

Date: 31/01/2018

**To: Members of the Board and shareholders**  
Medgulf Insurance and Reinsurance Co.

**From: Mr. Omar AlHoshan**  
Chairman Audit Committee

**Subject: Audit Committee Report to the Board and shareholders**

Dear Chairman, Members of the Board, Shareholders

Reference to the Article 104 of Companies Law, we enclose herewith the Audit Committee Summary regarding its opinion on the adequacy of the Company's internal control system.

The current formation of the Audit Committee commenced on 24/05/2016. The Audit Committee held sixteen meetings during 2017, carrying its tasks in accordance with the requirements of SAMA's Audit Committee regulation and in line with the Audit Committee Charter approved by the Board of Directors on the 17<sup>th</sup> of January 2016.

This report covers the activities of the Audit Committee from January 01, 2017 to December 31, 2017.

Those activities included:

- Discussing the financial statements with Management and External Auditors and making recommendations thereon for the Board.
- Discussing the solvency position of the company and its plan to comply with SAMA regulations in this regard.
- Discussing Protiviti reports that included the subjects of related parties disclosures and transactions, reinsurance accounts and balances, financial misstatement, governance issues, potential financial exposures and process and control weaknesses.
- Discuss the implications of the Financial Position Loading as required by SAMA.
- Discussing the outstanding surplus distribution.
- Discussing the Annual Plan of Internal Audit and Compliance Departments
- Discussing the Internal Audit and Compliance Reports
- Discussing the U/W Pricing reports.
- Discussing Fraud cases.



- Discussing claim reserves with External Auditors.
- Discussing Reinsurance Receivables with External Auditors.
- Discussing the weakness in IT system with External Auditors.
- Discussing the outstanding related parties' balances and transactions specifically those related to the outstanding amounts and financial transactions between Medgulf KSA and Medgulf Bahrain.
- Discussing outstanding balances with reinsurers noting some with lack of documentation and clarity, such as those relating to reinsurers for underwriting year 2014 and prior
- Raising the critical and high-risk items from Compliance and Internal Audit Departments to the Board of Directors.
- Reviewing the comments of SAMA and other relevant supervisory and control entities related to any regulatory violations or corrective actions requested and making recommendations thereon for the Board.
- Recommending to the Board to approve the appointment of external auditors.
- Interviewing for the position of the Head of Compliance Control Department.
- Monitoring the independence of external auditors from the Company, the Board Members and the senior management of the Company.
- Monitoring the independence of the Internal Audit and Compliance departments in performing their tasks, and ensuring that there are no restrictions on their scope of work or any impediments that might negatively affect their work.
- Coordinating between internal and external auditors.
- Assessing the efficiency, effectiveness and objectivity of work performed by the external auditors, the Internal Audit Department, and the Compliance Control Department.
- Monitoring the reports issued by SAMA and other relevant supervisory and control entities and making recommendations thereon for the Board.
- Ensuring the Company has a written code of conduct duly approved by its Board of Directors to ensure that the Company's activities are conducted in a fair and ethical manner.
- Monitoring the optimal use and controls of information technology necessary to generate accurate and reliable information and data are in place.
- Define the plan for 2018 and prepared a self-assessment questionnaire to define the level of Compliance with articles and regulations and to determine the effectiveness of the audit committee.



- Recommendation to the Board of Directors to activate the role of corporate governance in Medgulf by combining that role into compliance functions.

Internal Audit and Compliance Departments submitted to Audit Committee during 2017 the following reports:

#	Internal Audit reports 2017
1	HR Report
2	Medical Underwriting Engagement
3	Medical pricing Q4,Q1,Q2
4	Motor pricing Q4,Q1,Q2
5	AHAD agency report 01-06-2017
6	Al Areen agency report
7	Al Aried agency report
8	POS Agent Audit reports
9	Brokers relationship unit
10	Direct Sales Department

#	Compliance reports 2017
1	Compliance report for Q1 2017
2	Report of high risk issues raised to the Audit Committee for Q1
3	Compliance assessment report for Human Resources Division 2017
4	Report of material non-compliances for Q3 and Q4 2016
5	Compliance assessment report for Broker Relationship Department 2017
6	Compliance report for Q2 and Q3 2017
7	Report of high risk issues raised to the Audit Committee for Q2 and Q3 2017
8	Report of material non-compliances for Q1 2017
9	Compliance assessment report for Risk Management Division 2017
10	Compliance report for Q4 2017
11	Report of material non-compliances for Q4 2017
12	Compliance assessment report for Medical Division 2017
13	Compliance Plan for 2018

#### Committee's perspective:

During 2017, the company faced some obstacles, including the solvency margin problem, which led Board of Directors to make a decision of reducing the company's capital from 1000,000,000 SR to 400,000,000 SR. In addition, the regulators requirements have increased significantly, which needs a great effort and large team within the control functions.



It is important to state that several resignations for Board members have been submitted to Medgulf's Board of Directors, and published on Tadawul.

In addition, the company's Board of Directors approve the assignment of Oliver Wyman as a consultant to provide the company with a study including solutions to increase the solvency.

The control function departments represented by Compliance and Internal Audit have done a reasonable effort with room for improvement. The Acting Head of Compliance was appointed to carry out the compliance responsibilities. However, the committee notes that both Compliance and Internal Audit Departments are still under staffed.

In general, there are gaps within the internal controls identified through the following:

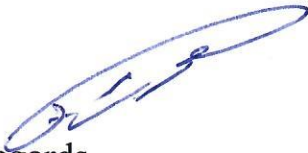
- Poor adherence to Corporate Governance guidelines.
- The delay / and or absence of management response / corrective action to Compliance and Internal Audit findings.
- Due to the shortage of control function staff, the follow up process is not effective.
- There is a serious weakness within Medgulf's IT system, hence there is a lack of optimal use and controls of information technology necessary to generate accurate and reliable information and data.
- The positions of Chief Risk Officer, Head of Legal and Litigations and Chief Information Officer are still vacant. It is worth to mention that the company appointed acting Chief Risk Officer during 2018 for a period of one month. In addition, during 2017 the company appointed acting Head of Legal and acting Chief Information Officer for a period of one month, which is already expired.
- Some of company's policies / procedures / authority matrix are lacking or are still not approve. Details are mentioned in the following tables:

Policies not yet approved by the Board:

S. No.	Document Name
1	Credit Policy
2	Surplus Distribution Policy
3	Legal Policies and Procedures
4	Finance Policies and Procedures
5	High-level Underwriting Policy
6	High-level Claims Policy
7	Marketing Policies and Procedures

Policies approved by the Board that require update:

S. No.	Document Name
1	Commission Policy
2	Intermediaries Policy
3	Investment Policy
4	HR Policies Manual
5	Anti-fraud Policy
6	IT Policies
7	Gift Policy



Regards,

Omar AlHoshan