 31 December 2015				
Accumulated deficit	(249,265)	(33,070)	-	(282,335)

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in preparation of these financial statements:

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand and at banks and short-term time deposits with an original maturity of less than three months at the date of acquisition.

Goodwill
Goodwill represents the fair value of the consideration paid in excess of the fair value of net assets or liabilities acquired. Goodwill is tested for impairment by management at least once at the end of each financial year. Impairment for goodwill is determined by assessing the recoverable amount of the cash generating unit (or a group of cash generating units) to which the goodwill is related. When the recoverable amount of the cash-generating unit (or a group of cash generating units) is less than the carrying amount of the cash generating unit (or a group of cash generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Land, property and equipment
Land is stated at cost less any impairment and is not depreciated. Property and equipment are measured at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is charged to the statement of insurance operations and accumulated surplus on a straight line basis at the following depreciation rates:

	Rates
Leasehold improvements	15% - 25%
Office equipment, furniture and fixtures	10% - 15%
Computers	25%
Motor vehicles	25%

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in statement of income.

Investments
All investments are initially recognised at fair value, being the fair value of the consideration given, including acquisition charges associated with the investment except for investments at fair value through profit or loss. Premiums and discounts are amortized on a systematic basis to their maturity. For investments that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the statement of financial position date without any deduction for transaction costs.

(a) Available for sale investments
Investments which are classified as "available for sale" are subsequently measured at fair value. Available for sale investments are those investments that are not held to maturity nor held for trading. For an available for sale investment where the fair value has not been hedged, any unrealized gain or loss arising from a change in its fair value is recognised directly under insurance operations' surplus and / or shareholders' comprehensive income until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognised under the insurance operations' surplus and / or shareholders' comprehensive income is included in the statement of insurance operations and accumulated surplus and / or shareholders' operations for the year. Available for sale investments whose fair value cannot be reliably measured are carried at amortised cost less impairment provision.

(b) Investments in held to maturity securities
Investments which have fixed or determinable payments that the Company has the positive intention and ability to hold to maturity are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognised in the statement of income - shareholders' operations when the investment is derecognized or impaired.

(c) Investment in an associate
Associates are enterprises in which the Company generally holds 20% to 50% of the voting power and / or over which it exercises significant influence. Investments in an associates are carried in the statement of financial position at cost, plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statutory reserve
In accordance with its bylaws, the Company shall allocate 20% of its net income from shareholders' operations each year to the statutory reserve until it has built up a reserve equal to the share capital. The reserve is not available for distribution.

Impairment and un-collectability of financial assets
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment loss is recognized in the statement of shareholders' operations. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between the cost and fair value (fair value being lower than cost), less any impairment loss previously recognized in the statement of shareholders' operations
- For assets carried at cost, impairment is the difference between the cost and the present value (present value being lower than cost) of future cash flows discounted at the current market rate of return for a similar financial asset.
- For assets carried at amortized cost, impairment is determined based on future cash flows that are discounted at the original effective special commission rate.

Accrued expenses and other liabilities
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Zakat and income tax
The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis. Effective January 1, 2017, based on the Circular issued by SAMA, the Company amended its accounting policy to charge zakat directly into retained earnings in the statement of changes in shareholders' equity instead of statement of shareholders comprehensive income. The effect of change in accounting policy is explained in note 4 (c) (i).

Special commission income
Special commission income from time deposits is recognized on an effective yield basis.

Dividend income
Dividend income is recognised when the right to receive dividend is established.

Provisions
Provisions are recognised when the Company has an obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses.

Trade date accounting
All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales of financial assets are transactions that require settlement of assets within the time frame generally established by regulation or convention in the market place.

Employees' end of service benefits
The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Remeasurements (actuarial gains/ losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income – insurance operations.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies
Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange prevailing at the statement of financial position date. All differences are taken to the statements of income - insurance operations and accumulated surplus and shareholders' operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Foreign exchange gains or losses on available for sale investments are recognised in 'insurance operations surplus' in the statement of insurance operations and other comprehensive income under the statement of shareholders' comprehensive operations. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant.

Offsetting financial assets and liabilities
Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the statement of shareholders' operations unless required or permitted by any accounting standard or interpretation.

Premiums earned and commission income
Premiums are taken into income over the terms of the policies to which they relate on a pro-rata basis. For engineering construction projects with policy terms in excess of one year, the premium are taken into income linearly over the policy term. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.

The underwriting results represents premiums earned and fee and commission income less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts subject to reinsurance, less provision for any anticipated future losses on continuing policies.

Commission receivable on reinsurance contracts are deferred and amortised on a straight-line basis over the term of the reinsurance contracts.

Retained premiums and commission income, which relate to unexpired risks beyond the end of the financial period, are reported as unearned and deferred based on the following methods:
- Actual number of days for all lines of business, except
- For engineering construction projects with policy terms in excess of one year, it is assumed that the risk is increasing linearly over the policy term.
- Last three month of premiums for marine cargo business

Premiums receivable
Premiums receivable are recognized when due and are measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of insurance operations and accumulated surplus. Premiums receivable are derecognized when the de-recognition criteria for financial assets have been met.

Claims
Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and are charged to statement of income - insurance operations and accumulated surplus / (deficit) as incurred. Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the date of statement of financial position, whether reported or not. Provisions for reported claims not paid as at the date of statement of financial position are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at date of statement of financial position. The ultimate liability may be in excess of or less than the amount provided. Any difference between the provisions at the date of statement of financial position and settlements and provisions in the following year is included in the underwriting account for that year. The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Liability adequacy test
At each statement of financial position date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the

carrying amount of its insurance liabilities (less related deferred policy acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of income - insurance operations and accumulated surplus and an unexpired risk provision is created.

Deferred policy acquisition costs
Commissions, SAMA fees, CCHI fees, TPA fees, partial administration cost (related to underwriting and issue of policy), and other costs directly related to the acquisition and renewal of insurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate, similar to premiums earned. All other acquisition costs are recognised as an expense when incurred. Amortization is recorded in the statement of income - insurance operations and accumulated surplus.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of insurance operations and accumulated surplus. Deferred policy acquisition costs are also considered in the liability adequacy test for each reporting period.

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income - insurance operations and accumulated surplus.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned reinsurance commission
Commission receivable on outwards reinsurance contracts are deferred and amortized over the terms of the insurance contracts to which they relate. Amortisation is recorded in the statement of income - insurance operations and accumulated surplus.

Product classification
The Company issues insurance contracts that transfer insurance risk. Insurance contracts are those contracts where the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

Derecognition of financial instruments
The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Fair values
The fair value of financial assets are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flow using commission for items with similar terms and risk characteristics.

For financial assets where there is no active market, fair value is determined by reference to the market value of a similar financial assets or where the fair values cannot be derived from active market, they are determined using a variety of valuation techniques that includes the use of mathematical models. The inputs of this models is taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Segmental reporting
An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial statement is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on their products and services and has three reportable operating segments as follows:

- Medical insurance, which covers medical costs, medicines, and all other medical services and supplies.
- Motor Insurance, which provides coverage against losses and liability related to motor vehicles.
- Other classes, which covers any other classes of insurance not included above.

Shareholders' operations' is a non-operating segment. Income earned from time deposits and investments is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The loss or surplus from the insurance operations is allocated to this segment on an appropriate basis.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from income or loss in the accompanying financial statements.

No inter-segment transactions occurred during the year. If any transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers between operating segments which will then be eliminated at the level of financial statements of the Company.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Segmental reporting (continued)

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

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

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 statement of financial position, for which the insured event has occurred prior to the date of 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.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

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 year 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.

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 these financial statements.

v) Reinsurance

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

7. CASH AND CASH EQUIVALENTS

	2017		*2016*	
	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 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 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 (also see note 30). As deposits against letters of guarantee cannot be withdrawn before the end of guarantee and are restricted in nature.

8. TIME DEPOSITS

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

Time deposits are placed with local and licensed foreign banks' branches in Kingdom of Saudi Arabia with a maturity of more than three months from the date of original acquisition and earned special commission income at an average rate of 2.14% per annum (2016: 3.15% per annum).

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

9. POLICYHOLDERS' AND REINSURANCE BALANCES RECEIVABLE

	2017 *SR'000*	*2016* *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 10, 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 10.

As at December 31, 2017, the movement in the provision for doubtful debts of premium receivables was as follows:

	2017 *SR'000*	*2016* *SR'000*
Balance, January 1	**182,862**	147,862
Provision for the year	**108,080**	35,000
Balance, December 31	**290,942**	182,862

As at December 31, 2017, the movement in the provision for doubtful debts of reinsurance receivables was as follows:

	2017 *SR'000*	*2016* *SR'000*
Balance, January 1	**36,709**	36,709
Provision for the year	**184,790**	-
Balance, December 31	**221,499**	36,709

9. POLICYHOLDERS' AND REINSURANCE BALANCES RECEIVABLE (Continued)

The aging analysis of gross premiums and reinsurance balances receivable is as at 31 December 2017 and 2016 is set as below:

			Past due but not impaired		
	Total SR'000	*Neither past due nor impaired SR'000*	*Less than 30 day SR'000*	*31 to 90 days SR'000*	*Past due and impaired SR'000*
2017	**1,171,546**	**305,415**	**119,113**	**90,056**	**656,962**
2016	1,430,276	394,427	209,894	227,285	598,670

Premiums and reinsurance balances receivables comprise a large number of customers mainly within the Kingdom of Saudi Arabia as well as reinsurance companies mainly in Europe. Premiums and reinsurance balances receivable include SR 72.4 million (31 December 2016: SR 37.2 million) due in foreign currencies, mainly in US Dollars. The Company's terms of business require amounts to be paid within 30 to 90 days of the date of transaction. Arrangements with reinsurers normally require settlement if the balance exceeds a certain agreed amount. The five largest customers accounts for 37% (31 December 2016: 43%) of the premiums receivable as at 31 December 2017. Further, total receivable from government entities amount to SR 172.9 million (31 December 2016: SR 332.6 million) constituting 16% (31 December 2016: 30%) of total premium receivable.

Unimpaired premiums and reinsurance balances receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured. The Company does not have an internal credit ratings assessment process and accordingly, amounts which are neither past due nor impaired, in respect of premiums receivable balances, are from individuals and unrated corporates. Balances due from reinsurers are with counterparties who have investment grade credit ratings issued by external rating agencies.

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Related parties	***Nature of transaction***	***Amount of transaction for the year end***		***Balance***	
		31 December 2017 SR'000	*31 December 2016 SR'000*	***31 December 2017 SR'000***	*31 December 2016 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 year end	-	-	**2,453**	2,065
	-Provision for doubtful debts	-	-	**(2,390)**	-
	-Net Balance due from at year end	-	-	**63**	2,065

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
		31 December 2017	*31 December 2016*	***31 December 2017***	*31 December 2016*
		SR'000	*SR'000*	***SR'000***	*SR'000*
Due from related parties					
Medgulf BSC - Operation account *(major shareholder)*	-Payment received during the year end	-	24,206	-	-
Medgulf Egypt *(affiliate)*	-Payment received during the year	-	58	-	-
Medgulf Jordan *(affiliate)*	-Payment received during the year	-	25	-	-
Motion al-Saudia *(affiliate)* (in liquidation)	-Payment received during the year	-	10,924	-	-
Addison Bradley Arabia- KSA – *(affiliate)*	-Payment received during the year	-	13,066	-	-
Al Samiya Trading Co *(affiliate)*	-Payment received during the year *(Refer 10.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 affiliate	**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 year end	-	-	**3,886**	46,232
	-Amount set off in favour of Medgulf BSC *(refer 10.a(iv))*	-	-	-	(40,589)
	-Balance due to at year end			**3,886**	5,643
	Total due to related party			**3,886**	5,643

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
Others related parties transactions and balances – due from / (due to)		***31 December 2017***	*31 December 2016*	***31 December 2017***	*31 December 2016*
		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 10.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 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 year end	**-**	-	**1,760**	-
	-Claims incurred	**10,498**	15,030	**-**	-
	-Claims payable	**-**	-	**(186)**	(20)

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
		31 December 2017 SR'000	*31 December 2016 SR'000*	***31 December 2017 SR'000***	*31 December 2016 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 10.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)
Khalid A. Al Shathry Construction Co. *(Under common directorship) (refer Note 10.a(iii)*	-Gross written premiums	**367**	25	-	-
	-Premiums receivable	-	-	**259**	143
	-Provision for doubtful debts	-	-	**(137)**	-
	-Net balance receivable at year end	-	-	**122**	-
	-Claims incurred	**132**	56	-	-
	- Outstanding recovery	-	-	**1**	1
Sanaya Dental Care *(Under common directorship)*	-Medical claim	**87**	137	-	-
	-Payment on account	**94**	135	-	-
	-Balance due to at year end	-	-	**(1)**	(8)
Saleh Al-Sagri *(individual motor policies of director)*	-Gross written premiums	**28**	64	-	-
	-Claims incurred	**34**	2	-	-
	-Outstanding claims	-	-	**1**	-
Advanced Petrochemical Company *(Under common directorship)*	-Premiums receivable	-	-	**166**	**286**
	-Provision for doubtful debts	-	-	**(124)**	-
	-Net balance receivable at year end	-	-	**42**	-

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	***Nature of transaction***	***Amount of transaction for the year end***		***Balance***	
		31 December 2017	*31 December 2016*	***31 December 2017***	*31 December 2016*
		SR'000	*SR'000*	***SR'000***	*SR'000*
Medgulf BSC *(major shareholder)*	-Claim recoveries	**7**	26,949	-	-
	-Reinsurance recovery *(refer 10.a(ix))*	-	-	**5,962**	-
	-Provision for doubtful debts	-	-	**(5,962)**	-
	-Net balance receivable at year end	-	-	-	-
	-Balance receivable at year end	-	126,586	-	206,255
	-Amount set off in favour of Medgulf BSC *(refer 10.a(iv))*	-	-	-	(40,589)
	-Adjustment during the period	**(43,573)**		-	-
	-Payment received	**122,093**	-	-	-
	-Net Balance receivable at year end *(refer 10.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 year end	-	-	**46**	-
	-Claims incurred	-	14	-	-
	-Outstanding recovery	-	-	**10**	**10**
Addison Bradley Overseas / Addison Bradley & Co. *(affiliate)*	-Payment received	-	54,527	-	-
	-Balance receivable at year end	-	-	**3,856**	**3,856**
	-Provision for doubtful debts	-	-	**(3,856)**	-
	-Net balance due from at year end	-	-	-	**3,856**

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related parties	*Nature of transaction*	*Amount of transaction for the year end*		*Balance*	
		31 December 2017 SR'000	*31 December 2016 SR'000*	*31 December 2017 SR'000*	*31 December 2016 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 10.a (V&10.c)*	**30,242**	-	-	-
	-Balance receivable at year end	-	-	**30,242**	-
	-Provision for doubtful debts	-	-	**(30,242)**	-
	-Net balance due from at year end	-	-	-	-
Lutfi Fadel El Zein Ex board member *(Refer 10.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 year	-	4,570	-	-
Addison Bradley International (affiliate)	-Reinsurance recoveries *(Refer 10.a (vii)*	**13,453**	-	-	-
	-Balance due from at year end		-	**13,453**	-
	- Provision for doubtful debts	-	-	**(10,090)**	-
	- Net balance due from at year end	-	-	**3,363**	-
Addison Bradley Arabia Holding LLC (UAE) (affiliate)	-Payment made during the year	-	2,692	-	-
	-Balance due from at year end	-	-	**1,472**	1,472
	- Provision for doubtful debts	-	-	**(1,472)**	-
	- Net balance due from at year end *(Refer 10.a (viii)*	-	-	-	1,472

10.a(i) Statutory deposit is placed with the Saudi Investment Bank, at the commission rate of 0.70% per annum

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

10.a(iii) the board member resigned subsequent to the year ended December 31, 2017.

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

10.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 year, 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.

10.a(v) This represent payment received by related party for reinsurance agreements that was managed through Group Corporate Reinsurance Centre (CRC) (refer note 10.c). Management believes that SR 30 million has been collected by the related parties in respect of reinsurance arrangements.

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

10.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 10.c).

10.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.

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

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

10.b Compensation of key management personnel
The remuneration of the Board of Directors and other key management personnel during the year is as follows:

	2017 *SR'000*	*2016* *SR'000*
Short term benefits	**12,109**	16,577
End of service benefits	**339**	1,089
	12,448	17,666

10.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 9 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.

11. CLAIMS

a) Outstanding Claims, IBNR and Other Reserves

	2017			*2016*		
	Gross SR'000	***Reinsurers' share SR'000***	***Net SR'000***	*Gross SR'000*	*Reinsurers' share SR'000*	*Net SR'000*
Outstanding at end of the year	**499,938**	**(366,647)**	**133,291**	608,009	(441,296)	166,713
Incurred but not reported	**594,499**	**(114,493)**	**480,006**	715,947	(154,645)	561,302
	1,094,437	**(481,140)**	**613,297**	1,323,956	(595,941)	728,015
Other reserves (note 11b)	**26,296**	**-**	**26,296**	45,154	-	45,154
	1,120,733	**(481,140)**	**639,593**	1,369,110	(595,941)	773,169
Claims paid during the year	**2,542,871**	**(345,713)**	**2,197,158**	3,104,021	(384,371)	2,719,650
Outstanding at beginning of the year	**608,009**	**(441,296)**	**166,713**	859,765	(519,205)	340,560
Incurred but not reported	**715,947**	**(154,645)**	**561,302**	805,023	(152,109)	652,914
Other reserves (note 11b)	**45,154**	**-**	**45,154**	34,350	-	34,350
	1,369,110	**(595,941)**	**773,169**	1,699,138	(671,314)	1,027,824
Claims incurred	**2,294,494**	**(230,912)**	**2,063,582**	2,773,993	(308,998)	2,464,995

b) Other Reserves

	2017 SR'000	*2016 SR'000*
Premium Deficiency Reserve (PDR)	**15,700**	17,527
Others	**10,596**	27,627
Other reserves at end of the year	**26,296**	45,154

c) Claims Triangulation Analysis by Accident Year

The Company maintain adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company transfers much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

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

11. CLAIMS (Continued)

c) Claims Triangulation Analysis by Accident Year (Continued)

i) On Gross Basis

Accident Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
At the end of accident year	1,148,965	1,525,392	1,759,169	2,030,375	2,865,129	3,196,139	3,553,993	2,821,668	2,281,556	
One year later	1,166,831	1,538,465	1,887,696	2,355,342	3,006,147	3,446,409	3,403,193	2,818,050	-	
Two years later	1,165,977	1,509,521	1,967,919	2,319,794	3,056,802	3,430,507	3,413,046	-	-	
Three years later	1,145,562	1,537,038	1,950,795	2,321,681	3,082,282	3,453,587	-	-	-	
Four years later	1,281,007	1,537,201	1,948,513	2,323,884	3,021,821	-	-	-	-	
Five years later	1,257,000	1,543,934	1,945,686	2,331,979	-	-	-	-	-	
Six years later	1,238,429	1,544,369	1,942,946	-	-	-	-	-	-	
Seven years later	1,238,219	1,538,549	-	-	-	-	-	-	-	
Eight years later	1,233,679	-	-	-	-	-	-	-	-	
Ultimate paid claims (estimated)	1,233,679	1,538,550	1,942,946	2,331,980	3,021,821	3,453,587	3,413,046	2,818,050	2,281,556	22,035,215
Cumulative paid claims	1,233,299	1,528,045	1,936,125	2,324,853	2,979,864	3,362,931	3,322,696	2,642,318	1,610,646	20,940,778
Outstanding claims + IBNR	380	10,505	6,820	7,126	41,958	90,656	90,351	175,732	670,910	1,094,437

*Other reserves amounting to SR 26,296 thousand are not included in the claims triangulation.

ii) On net Basis (net of reinsurance)

Accident Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**TOTAL**
At the end of accident year	607,986	872,155	1,032,598	1,118,998	1,437,617	2,459,548	2,884,490	2,518,555	1,995,672	
One year later	962,313	1,230,576	1,472,573	1,767,465	2,299,916	2,657,710	2,749,239	2,527,751	-	
Two years later	976,888	1,253,029	1,500,727	1,790,733	2,337,043	2,637,623	2,769,138	-	-	
Three years later	979,244	1,256,681	1,505,277	1,797,190	2,343,241	2,634,880	-	-	-	
Four years later	980,249	1,258,037	1,505,267	1,796,803	2,345,967	-	-	-	-	
Five years later	980,674	1,265,891	1,508,041	1,792,822	-	-	-	-	-	
Six years later	980,908	1,265,159	1,506,466	-	-	-	-	-	-	
Seven years later	980,888	1,264,497	-	-	-	-	-	-	-	
Eight years later	976,851	-	-	-	-	-	-	-	-	
Ultimate paid claims (estimated)	976,851	1,264,496	1,506,466	1,792,822	2,345,967	2,634,880	2,769,138	2,527,751	1,995,672	17,814,043
Cumulative paid claims	980,233	1,267,882	1,508,070	1,796,369	2,343,473	2,625,289	2,750,789	2,472,220	1,456,421	17,200,746
Outstanding claims + IBNR	(3,382)	(3,384)	(1,605)	(3,548)	2,494	9,591	18,349	55,531	539,251	613,297

*Other reserves amounting to SR 26,296 thousand are not included in the claims triangulation

12. 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.

13. INVESTMENTS

Investments are classified as set out below:

(a) Insurance Operations - Available for sale investments

	2017		
	Quoted SR'000	***Unquoted SR'000***	***Total SR'000***
Mutual funds	**3,358**	**-**	**3,358**
Sukuk	**-**	**25,000**	**25,000**
	3,358	**25,000**	**28,358**

	2016		
	Quoted SR'000	*Unquoted SR'000*	*Total SR'000*
Mutual funds	3,308	-	3,308
Sukuk	-	25,000	25,000
Equities			
	3,308	25,000	28,308

The available for sale investments comprise mutual funds, sukuk and equities issued by corporate and financial institutions in the Kingdom of Saudi Arabia.

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

13. INVESTMENTS (Continued)

(a) Insurance Operations - Available for sale investments (Continued)

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

	2017 *SR'000*	*2016* *SR'000*
At the beginning of the year	**28,308**	60,224
Sold during the 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 year	**28,358**	28,308

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

(b) Shareholders' Operations - Available for sale investments

		2017	
	Quoted ***SR'000***	***Unquoted*** ***SR'000***	***Total*** ***SR'000***
Mutual funds	**55,524**	**-**	**55,524**
Bonds	**28,936**	**18,635**	**47,571**
Sukuk	**-**	**20,000**	**20,000**
Equities	**-**	**1,923**	**1,923**
Total	**84,460**	**40,558**	**125,018**

		2016	
	Quoted *SR'000*	*Unquoted* *SR'000*	*Total* *SR'000*
Mutual funds	55,626	-	55,626
Bonds	28,753	18,774	47,527
Sukuk	-	41,000	41,000
Equities	-	1,923	1,923
Total	84,379	61,697	146,076

The available for sale investments comprise of mutual funds, bonds, sukuk and equities issued by corporate and financial institutions in the Kingdom of Saudi Arabia.

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

13. INVESTMENTS (Continued)

(b) Shareholders' Operations - Available for sale investments (Continued)

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

	2017 *SR'000*	*2016* *SR'000*
At the beginning of the year	**146,076**	242,014
Sold during the 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 year	**125,018**	146,076

(c) Insurance and Shareholders' Operations - Available for sale investments

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

	2017 *SR'000*	*2016* *SR'000*
Government and quasi government	**38,938**	20,000
Banks and other financial institutions	**112,515**	152,461
Corporates	**1,923**	1,923
Total	**153,376**	174,384

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

	2017 *SR'000*	*2016* *SR'000*
AA- To AAA	**38,938**	38,755
A- To A+	**14,998**	114,932
B- To B+	**-**	-
NA	**99,440**	20,697
Total	**153,376**	174,384

Credit ratings are based on Standard and Poor, Fitch and Moody's rating methodology or the issuer, noting that "NA" represents the sum of the investments which are not rated.

13. INVESTMENTS (Continued)

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

iii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair values of recognised financial instruments are not significantly different from the carrying values included in the financial statement. 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 year 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 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.

1. Insurance operations – Fair Value

	2017			
	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**

	2016			
	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

13. INVESTMENTS (Continued)

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

iii. Fair value (Continued)

2. *Shareholders' operations –Fair value*

	2017			
	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**

	2016			
	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

14. PREPAYMENTS AND OTHER ASSETS

(a) Prepayment and other assets

		2017		2016	
	Note	***Insurance Operations SR'000***	***Shareholders' Operations SR'000***	*Insurance Operations SR'000*	*Shareholders' Operations SR'000*
Advances to employees		**9,343**	-	7,738	-
Prepaid expenses		**1,092**	-	1,103	-
Prepayment on hospital dues		**173,372**	-	139,520	-
Advances to suppliers		**4,944**	-	4,363	-
Prepaid rent		**3,665**	-	3,984	-
Accrued special commission income		**950**	**1,427**	5,174	2,455
Deferral of SAMA, CCHI and TPA fees	14 (b)	**37,765**	-	49,871	-
Others		**5,519**	-	6,596	143
		236,650	**1,427**	218,349	2,598

14. PREPAYMENTS AND OTHER ASSETS (Continued)

(b) The movements during the year for deferral of TPA, SAMA and CCHI fees are as follows:

	2017 *SR'000*	*2016* *SR'000*
TPA fees	**32,443**	38,193
Costs incurred during the year	**59,412**	77,391
Amortised during the year charged to claim expenses	**(67,946)**	(83,141)
At the end of the year	**23,909**	32,443

	Note	*2017* *SR'000*	*2016* *SR'000*
Supervision and inspection fees - SAMA		**8,158**	10,278
Costs incurred during the year		**13,329**	20,765
Amortised during the year	23	**(14,463)**	(22,885)
At the end of the year		**7,024**	8,158

	Note	*2017* *SR'000*	*2016* *SR'000*
Supervision and inspection fees - CCHI		**9,270**	10,912
Costs incurred during the year		**18,765**	16,450
Amortised during the year	23	**(21,203)**	(18,092)
At the end of the year		**6,832**	9,270
Total Deferral of SAMA, CCHI and TPA fees		**37,765**	49,871

15. MOVEMENT IN UNEARNED PREMIUMS

	2017			*2016*		
	Gross *SR'000*	*Reinsurers' share* *SR'000*	*Net* *SR'000*	*Gross* *SR'000*	*Reinsurers' share* *SR'000*	*Net* *SR'000*
At the beginning of the year	**1,629,251**	**(536,383)**	**1,092,868**	2,054,448	(713,158)	1,341,290
Premiums written during the year	**2,665,838**	**(494,679)**	**2,171,159**	3,194,334	(497,130)	2,697,204
Premiums earned during the year	**(2,889,861)**	**566,999**	**(2,322,862)**	(3,619,531)	673,905	(2,945,626)
At the end of the year	**1,405,228**	**(464,063)**	**941,165**	1,629,251	(536,383)	1,092,868

16. DEFERRED POLICY ACQUISITION COSTS

(a) The movements during the year for commissions' incurred for operations are as follows:

	2017 SR'000	*2016 SR'000*
At the beginning of the year	**72,926**	100,599
Costs incurred during the year	**154,277**	160,012
Amortised during the year	**(155,801)**	(187,685)
At the end of the year	**71,402**	72,926

(b) The movements during the year for deferral of administration cost are as follows:

	2017 SR'000	*2016 SR'000*
At the beginning of the year	**18,539**	21,824
Amortised during the year	**(4,876)**	(3,285)
At the end of the year	**13,663**	18,539
Total deferred acquisition cost at end of the year	**85,065**	91,465

17. FIXED ASSETS, NET

(a) Property and equipment, net

	Leasehold improvements SR'000	*Office equipment, furniture and fixtures SR'000*	*Computers SR'000*	*Motor vehicles SR'000*	*Total SR'000*
Cost:					
1 January 2016	**40,419**	**34,210**	**13,807**	**5,039**	**93,475**
Additions	266	1,575	3,092	502	**5,435**
Disposals	-	(1)	-	(351)	**(352)**
31 December 2016	**40,685**	**35,784**	**16,899**	**5,190**	**98,558**
Additions	358	2,771	1,654	-	**4,783**
Disposals	-	(248)	(6)	(2,315)	**(2,569)**
31 December 2017	**41,043**	**38,307**	**18,547**	**2,875**	**100,772**
Accumulated depreciation:					
1 January 2016	**30,355**	**18,420**	**8,899**	**4,313**	**61,987**
Provided during the year	2,610	3,967	2,227	428	**9,232**
Disposals	-	(1)	-	(323)	**(324)**
31 December 2016	**32,965**	**22,386**	**11,126**	**4,418**	**70,895**
Provided during the year	2,237	4,059	2,591	294	**9,181**
Disposals	-	(208)	(2)	(2,305)	**(2,515)**
31 December 2017	**35,202**	**26,237**	**13,715**	**2,407**	**77,561**
Net book value:					
31 December 2017	**5,841**	**12,070**	**4,832**	**468**	**23,211**
31 December 2016	7,720	13,398	5,773	772	27,663

17. FIXED ASSETS, NET (Continued)

(b) Intangible Assets, net

	Note	*Computers software SR'000*
Cost:		
1 January 2016		**33,965**
Additions		-
Disposals		-
31 December 2016		**33,965**
Additions		6,098
Impairment	1	(25,688)
31 December 2017		**14,375**
Accumulated amortizations:		
1 January 2016		**10,234**
Provided during the year		**239**
Disposals		-
31 December 2016		**10,473**
Provided during the year		583
Disposals		-
31 December 2017		**11,056**
Net book value:		
31 December 2017		**3,319**
31 December 2016		23,492

18. 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 30 September 2017, the Company in its extraordinary general meeting held on 22 September 2017 reduced the share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million. (Refer Note 1). The Company is in the process of seeking SAMA's guidance in respect of effect on statutory deposit for the said reduction in share capital.

19. GOODWILL

The Company commenced its insurance operations on 1 January 2009. In 2009, the Company entered into an agreement ("the agreement") for the purchase of insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of the Mediterranean and Gulf Insurance and Reinsurance Company (MEDGULF) B.S.C. (closed). The Company held an ordinary general assembly meeting on 22 December 2008 and approved the purchase of the insurance portfolio and the related net assets and liabilities of the Saudi Arabian Operations of the Mediterranean and Gulf Insurance and Reinsurance Company (MEDGULF) B.S.C. (closed) effective 1 January 2009. This acquisition resulted in goodwill of SR 480,000 thousand.

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated. Recoverable amount was determined on the basis of fair value less cost to sell.

19. GOODWILL (Continued)

The Fair Value less cost to sell ("FVLCTS") is used to conclude on the impairment assessment. The valuation result has determined that the recoverable amount of goodwill is higher than its carrying amount. The goodwill will be impaired if the market value / shareprice of the Company would decline by more than 50% as of the date of these financial statements.

Fair Value analysis is based on the "Market Approach" where trading activity of Medgulf's stock and the capitalisation of earnings using value metrics of broadly comparable listed companies and Mergers and Acquisitions transaction multiples were considered up to the valuation date.

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

The life span of goodwill is not definite as it is an unidentifiable intangible asset and cannot exist independently of the business, nor can it be sold, purchased or transferred separately without carrying out the transaction for the business as a whole.

20. ACCRUED EXPENSES AND OTHER LIABILITIES

	2017		*2016*	
	Insurance Operations	***Shareholders Operations***	*Insurance Operations*	*Shareholders Operations*
	SR'000	***SR'000***	*SR'000*	*SR'000*
Accrued CCHI fees	**2,313**	**-**	4,237	-
Accrued withholding tax	**7,907**	**-**	-	-
Payable to suppliers	**135,924**	**-**	136,318	-
Accrued expenses	**5,655**	**635**	17,531	635
Other payables	**458**	**-**	221	-
	152,257	**635**	158,307	635

21. EMPLOYEES' END OF SERVICE BENEFITS

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

21.1 The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2017
	SAR'000
Present value of defined benefit obligation	20,887
Fair value of plan assets	-
	20,887

21. EMPLOYEES' END OF SERVICE BENEFITS (Continued)

21.2 Movement of defined benefit obligation

	Note	*2017* *SAR'000*	*2016* *SAR'000*
Opening balance		26,047	23,729
Charge to statement of income–insurance operations & accumulated surplus	23	13,111	12,338
Charge to statement of comprehensive income – insurance operations		302	-
Payment of benefits during the year		(18,573)	(10,020)
Closing balance		20,887	26,047

21.3 Reconciliation of present value of defined benefit obligation

	2017 *SAR'000*
Present value of defined benefit obligation as at January 1	26,047
Current service costs	12,032
Financial costs	1,079
Actuarial loss from experience adjustments	302
Benefits paid during the year	(18,573)
Present value of defined benefit obligation as at December 31	20,887

21.4 Principal actuarial assumptions

The following range of significant actuarial assumptions was used by the Company for the valuation of post-employment benefit liability:

	2017
Valuation discount rate	3.6%
Expected rate of increase in salary level	2.5%

21.5 Sensitivity analysis of actuarial assumptions

The impact of changes in sensitivities on present value of defined benefit obligation is as follows:

	2017 *SAR'000* Impact on defined benefit obligation
Valuation discount rate	
-Increase by 0.5%	(805)
	(3.9%)
-Decrease by 0.5%	863
	4.1%
Expected rate of increase in salary level across different age bands	
-Increase by 0.5%	947
	4.5%
-Decrease by 0.5%	(903)
	(4.3%)

22. UNEARNED REINSURANCE COMMISSION

	2017 *SR'000*	*2016* *SR'000*
At the beginning of the year	**36,584**	56,315
Commission received during the year	**62,685**	65,271
Commission earned during the year	**(64,063)**	(85,002)
At the end of the year	**35,206**	36,584

23. GENERAL AND ADMINISTRATIVE EXPENSES

		2017		*2016*	
	Note	***Insurance Operations SR'000***	***Shareholders' Operations SR'000***	*Insurance Operations SR'000*	*Shareholders' Operations SR'000*
Employee salaries and costs		**148,398**	**-**	155,347	-
Supervision and inspection fees - CCHI	14(b)	**21,203**	**-**	18,092	-
Rental		**19,061**	**-**	22,831	-
Supervision and inspection fees - SAMA	14(b)	**14,463**	**-**	22,885	-
Professional fees		**16,961**	**1,641**	15,376	494
Depreciation		**9,764**	**-**	9,471	-
Employees' end of service benefits	21	**13,111**	**-**	12,338	-
Stationery		**3,541**	**-**	4,296	-
Withholding taxes on reinsurance payments		**26,192**	**-**	63,714	-
Repairs and maintenance		**8,160**	**-**	7,665	-
Promotion and advertising		**2,895**	**20**	3,117	286
Business travel and transport		**2,711**	**49**	2,257	40
Utilities		**1,612**	**-**	1,322	-
Board of Directors and other committees remunerations and expenses		**-**	**3,612**	-	3,132
Others		**18,761**	**291**	19,809	212
		306,833	**5,613**	358,520	4,164

24. OTHER INCOME

	2017 *SR'000*	*2016* *SR'000*
Income from hospitals for prompt settlement of claims	**44,405**	41,362
Others	**20,025**	7,135
	64,430	48,497

25. PROVISION FOR ZAKAT AND INCOME TAX

a) Zakat charge for the year

	Note	*2017* *SR'000*	*2016* *SR'000*
Zakat Calculation:			
Net (loss) / income for the year		**(388,026)**	67,611
Provision for end of service benefits	21	**20,887**	26,047
Provision for doubtful debts including provision on due from a related party	9	**514,832**	219,571
Withholding taxes payable on reinsurance payment		**102,525**	94,333
Share capital	26	**400,000**	1,000,000
Surplus distribution payable		**111,566**	111,566
Statutory reserve	26	**146,135**	146,135
Decrease in share capital	26	**600,000**	-
		1,895,945	1,597,652
Fixed assets differences		**(516,675)**	(542,097)
Investment in associate	12	**(9,341)**	(14,802)
Investment in Najm (level 3)	13(c)	**(1,923)**	(1,923)
Difference in depreciation on fixed assets		**(21,817)**	(23,191)
Deferred acquisition cost	16	**(85,065)**	(91,465)
Opening accumulated loss		**(232,171)**	(282,335)
Transaction cost related to reduction in share capital	26	**(691)**	-
Others		**23,076**	(49,871)
		(844,607)	(1,005,684)
Zakat base		**663,312**	659,579
Saudi shareholders' share of zakat base (54.5%) (31 December 2016: 47.97%)		**361,504**	316,400
Zakat at 2.5%		**9,038**	7,910
Income tax calculation:			
Net Income / (loss) for the year		-	67,611
Provision charged during the year for end of service benefits	21	-	12,338
Provision charged during the year for doubtful debts	9	-	35,000
Withholding tax expense during the year	23	-	63,714
Difference in depreciation on fixed assets		-	(23,191)
		-	87,861
		-	155,472
Foreign shareholders' share of tax base (45.5%)		-	80,892
Payments of end of service benefits	21	-	(10,020)
Payments of withholding tax		-	(14,934)
		-	(24,954)
Foreign shareholders' share of tax base (45.5%) (31 December 2016: 52.03%		-	(12,984)
25% deduction from foreign share of tax base to cover accumulated losses		-	(20,223)
Tax base		-	47,685
Tax at 20%		-	9,537
Total zakat and tax charge for the year	25 (c)	**9,038**	17,447

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

25. PROVISION FOR ZAKAT AND INCOME TAX (Continued)

b) Income tax charge for the year

There was no income tax in 2017 due to the losses incurred. Income tax relating to the non Saudi shareholders in 2016 amounting to SR 9,537 thousand consists of the 2016 year charge, which has been provided for based on foreign shareholding.

c) Movement in the provision for zakat and income tax during the year

The movement in the provision for zakat and income tax for the year was as follows:

	Note	*2017* *SR'000*	*2016* *SR'000*
At the beginning of the year		**15,398**	844
Charge - current year	25(a)	**9,038**	17,447
prior year		**23,076**	-
		32,114	17,447
Payments during the year		**(22,490)**	(2,893)
At the end of the year		**25,022**	15,398

The provision for zakat and income tax for the year is 32,114 thousand (31 December 2016: SR 17,447 thousand).

d) Status of zakat and tax assessments

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). The GAZT has given its preliminary assessment for the years from 16 April 2007 to 31 December 2012 and identified differences amounting to SR 76 million, however, the Company has filed an appeal against this assessment and based on tax advisor`s assessment, management believes that appropriate provision is made in the books. No assessment of the remaining years have been completed yet by the GAZT.

26. 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 year, the Company incurred transaction cost of SR 691 thousand in respect of reduction in share capital, which has been charged directly to the Statement of changes in Shareholders' Equity.

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 SAR 400 million. Such rights issue is subject to approval of the regulatory authorities and general assembly of the Company.

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

Basic and diluted earnings / (losses) per share for the year was calculated by dividing the net income for the year by the weighted average number of shares issued and outstanding during the year amounting to 40 million shares. The basic and diluted earnings / (losses) per share for the corresponding year was adjusted to reflect the reduction in share capital.

28. INTEREST ON STATUTORY DEPOSIT

The interest on statutory deposit which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia amounts to SR 15,546 thousand (31 December 2016: 11,072 thousand). This interest cannot be withdrawn without the consent of Saudi Arabian Monetary Authority ("SAMA").

29. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial assets and liabilities include cash and cash equivalents, time deposits, investments, receivables, payables, and certain other assets and liabilities. The fair values of the financial assets and liabilities are not materially different from their carrying values with the exception of unquoted financial instruments which are carried at cost.

30. COMMITMENTS AND CONTINGENCIES

a) ***Legal proceedings***

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

b) ***Operating lease commitments***

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

	2017 SR'000	2016 SR'000
Less than one year	**-**	-
One to five years	**19,061**	22,831
	19,061	22,831

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 7). 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.

31. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, operating segments have been approved by management in respect of the Company's activities, assets and liabilities as set out below.

Segment results do not include allocation of general and administration expenses, special commission income and other income to operating segments.

Segment assets do not include allocation of cash and cash equivalents, time deposits investments, premiums and reinsurance balances receivable, prepayments and other assets, due from related parties, and property and equipment, net, to the operating segments.

31. SEGMENTAL INFORMATION (Continued)

Operating segments

Segment liabilities do not include allocation of accounts and commission payable, reinsurance balances payable, accrued expenses and other liabilities, due to shareholders' operations, surplus distribution payable and other reserves to operating segments.

For the year ended December 2017

	Medical SR'000	*Motor SR'000*	*Other SR'000*	*Total SR'000*
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 year ended December 2016

	Medical SR'000	*Motor SR'000*	*Other SR'000*	*Total SR'000*
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

31. SEGMENTAL INFORMATION (Continued)

Operating segments (Continued)

As at 31 December 2017	***Medical SR'000***	***Motor SR'000***	***Others SR'000***	***Total SR'000***
Insurance operations' assets				
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
Insurance operations' liabilities and surplus				
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

As at 31 December 2016	*Medical SR'000*	*Motor SR'000*	*Others SR'000*	*Total SR'000*
Insurance operations' assets				
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
Insurance operations' liabilities and surplus				
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

32. RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board. The Company is exposed to insurance, reinsurance, regulatory framework, credit, liquidity, foreign currency, commission rate, and market risks.

Risk management structure
A cohesive organisational structure is established within the Company in order to identify, assess, monitor, and control risks.

Board of Directors
The apex of risk governance is the centralised oversight of Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management
Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

Audit Committee and Internal Audit Department
Risk management processes throughout the Company are also insured by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with such procedures. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

The risks faced by the Company and the manner in which these risks are mitigated by management are set out below:

a) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims severity, actual benefits paid and subsequent development of long term claims are different than expected. Therefore the objective of the Company is to ensure that sufficient resources are available to cover these liabilities. The insurance risk arising from insurance contracts is mainly concentrated in the Kingdom of Saudi Arabia.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor and medical risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Motor
For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years, the Company has only underwritten comprehensive polices for owner/drivers over 18 years of age. Substantially all of the motor contracts relate to private individuals. The Company also has risk management procedures to control cost of claims. The Company has reinsurance cover to limit the losses for any individual claim to SR 750 thousand (31 December 2016: SR 750 thousand).

Medical
The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across the industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions, regular view of actual claims experience and product pricing, as well as detailed claims handling procedures. The company does not have any reinsurance coverage for medical line of business.

32. RISK MANAGEMENT (Continued)

a) Insurance risk (Continued)

Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or* uncertainty in the estimation process. The general insurance claims provision is sensitive to the above key assumptions. A hypothetical 10% change in the claims ratio would impact income by approximately SR 13,698 thousand (31 December 2016: SR 19,477 thousand) annually in aggregate.

b) Reinsurance risk

In common with other insurance companies, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess of loss reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk arising from similar geographic regions, activities and economic characteristics of reinsurers.

Reinsurance ceded contracts do not relieve the Company from its obligations to the policyholders and as a result the Company remains liable for a portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The credit exposure in this connection is:

	2017 ***SR'000***	*2016* *SR'000*
Middle East	**243,552**	176,498
Europe	**237,588**	419,443
	481,140	595,941

c) Regulatory framework risk

The operations of the Company are subject to local regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise. The Company is not in compliance with solvency margin requirement as prescribed by SAMA (also see note 33).

32. RISK MANAGEMENT (Continued)

d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from insurance and reinsurance contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Company investment portfolio is managed by the investment officer in accordance with the investment policy established by the investment committee.
- The Company, with respect to credit risk arising from other financial assets, is restricted to commercial banks having strong financial positions and credit ratings.
- There are no significant concentrations of credit risk within the Company.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

		2017		*2016*	
	Note	***Insurance Operations SR'000***	***Shareholders' Operations SR'000***	*Insurance Operations SR'000*	*Shareholders' Operations SR'000*
Cash and cash equivalents (other than cash in hand)		**378,205**	**5,176**	486,969	211,677
Time deposits		**401,250**	**70,000**	225,504	-
Investments	13	**28,358**	**125,018**	28,308	146,076
Statutory deposit		**-**	**150,000**	-	150,000
Interest on statutory deposit		**-**	**15,546**	-	11,072
Premiums and reinsurance balances receivable	9	**659,105**	**-**	1,210,705	-
Advances to employees	14	**9,343**	**-**	7,738	-
Advances to suppliers	14	**4,944**	**-**	4,363	-
Accrued special commission income	14	**950**	**1,427**	5,174	2,455
Reinsurers' share of outstanding claims	11(a)	**481,140**	**-**	595,941	-
Due from related parties	10	**63**	**-**	2,065	-
		1,963,349	**367,167**	2,566,767	521,280

32. RISK MANAGEMENT (Continued)

e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. A significant amount of funds are invested in time deposits with local banks.

Maturity profiles

Unearned premiums and reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations. The table below summarises the maturity profile of the non-derivative financial liabilities of the Company based on remaining expected undiscounted contractual obligations:

		2017			*2016*		
	Note	***Up to one year SR'000***	***More than one year SR'000***	***Total SR'000***	*Up to one year SR'000*	*More than one year SR'000*	*Total SR'000*
INSURANCE OPERATIONS' FINANCIAL LIABILITIES							
Gross outstanding claims	11 (a)	**1,094,437**	**-**	**1,094,437**	1,323,956	-	1,323,956
Accounts and commission payable		**121,768**	**-**	**121,768**	123,710	-	123,710
Reinsurance balances payable		**135,761**	**-**	**135,761**	86,172	-	86,172
Accrued expenses and other liabilities	20	**152,257**	**-**	**152,257**	158,307	-	158,307
Surplus distribution payable		**111,566**	**-**	**111,566**	111,566	-	111,566
		1,615,789	**-**	**1,615,789**	1,803,711	-	1,803,711
SHAREHOLDERS' FINANCIAL LIABILITIES							
Accrued expenses and other liabilities	20	**635**	**-**	**635**	635	-	635
Interest payable on statutory deposit	28	**15,546**	**-**	**15,546**	11,072	-	11,072
		16,181	**-**	**16,181**	11,707	-	11,707
TOTAL FINANCIAL LIABILITIES		**1,631,970**	**-**	**1,631,970**	1,815,418	-	1,815,418

Liquidity profile
None of the financial liabilities on the statement of financial position are based on discounted cash flows and are all payable on a basis as set out above. There are no differences between contractual and expected maturity of the non-derivative financial liabilities of the Company.

32. RISK MANAGEMENT (Continued)

f) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company`s principal transactions are carried out in Saudi Riyal. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

		2017				*2016*			
	Note	*Saudi Riyals SR'000*	*US Dollars SR'000*	*Others SR'000*	*Total SR'000*	*Saudi Riyals SR'000*	*US Dollars SR'000*	*Others SR'000*	*Total SR'000*
INSURANCE OPERATIONS' ASSETS									
Cash and cash equivalents	7	**350,605**	**27,744**	**-**	**378,349**	472,089	15,033	-	487,122
Time deposits		**401,250**	**-**	**-**	**401,250**	225,504	-	-	225,504
Premiums and reinsurance balances receivable	9	**586,737**	**70,940**	**1,428**	**659,105**	1,173,549	35,856	1,300	1,210,705
Due from related parties	10	**63**	**-**	**-**	**63**	2,065	-	-	2,065
Due from shareholders' operations		**346,744**	**-**	**-**	**346,744**	99,670	-	-	99,670
Reinsurers' share of outstanding claims	11 (a)	**281,989**	**199,151**	**-**	**481,140**	488,882	107,059	-	595,941
Investments	13 (a)	**28,358**	**-**	**-**	**28,358**	28,308	-	-	28,308
Prepayments and other assets	14	**236,650**	**-**	**-**	**236,650**	218,349	-	-	218,349
Reinsurers' share of unearned premium	15	**464,063**	**-**	**-**	**464,063**	536,383	-	-	536,383
Deferred policy acquisition costs	16	**85,065**	**-**	**-**	**85,065**	91,465	-	-	91,465
TOTAL INSURANCE OPERATIONS' ASSETS		**2,781,524**	**297,835**	**1,428**	**3,080,787**	3,336,264	157,948	1,300	3,495,512
SHAREHOLDERS' ASSETS									
Cash and cash equivalents	7	**1,915**	**3,257**	**4**	**5,176**	190,435	21,242	-	211,677
Time deposits		**70,000**	**-**	**-**	**70,000**	-	-	-	-
Interest on statutory deposit		**15,546**	**-**	**-**	**15,546**	11,072	-	-	11,072
Investment in an associate	12	**9,341**	**-**	**-**	**9,341**	14,802	-	-	14,802
Investments	13 (b)	**77,447**	**47,571**	**-**	**125,018**	98,550	47,526	-	146,076
Prepayments and other assets	14	**1,427**	**-**	**-**	**1,427**	2,598	-	-	2,598
Statutory deposit		**150,000**	**-**	**-**	**150,000**	150,000	-	-	150,000
TOTAL SHAREHOLDERS' ASSETS		**325,676**	**50,828**	**4**	**376,508**	467,457	68,768	-	536,225
TOTAL ASSETS		**3,107,200**	**348,663**	**1,432**	**3,457,295**	3,803,721	226,716	1,300	4,031,737

32. RISK MANAGEMENT (Continued)

f) Foreign currency risk (Continued)

		2017				2016			
	Note	*Saudi Riyals SR'000*	*US Dollars SR'000*	*Other SR'000*	*Total SR'000*	*Saudi Riyals SR'000*	*US Dollars SR'000*	*Other SR'000*	*Total SR'000*
INSURANCE OPERATIONS' LIABILITIES									
Gross outstanding claims	11 (a)	**893,470**	**200,967**	**-**	**1,094,437**	1,215,700	108,256	-	1,323,956
Accounts and commission payable		**121,768**	**-**	**-**	**121,768**	123,710	-	-	123,710
Reinsurance balances payable		**82,584**	**52,094**	**1,083**	**135,761**	71,500	14,015	657	86,172
Accrued expenses' and other liabilities	20	**152,257**	**-**	**-**	**152,257**	158,307	-	-	158,307
Employees` end of service benefits	21	**20,887**	**-**	**-**	**20,887**	26,047	-	-	26,047
Surplus distribution payable		**111,566**	**-**	**-**	**111,566**	111,566	-	-	111,566
Unearned reinsurance commission	22	**35,206**	**-**	**-**	**35,206**	36,584	-	-	36,584
Gross unearned premiums	15	**1,405,228**	**-**	**-**	**1,405,228**	1,629,251	-	-	1,629,251
Other reserves	11 (b)	**26,296**	**-**	**-**	**26,296**	45,154	-	-	45,154
Due to related parties	10	**3,886**	**-**	**-**	**3,886**	5,643	-	-	5,643
TOTAL INSURANCE OPERATIONS' LIABILITIES		**2,853,148**	**253,061**	**1,083**	**3,107,292**	3,423,462	122,271	657	3,546,390
SHAREHOLDERS' LIABILITIES									
Accrued expenses and other liabilities	20	**635**	**-**	**-**	**635**	635	-	-	635
Interest payable on statutory deposit		**15,546**	**-**	**-**	**15,546**	11,072	-	-	11,072
Provision for zakat and income tax	25 (c)	**25,022**	**-**	**-**	**25,022**	15,398	-	-	15,398
Due to insurance operations		**346,744**	**-**	**-**	**346,744**	99,670	-	-	99,670
TOTAL SHAREHOLDERS' LIABILITIES		**387,947**	**-**	**-**	**387,947**	126,775	-	-	126,775
TOTAL LIABILITIES		**3,241,095**	**253,061**	**1,083**	**3,495,239**	3,550,237	122,271	657	3,673,165

32. RISK MANAGEMENT (Continued)

g) Special commission rate risk

Special commission rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market special commission rates. Floating rate instruments expose the company to cash flow special commission risk, whereas fixed commission rate instruments expose the Company to fair value interest risk.

The Company is exposed to special commission rate risk on its certain investments, cash and cash equivalents, and time deposits. The Company limits special commission rate risk by monitoring changes in special commission rates in the currencies in which its investments are denominated.

The following table demonstrates the sensitivity of statements of insurance operations and the shareholders income to reasonably possible changes in commission rates of the Company's term deposits, with all other variables held constant.

31 December 2017		
Currency	Change in variable	Impact on net loss
Saudi Riyal	**+ 50 basis points**	**SR 4,593**
	- 50 basis points	**SR (4,593)**

31 December 2016		
Currency	Change in variable	Impact on net loss
Saudi Riyal	+ 50 basis points	SR 5,343
	- 50 basis points	SR (5,343)

h) Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company has unquoted equity instruments carried at cost or indicative selling price, where the impact of changes in equity price will only be reflected when the instrument is sold or deemed to be impaired and then the statement of income - shareholders' operations will be impacted.

The sensitivity of the income on the assumed changes in the market prices of quoted available for sale investments on the statement of shareholders comprehensive income / (loss) and statement of insurance operations' comprehensive income / loss is set out below:

	Change in market price	*Effect on statement of shareholders comprehensive income / (loss) SR'000*
2017	**+5%**	**3,444**
	-5%	**(3,444)**
2016	+5%	3,447
	-5%	(3,447)

i) Capital management

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital, reserves and retained earnings.

32. RISK MANAGEMENT (Continued)

i) Capital management (Continued)

As per guidelines laid out by SAMA in Article 66 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SAR 200 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company uses Claims Solvency Margin Method for determining its solvency requirements. As at 31 December 2017, the solvency margin is less than the required minimum margin (also see note 33). The capital structure of the Company as at December 31, 2017 consists of paid-up share capital of SAR 400 million, legal reserves of SAR 146 million and accumulated deficit of SR 53 million (December 31, 2016: paid-up share capital of SAR 1,000 million, legal reserves of SAR 146 million and accumulated deficit of SAR 232 million.) in the statement of financial position.

33. 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 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 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.

34. APPROVAL OF THE FINANCIAL STATEMENTS

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