

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

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
FOR THE PERIOD FROM 16 APRIL 2007  
TO 31 DECEMBER 2008**

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

---

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT  
FOR THE PERIOD FROM 16 APRIL 2007 TO 31 DECEMBER 2008

<b>INDEX</b>	<b>PAGE</b>
Independent auditors' report	1
Balance sheet	2
Statement of shareholders' operations	3
Statement of shareholders' cash flows	4
Statement of changes in shareholders' equity	5
Notes to the financial statements	6 – 16

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

**SCOPE OF AUDIT:**

We have audited the accompanying balance sheet of The Mediterranean & Gulf Cooperative Insurance & Reinsurance Company – A Saudi Joint Stock Company (the ‘Company’) as at 31 December 2008 and the related statements of shareholders’ operations, shareholders’ cash flows and changes in shareholders’ equity for the period then ended and the notes which form an integral part of these financial statements. These financial statements are the responsibility of the Company’s management and have been prepared by them in accordance with International Financial Reporting Standards and the provisions of Article 123 of the Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. Except for the matter explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

**QUALIFICATION:**

As described in Note 3, management have prepared these financial statements in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Based on evidence and information available to us, we have been unable to conclude whether the basis used in the preparation of these financial statements is appropriate.

**QUALIFIED OPINION:**

In our opinion, subject to the matter referred to above, the financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as at 31 December 2008 and the results of its operations and its cash flows for the period then ended in accordance with International Financial Reporting Standards.
- Comply with the requirements of the Regulations for Companies and the Company's bye-laws with respect to the preparation and presentation of the financial statements.

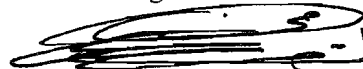
Ernst & Young  
P. O. Box 2732  
Riyadh 11461  
Kingdom of Saudi Arabia



Fahad M. Al Toaimi  
Certified Public Accountant  
Registration No. 354



Deloitte & Touche  
Bakr Abulkhair & Co.  
P. O. Box 213  
Riyadh 11411  
Kingdom of Saudi Arabia



Ehsan A. Makhdoum  
Certified Public Accountant  
Registration No. 358

29 Safar 1430H  
24 February 2009



THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

BALANCE SHEET

As at 31 December 2008

	<i>Note</i>	<i>2008</i> <i>SR</i>
<b>SHAREHOLDERS' ASSETS</b>		
Cash and cash equivalents	6	484,700,561
Investments	7	208,073,921
Prepaid expenses and other assets		3,725,966
Statutory deposit	8	80,000,000
Land		30,000,000
<b>TOTAL SHAREHOLDERS' ASSETS</b>		<b>806,500,448</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>		
<b>SHAREHOLDERS' LIABILITIES</b>		
Accruals and other payables		3,202,892
Zakat and income tax	11	15,363,216
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>		<b>18,566,108</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	15	800,000,000
Change in fair value of available for sale investments		( 1,694,486)
Accumulated losses		(10,371,174)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>787,934,340</b>
<b>TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>806,500,448</b>

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENTS OF SHAREHOLDERS' OPERATIONS

FOR THE PERIOD FROM 16 APRIL 2007 TO 31 DECEMBER 2008

	<i>Note</i>	<i>SR</i>
	<u>          </u>	<u>          </u>
<b>INCOME</b>		
Special commission income		46,661,738
Trading losses, net	9	( 928,617 )
Foreign exchange gains		16,638
		<u>          </u>
<b>TOTAL INCOME</b>		<b>45,749,759</b>
<b>EXPENSES</b>		
General and administrative expenses	13	(8,485,524)
Impairment losses on investments		(16,095,443)
Pre-incorporation expenses, net	12	( 15,830,682 )
		<u>          </u>
<b>NET INCOME FOR THE PERIOD</b>		<b>5,338,110</b>
		<u>          </u>
Earnings per share	16	<u>          0.07</u>

**THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY**

---

**STATEMENT OF SHAREHOLDERS' CASH FLOWS**  
**FOR THE PERIOD FROM 16 APRIL 2007 TO 31 DECEMBER 2008**

	<i>Note</i>	<i>SR</i>
<b>OPERATING ACTIVITIES</b>		
Net income for the period		5,338,110
Adjustments for:		
Amortization of discount on held to maturity investments		(1,811,005)
Commission income on held to maturity investments		(739,819)
Commission income on available for sale investments		(750,853)
Dividend income on held for trading investments		(822,518)
Dividend income on available for sale investments		(112,565)
Unrealised losses on held for trading investments		1,638,465
Impairment losses in value of available for sale investments		16,095,443
Realised losses on held for trading investments		290,545
Realised gains on sale of available for sale investments		(65,594)
		19,060,209
Changes in operating assets and liabilities:		
Prepaid expenses and other assets		(3,725,966)
Statutory deposit		(80,000,000)
Accruals and other payables		3,202,892
Zakat and income tax paid		(346,068)
		(61,808,933)
<b>INVESTING ACTIVITIES</b>		
Purchase of available for sale investments		(57,480,633)
Sale of available for sale investments		10,548,146
Purchase of held to maturity investments		(114,222,784)
Sale of held to maturity investments		18,750,000
Purchase of land		(30,000,000)
Purchase of held for trading investments		(147,996,538)
Sale of held for trading investments		64,485,548
Commission income on held to maturity investments		739,819
Commission income on available for sale investments		750,853
Dividend income on held for trading investments		822,518
Dividend income on available for sale investments		112,565
		(253,490,506)
<b>FINANCING ACTIVITIES</b>		
Issue of share capital		800,000,000
		800,000,000
Net cash from financing activities		800,000,000
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	6	484,700,561

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE PERIOD FROM 16 APRIL 2007 TO 31 DECEMBER 2008

	Share Capital SR	Change in fair value of available for sale investments SR	Accumulated losses SR	Total
Issuance of share capital	800,000,000	-	-	800,000,000
Net Income for the period	-	-	5,338,110	5,338,110
Change in fair value of available for sale investments	-	(1,694,486)	-	(1,694,486)
Provision for zakat and income tax	-	-	(15,709,284)	(15,709,284)
Balance at 31 December 2008	<u>800,000,000</u>	<u>(1,694,486)</u>	<u>(10,371,174)</u>	<u>787,934,340</u>

# THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE & REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

### 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

The Mediterranean & Gulf Cooperative Insurance & Reinsurance Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration number 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 operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock market on 7 May 2007.

As per the Company's bylaws and articles of association, the Company's first fiscal period commenced on the issuance date of the Ministerial Resolution declaring the incorporation of the Company, which was 28 Rabi Awal 1428H (corresponding to 16 April 2007), and ended on 31 December 2008.

The Company has commenced its insurance and reinsurance operations on 1 January 2009. Accordingly, the statements of "insurance operations and accumulated surplus" and "insurance operations' cash flows" have not been prepared for the period ended 31 December 2008.

### 2 ASSET PURCHASE AGREEMENT AND TRANSFER OF INSURANCE PORTFOLIO

The Company has been licensed to conduct insurance business in Saudi Arabia under co-operative principles in accordance with Royal Decree number 60/M dated 18 Ramadan 1427H (corresponding to 11 October 2006), pursuant to Council of Ministers resolution number 233 dated 16 Ramadan 1427H (corresponding to 9 October 2006).

Following the completion of the public offering on 26 February 2007, an application was submitted to H.E. the Minister of Commerce and Industry (MOCI) in the Kingdom of Saudi Arabia, requesting the announcement of the incorporation of the Company. On 28 Rabi Awal 1428H (corresponding to 16 April 2007), the MOCI issued a resolution declaring the incorporation of the Company.

On 29 Shabaan 1428H (corresponding to 11 September 2007), SAMA issued a formal approval to transact insurance and reinsurance business, thus authorising the Company to commence operations as soon as product approval and related formalities are completed.

The Company intends to enter into agreement for the purchase of the insurance portfolio and related net assets of the Mediterranean and Gulf Insurance & Reinsurance Company (Medgulf) B.S.C (Closed) operations in the Kingdom of Saudi Arabia (the Operations). Accordingly, a due diligence study (which consisted of a valuation of the operations) has been submitted by an independent auditor to Saudi Arabian Monetary Agency during September 2007.

The result of the valuation has been issued by the Saudi Arabian Monetary Agency (SAMA) through its letter number 2172/MZ/MT dated 12 Thul-Quada 1429H (corresponding to 10 November 2008).

The Company convened a general assembly meeting on 22 December 2008 and approved the purchase of the insurance portfolio and related net assets of the Mediterranean and Gulf Insurance & Reinsurance Company (Medgulf) B.S.C (Closed) operations in the Kingdom of Saudi Arabia. The related assets and liabilities to be acquired will be determined and valued in accordance with the valuation program issued by SAMA in May 2007. It is expected that those procedures will be completed during the first quarter of 2009.

### 3 BASIS OF PREPERATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

#### **Basis of measurement**

The financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments.

#### **Functional and presentational currency**

The financial statements are presented in Saudi Riyals being the functional currency of the Company.

# THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE & REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **New standards and interpretations issued but not yet effective**

The following standard has been issued by the International Accounting Standards Board (IASB) but is not yet mandatory for these financial statements:

- IAS 1 - Presentation of financial statements (Revised)

The application of the above is not expected to have a material impact on the financial statements as and when they become effective. However, the application of this standard will result in amendments to the presentation of the financial statements.

The significant accounting policies adopted in the preparation of these financial statements are set out below:

#### ***Cash and cash equivalents***

For the purpose of the statement of shareholders' cash flows, cash and cash equivalents comprise of cash at banks and time deposits with an original maturity of less than three months at the date of acquisition.

#### ***Investments***

All investments are initially recognised at cost, being the fair value of the consideration given, including acquisition charges associated with the investment. 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 balance sheet 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 in shareholders' equity until the investment is derecognized or impaired at which time the cumulative gain or loss previously recognised in the statements of shareholders' equity should be included in the statement of shareholders' operations for the period. Available for sale investments whose fair value can not be reliably measured are carried at amortised cost less impairment provision.

##### ***(b) Investments in held to maturity securities***

Investments which have fixed or determined 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 shareholders' operations when the investment is derecognized or impaired.

#### ***Impairment and uncollectibility of financial assets***

An assessment is made at each balance sheet 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, less any impairment loss previously recognized in the statement of shareholders' operations
- For assets carried at cost, impairment is the difference between the carrying value and the present value 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 based on estimated cash flows that are discounted at the original effective special commission rate.

# THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE & REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Accruals and other payables*

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*

Zakat and income tax are provided for in accordance with Saudi Arabian Fiscal Regulations. Zakat is charged to the Saudi shareholders' equity account while the income tax is charged to the foreign shareholders' equity account.

#### *Land*

Land is stated at cost less any impairment and is not depreciated.

#### *Commission income*

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

#### *Dividend income*

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

#### *Provisions*

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, 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 are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

#### *Employees' end-of-service benefits*

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date.

#### *Foreign currencies*

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of shareholders' operations.

#### *Statutory reserve*

In accordance with its bylaws, the Company shall allocate 20% of its net income each year to the statutory reserve until it has built up a reserve equal to the share capital. In view of the accumulated losses, no such transfer has been made.

#### *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

5 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's 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 balance sheet date, 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.

*Fair values*

For investments traded in the organized markets, fair value is determined by reference to quoted market bid prices. The fair value of special commission-bearing items is estimated based on discounted cash flows using special commission rates for items with similar terms and risk characteristics. For unquoted equity investments, in the absence of market value, investments are held at their cost. Assessment for any permanent impairment is also done at least once per year and any permanent impairment is recognized as an expense in the statement of shareholders' operations.

6 CASH AND CASH EQUIVALENTS

	<i>31 December 2008 SR</i>
Cash at banks	39,385,488
Time deposits	445,315,073
Total	<u>484,700,561</u>

Time deposits are placed with local and international banks with an original maturity of less than three months from the date of acquisition and earn income at an average rate of 3.78%.

7 INVESTMENTS

a) Investments are classified as follows:

*(i) Investments in held to maturity securities*

Held to maturity investments represent securities issued by governments, international corporations and financial institutions. The fair values of held to maturity investments are not materially different from their carrying values.

The maturities of the held to maturity investments are set out below:

	<i>31 December 2008 SR</i>
Less than two years	97,283,788
<i>Total investments in held to maturity securities</i>	<u>97,283,788</u>

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

7 INVESTMENTS (continued)

	<i>31 December 2008 SR</i>
<i>(ii) Available for sale investments</i>	
Sukuk	14,752,500
Floating rate notes	13,952,250
Bonds	7,125,000
Equities	825,000
Funds	74,135,383
<i>Total investments in available for sale securities</i>	<u>110,790,133</u>
<b>Total investments</b>	<u><u>208,073,921</u></u>

b) The analysis of the composition of investments is as follows:

	Quoted SR	2008 Unquoted SR	Total SR
Sukuk	14,752,500	-	14,752,500
Floating rate notes	-	13,952,250	13,952,250
Bonds	104,408,789	-	104,408,789
Equities	825,000	-	825,000
Funds	54,888,842	19,246,540	74,135,382
Total	<u>174,875,131</u>	<u>33,198,790</u>	<u>208,073,921</u>

c) The analysis of investments by counter-party is as follows:

	<i>31 December 2008 SR</i>
Government and quasi government	97,283,788
Banks & financial institutions	88,087,633
Corporate	22,702,500
Total	<u>208,073,921</u>

d) The credit quality of investment portfolio is as follows:

	<i>31 December 2008 SR</i>
AA- To AA	24,621,448
A- To A+	176,222,473
B-	7,230,000
Total	<u>208,073,921</u>

Rating by S&P of investment or issuer (if investment is not rated).

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

8 STATUTORY DEPOSIT

Statutory deposit represents 10% of the paid up capital which is maintained in accordance with the Law on Supervision of Cooperative Insurance Companies in the Kingdom of Saudi Arabia. This statutory deposit cannot be withdrawn without the consent of Saudi Arabian Monetary Agency.

9 TRADING LOSSES, NET

	<i>For the period from 16 April 2007 to 31 December 2008 SR</i>
Dividend income	935,084
Realised losses, net	(224,952)
Unrealised losses	(1,638,749)
	<u>(928,617)</u>

10 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The following are the details of major related parties transactions during the period from 16 April 2007 to 31 December 2008 and the related balance at the end of the period:

<i>Related parties</i>	<i>Nature of transactions</i>	<i>Amounts of transactions SR</i>	<i>Balance 31 December 2008 SR</i>
Founding shareholder	Sale of investments (Medgulf B.S.C.)	32,582,826	(2,647,547)
	- Commission income on time deposits (Saudi Investment Bank)	41,607,137	
	- Pre-incorporation expenses and general and administrative expenses paid on behalf of the Company	25,376,136	
	- Land acquired on behalf of the Company (Medgulf B.S.C.)	30,000,000	
	- Purchase of investments (Medgulf B.S.C.)	147,639,447	
	- IPO related fees paid by the Company (Saudi Investment Bank)	1,050,000	
	- Management fees	3,750,000	

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

11 ZAKAT AND INCOME TAX

a) ZAKAT

The zakat base consists of the following:

	<u>2008</u> <u>SR</u>
Share capital	800,000,000
Adjusted net income for the period	21,433,553
Adjusted investments	(4,950,000)
Statutory deposit	(80,000,000)
Land	(30,000,000)
	<u>706,483,553</u>
Zakat base	<u>706,483,553</u>

*Zakat for the period*

The zakat charge consists of:

	<i>Period from 16</i> <i>April 2007 to</i> <i>31 December</i> <i>2008</i> <u>SR</u>
Saudi shareholders share of Zakat base (85.4%)	<u>603,336,954</u>
Zakat for the period at 2.5%	<u>15,083,424</u>

b) INCOME TAX

The income tax charge consists of:

	<i>Period from 16</i> <i>April 2007 to</i> <i>31 December</i> <i>2008</i> <u>SR</u>
Non Saudi shareholders share of net income (14.6%)	<u>3,129,299</u>
Income tax for the period at 20%	<u>625,860</u>
Zakat and income tax charge for the period	<u>15,709,284</u>

**Movements in provision during the period**

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

	<u>2008</u> <u>SR</u>
Zakat and income tax charge for the period	15,709,284
Payments during the period	(346,068)
At the end of the period	<u>15,363,216</u>

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

12 PRE –INCORPORATION EXPENSES, NET

	<i>From 2 January 2005 to 15 April 2007</i>
	<u>SR</u>
<b>Expenses</b>	
Issue costs	11,320,324
Legal and professional fees	6,364,612
Advertising expenses	4,714,453
Other	2,976,747
	<u>25,376,136</u>
<b>Income</b>	
Special commissions income	(9,545,454)
	<u>15,830,682</u>

13 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>Period from 16 April 2007 to 31 December 2008</i>
	<u>SR</u>
Board members remuneration and related expenses	827,700
Legal and professional fees	2,389,167
Salaries and benefits	4,459,347
Others	809,310
	<u>8,485,524</u>

14 CONTINGENT LIABILITIES

As at 31 December 2008, the Company has contingent liabilities in the form of letters of guarantee amounting to SR 7,810,128.

15 SHARE CAPITAL

The authorized and paid up share capital of the Company is SR 800 million divided into 80 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 60 million shares with a nominal value of SR 10 each, which represent 75% of the shares of the Company and the remaining 20 million shares with a nominal value of SR 10 each which represents 25% of the shares of the Company, have been subscribed by the public.

16 EARNINGS PER SHARE

Earnings per share for the period have been calculated by dividing the net income for the period by the average issued shares for the period amounting to 80 million shares.

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's financial assets consist of cash and cash equivalents, investments, statutory deposit and other assets and its financial liabilities consist of accruals and other liabilities.

The fair values of financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

18 RISK MANAGEMENT

18.1 Special commission rate risk

Special commission rate risk is the risk that the value of 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 special commission rate instruments expose the Company to fair value special commission risk.

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

The following table demonstrates the sensitivity of the statement of income and the Company's equity to reasonably possible changes in special commission rates, with all other variables held constant.

The sensitivity of the statement of shareholders' operations is the effect of the assumed changes in special commission rates on the Company's profit for the period, based on the floating rate financial assets and financial liabilities held at 31 December 2008:

	Increase in basis points	Effect on profit before taxation for the period
		SAR
2008	+ 25	1,385,000

18.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All liabilities on the Company's balance sheet, other than end of service benefits, are contractually payable on a current basis.

Maturity profile

The table below shows an analysis of liabilities according to when they are expected to be settled.

	Less than 12 months SR	More than 12 months SR	Total 2008 SR
<b>SHAREHOLDERS' LIABILITIES</b>			
Accruals and other payables	3,179,048	23,844	3,202,892
Provision for zakat and income tax	15,363,216	-	15,363,216
<b>TOTAL SHAREHOLDERS' LIABILITIES</b>	<b>18,542,264</b>	<b>23,844</b>	<b>18,566,108</b>

Liquidity profile

None of the liabilities on the balance sheets are based on discounted cash flows and are all payable on a basis as set out above.

# THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE & REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

### 18 RISK MANAGEMENT (Continued)

#### 18.3 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 instruments held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the balance sheet.

Cash and cash equivalents and statutory deposit are maintained with local and international banks approved by the investment committee. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents and statutory deposit are maintained are required to have a minimum acceptable security rating level affirming their financial strength. The Company's investment portfolio is managed by the investment officer in accordance with the investment policy established by the board of directors.

The table below shows the maximum exposure to credit risk for the components of the balance sheet.

	<i>2008</i> <i>SR</i>
Cash and cash equivalents	484,700,561
Investments	208,073,921
Statutory deposit	80,000,000
	<hr/>
	772,774,482
	<hr/> <hr/>

#### 18.4 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 special commission 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 when the statement of shareholders' operations will be impacted.

The management is of the opinion that changes in market prices of equity instruments will not have a material impact on the statement of shareholders' operations.

#### 18.5 Capital management

Capital requirements are set and regulated by the Saudi Arabian Monetary Agency. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue additional shares.

It is the opinion of the Board of Directors that the Company has fully complied with the externally imposed capital requirements during the reported financial period.

**THE MEDITERRANEAN & GULF COOPERATIVE INSURANCE &  
REINSURANCE COMPANY – A SAUDI JOINT STOCK COMPANY**

---

**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2008

**19 SEGMENTAL INFORMATION**

Since the company has not commenced its insurance operations yet, the segmental information has not been disclosed.

**20 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 29 Safar 1430 H, corresponding to 24 February 2009.