ANNUAL REPORT 2014

arig

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BOARD OF DIRECTORS

Khalid Jassim Bin Kalban

Chairman of the Board and member of the Executive Committee

Khalid Ali Al Bustani

Vice Chairman of the Board and member of the Nomination & Remuneration Committee

Dr. Fouad A A Alfalah

Director and Chairman of the Audit Committee

Sultan Ahmed Al Ghaith

Director and member of the Nomination & Remuneration Committee

Fathi M A Elhagie

Director and member of the Audit Committee

Mohamed Saif Al Suwaidi

Director and Chairman of the Executive Committee

Saeed Mohamed Al Bahhar

Director, Chairman of the Nomination & Remuneration Committee and member of the Executive Committee

Mohamed Saif Al Hameli

Director and member of the Executive Committee

Mohamed Ahmed Al Karbi

Director and member of the Audit Committee

REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The Directors of the Arab insurance Group (B.S.C.) (Arig) are pleased to present the company's 34th Annual Report and Consolidated Financial Statements for the 2014 Financial Year.

FINANCIAL RESULT

Again, the global reinsurance industry was spared from catastrophic loss events, which supported further build-up of capital and added more pricing pressures to the market. Against this backdrop, the Arig Group achieved a net profit of US$ 15.6 million in 2014 (2013: US$ 18.6 million). The conventional business of the Group generated positive returns of US$ 20.5 million, whereas Takaful Re, the Group's Islamic reinsurance subsidiary, produced a loss of US$ 4.9 million for Arig's share. The difference in profitability is mostly the result of sharply different underwriting fortunes. Arig's combined ratio of 97.8%[1] stayed well within positive territory while Takaful Re disappointed with a ratio of 147%, leading the Group to an overall combined ratio of 101.7%.

Equally, business development varied between the two companies. While Arig's gross written premium expanded by 23% to US$ 296.9 million (2013: US$ 240.5 million) mostly on the back of its Lloyd's portfolio, Takaful Re's gross premiums reduced by 14% to US$ 18.4 million (2013: US$ 21.5 million). Combined, the Group wrote gross premiums of US$ 315.3 million, up by 20% from the previous year (2013: US$ 262 million).

Investment results were positive for both companies with Arig returning US$ 18.2 million on its investible assets (2013: US$ 17.8 million), and Takaful Re contributing US$ 1.9 million (2013: US$ 2.1 million).

The persisting difference in the performance between the companies is viewed by us with deep concern. Possible strategic solutions are being considered for implementation during 2015 in order to curtail the poor performance of Takaful Re.

THE MARKET

2014 will be remembered as a year that stirred mixed emotions with many. The digital revolution marched on and we are told that manufacturers are only five years away from mass-producing self-driving cars. Stem cell research is opening new cures for mankind, while a new generation of watches will watch over your health while staying in touch with a medical support network. While we seem to be advancing on technologies that guard over the well-being of the individual, less can be said about the ability of humans to resolve threats on a wider scale: intensifying regional conflicts in the Ukraine, Iraq and Syria, the resurgence of Ebola and a recent peak in aviation losses made world-wide headlines as did a slump in the economies of the Emerging Markets, new fears over the Euro zone and a dramatic decline in the price of crude oil. As individuals, we draw some relief from the progress made in research. But as shareholders in a reinsurer, we are predominantly concerned with the condition of our markets where economic, political, sociological and, increasingly, technological risks are determining our opportunities and our fortunes.

To illustrate the point, allow us to make a comparison between the state of the oil market and the condition of the reinsurance industry today.

- Supply and Demand
  Oil: for many years we believed that the world's demand for oil was insatiable and that in the long run, capacities would be outstripped by demand. However, prices for crude have dropped by over 50% since mid-2014, signalling that available supplies have outgrown buyer's demand.
  Reinsurance: quite similarly, a growing, more affluent population was assumed to drive economic growth world-wide that should result in an ever increasing demand for insurance and reinsurance capacities. However, after three years with below-average loss experience and an abundance of new capital entering into the industry, the available reinsurance capacity seems to have outgrown its customers' appetite.

- Technology
  Oil: rising oil prices eventually encouraged the application of technologies to either reduce the dependency on oil imports, or replace fossil fuels as a source of energy altogether. The U.S., being the world's largest economy, reduced oil imports by 35% over the last ten years and is expected to become a net producer. Germany, Europe's leading economy, has made renewable sources its #1 energy producer and is aiming for their 60% share of total. Bottom line: technology is taking a sizeable bite out of world oil demand, increasing downward pressure on prices.
  Reinsurance: the growing ability to model risks and to structure risk management has lead markets to greater confidence in managing their exposures. The

1 A ratio below 100% indicates that the company is making underwriting profit while a ratio above 100% means that it is paying out more money in claims that it is receiving from premiums.

The combined ratio is calculated as $\frac{\textit{Incurred Losses}}{\textit{Earned Premium}} + \frac{\textit{Expenses}}{\textit{Written Premium}}$

REPORT OF THE BOARD OF DIRECTORS

“Arig has managed to carve out a niche that has enabled it to write business on a solid operating platform. Focused on diversification, strong risk management skills and operational efficiency we are confident to deliver consistently positive results across the market cycle.”

Khalid Jassim Bin Kalban

Chairman

REPORT OF THE BOARD OF DIRECTORS

traditional risk transfer from customer to (re-)insurer is being superseded by a multitude of financial tools from service providers competing with each other over lucrative accounts. Today, 12% or US$ 62 billion out of an estimated US$ 575 billion of reinsurance capital are coming from outside investors[2] such as pension funds, endowments, sovereign wealth funds and asset managers. They have already taken over an estimated 40-50% of the lucrative catastrophe reinsurance segment and it is safe to say that "the influx of new capital into the reinsurance industry constitutes the largest change to the sector's capital structure in recent memory."[3] No surprise therefore that reinsurers, similar to the oil markets, have seen a constant decline in their prices and in profit margins: the Guy Carpenter Global Property Catastrophe Rate-on-Line Index fell yet again, in 2014 alone by 11% year-on-year.

- Market Dynamics
  So far, nothing has challenged market movements. For *oil producers*, general demand is down in line with a trimmed down economic projection in the global GDP of 3.3% for 2014 and 3.5% in 2015[4] . The slump in oil prices could well reflect underlying economic weakness and possibly be here to stay for some time to come. While this may spell good news for some producers, it reads trouble for those who have been depending on the sales of their natural resources. Their business model may be broken for now. *Reinsurers* may find themselves in a similar conundrum. Wedged between the demands from their shareholders and deteriorating market conditions, they will be looking for bold solutions to make better use of their capital as margins available from their bread-and-butter business keep declining. Traditional investment markets are not helping either as they are becoming increasingly volatile. Unsurprisingly, the reinsurance sector is currently on negative outlook by all major rating agencies. It seems that at least part of the business model needs to be reinvented but the question is: will shareholders be willing to support broad scale restructuring that may come with new risks attached?

In this daunting environment, opportunities for growth remain limited. At the same time we see governments turning increasingly protectionist towards an industry that is used to working globally. In Afro-Asia, China will be introducing a new regime that would sharply reduce access for foreign reinsurers to its growing market. Indonesia will be introducing yet another local reinsurer that will draw compulsory cessions from the local industry. Similarly, we are seeing more national reinsurance capacities spring up throughout our territories that will attempt to absorb simple risks that used to feed into international reinsurers' books.

Without doubt, it is a challenging market place yet also a chance to regroup and consider some changes that could take the industry and its services to the next level:

- Clearly, if reinsurers want to move out of the defensive, they need to add more value to their customer relationships by providing specialized products and services outside of the commodity segments. In that, they will either require their customers to think outside of the box, or they need to jump the queue and create their own new markets.
- Against the global industry backdrop, it will become increasingly difficult to satisfy shareholders' expectations from the proceeds of traditional reinsurance and investment options. Structured solutions, mergers & acquisitions, strategic alliances and the employment of third party capital need to be explored.
- While the reality of the digital revolution has changed lifestyles forever, insurance seems to have remained in a fetal position. The way products are designed, marketed and sold has essentially remained the same over the past 50 years whereas banks, for instance, have long since moved away from their branch based distribution and servicing system. This has not only saved cost, but also led to a completely different customer experience.

There is room for improvement on many fronts. Similar to what a dramatically reduced price of oil may signal to us, many of the past benefits may no longer be available in the future. It is time to roll up our sleeves and revisit the way we go about our businesses. This is not the time to be complacent resting on past laurels.

ARIG'S POSITION

Similar to the rest of the industry, Arig experienced mixed fortunes across its Group portfolio in 2014. Spared of large-scale catastrophe losses, there were a number of mid-size claims that affected the economics of our individual business segments. Strict risk selection in our acceptances has kept Arig from riding the market to its bottom, which clearly has yet to be reached. Yet we remain exposed to the pricing pressures of our markets, to local jurisdiction finding its own particular ways when disputes over claims occur, and the effects of political and military intervention, which have stopped us from writing business in markets that used to return healthy margins. Still, the Group managed to produce a respectable result under the difficult circumstances.

2 Aon Benfield: Reinsurance Market Outlook, January 2015

3 Guy Carpenter: Capital Markets Report, September 2014

4 IMF World Economic Outlook, January 2015

REPORT OF THE BOARD OF DIRECTORS

Owing to Arig's widely diversified book of business, different segments of our portfolio could be employed to balance any under-performance of others. Our Specialty book, which includes Engineering, Casualty, Motor Extended Warranties, Marine and Energy lines, continued to perform strongly even if its largest class, construction, was affected by some sizeable losses. Facultative Property business remained profitable as did niche and run-off business from earlier years.

The Treaty block, which includes delegated underwriting arrangements with clients, performed strongly in the Middle East and Turkey, and poorly on the Indian Sub-continent while results from the Far East and Africa largely broke even. Our partnerships in the Lloyd's market returned a healthy margin to testament that our venture into this very different business environment is adding real value to our book.

Equally, the results from the Personal Lines of Life and Medical continued to thrive while we continue to enhance the products and services our team is capable of offering to our clients.

Unfortunately the Re-Takaful sector continued to disappoint. After restructuring the portfolio that is exclusively written from insurers operating on Islamic principles, following the introduction of new management and subsequent to analyzing our peers' fortunes in the Takaful marketplace we see limited chances for our subsidiary to achieve economical mass and to become profitable in the foreseeable future, unless its current business model is reformed.

All in all, we have reached most of our targets in 2014 even if the result from the company's underwriting and investment activities is reflective of the industry's compressed earnings margins. Nevertheless, the Board is pleased to propose a dividend of 5% that remains subject to approval of the Central Bank of Bahrain.

OUTLOOK

For the current year, the general expectation is that "Declining rates, broader terms and conditions, an unsustainable flow of net favorable loss reserve development, low investment yields and continued pressure from convergence capital are all negative factors that will adversely impact risk-adjusted returns over the longer term."[5] A.M. Best, our rating agency, further believes that "Given where rate adequacy is, it will continue to take optimal conditions – including benign or near-benign catastrophe years, a continued flow of net favorable loss reserve development and stable financial markets – to produce even low double digit returns. Such return measures would have been considered average or perhaps mediocre just a few years ago."[6]

There is little to add to these global statements, other than perhaps the fact that obviously we cannot expect catastrophe experience or financial markets to remain stable at ideal levels. Insurance is about managing volatility so naturally we will see results fluctuate. Using some degree of caution and realism, we would expect ROE figures of between 7-10% to apply globally. This goes hand-in-hand with a world economic outlook that reflects a reduction from previous highs. It includes the Emerging Markets and the GCC. While prices for crude oil around US$ 50 per barrel will spell good news to manufacturing economies, they could have a mid-term impact on the oil producers. At this time, we would not expect major market corrections for the GCC members just yet as the need for infrastructure investments remains unabated and the development of the Personal Lines segment largely under-exploited. But it just has become even more difficult to generate profitable growth from a market that is already experiencing extreme pricing pressure.

Arig has worked within a free market since the day of its inception 34 years ago. We welcome competition provided all is done on a level playing field. In practice, this is not always the case especially in some Emerging Markets where we see some governments are using a stronger hand. Yet, between the global leaders who are driving the reinsurance industry and many regional contenders, Arig has managed to carve out a niche that has enabled it to write business on a solid operating platform. Focused on diversification, strong risk management skills and operational efficiency, we are confident to deliver consistently positive results across the market cycle. We expect industry results to remain under pressure as there is little doubt that the market is currently at a low due to an imbalance between supply and demand. Yet, we would like shareholders to know that their capital is in good hands. The Board of Directors and the Management of Arig are doing their very best to ensure continuous returns on the company's capital.

5 Best's Briefing by A.M. Best, January 5, 2015

6 ditto

REPORT OF THE BOARD OF DIRECTORS

ACKNOWLEDGEMENTS

The Board takes this opportunity to express its gratitude to His Majesty the King, His Royal Highness the Prime Minister and His Royal Highness the Crown Prince for their wise leadership and encouragement for the insurance sector of the Kingdom of Bahrain. The Directors further extend their thanks to our business partners, clients, shareholders and regulators for their support and cooperation throughout the year. The Directors also thank the management and the staff of the Arig Group for their commitment, professionalism and sincere efforts.

On behalf of the Board of Directors

Khalid Jassim Bin Kalban
Chairman
12 February 2015

FINANCIAL HIGHLIGHTS

KEY FIGURES

(US$ million)	**2014**	2013	2012	2011*	2010*
Gross premiums written	315.3	262.0	276.5	247.5	239.5
Net earned premiums	256.4	237.7	254.7	222.9	222.3
Net profit (loss)	15.6	18.6	17.6	(19.1)	20.8
Investment assets	721.0	642.2	667.6	652.8	646.9
Total assets	1,104.3	1,056.6	1,046.1	1,022.1	1,038.4
Net technical provisions	635.6	619.6	612.1	564.8	569.4
Shareholders' equity	264.5	249.2	235.2	222.4	260.1

* Figures 2010 & 2011 are excluding Takaful Participants' Fund accounts

PERCENTAGE OF SHAREHOLDING

UAE Government	31.63%
Libya Government	14.45%
Kuwait Government	9.10%
Bahrain Government	1.28%
UAE Private	15.37%
Kuwait Private	9.38%
Other Private	18.79%

As of 31 December 2014

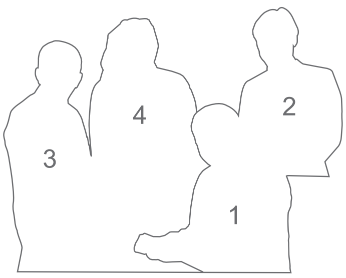
GENERAL MANAGEMENT

1. **Yassir Albaharna**
   Chief Executive Officer

2. **Andreas Weidlich**
   General Manager - Reinsurance

3. **Nagarajan Kannan**
   General Manager - Finance & Administration

4. **Salah Al Maraj**
   Assistant General Manager - Reinsurance



OPERATING AND FINANCIAL REVIEW

OPERATING AND FINANCIAL REVIEW

"Despite the truly demanding industry environment, Arig remains confident that we are well equipped to deal with the challenges at hand. Reinsurance and investment portfolios are sufficiently diversified and risk management is vigilant."

Yassir Albaharna

Chief Executive Officer

OPERATING AND FINANCIAL REVIEW

REINSURANCE

2014 was the third year in sequence during which catastrophe related claims remained below their historical averages. Unsurprisingly, this extended and partially reinforced the trends observed earlier. Insurers and reinsurers expanded their capital bases further while looking to deploy their growing pool of risk capacities. At the same time, financial market investors continued to feel attracted towards Insurance Linked Securities (ILS), cat bonds and similar instruments, which have performed well in the absence of large catastrophe claims. With abundant capital at hand, reinsurers found it difficult to grow their revenues while terms and conditions continued to slide.

The market's response has been twofold: reinsurers with larger portfolios tended to apply increasingly selective underwriting. Additionally, capital was managed more dynamically and returned to investors when it could no longer be employed on sound economics. At the same time we witnessed a growing number of mergers and acquisitions as deep pockets fuelled the ability to buy over some of the competition and adding diversity to the risk portfolio.

For smaller or strictly regional underwriters, risk avoidance is not always an option especially if their market position is weak. Small portfolios can only tolerate a limited amount of selectivity before turning irrelevant. Regional diversification and strategic partnerships have therefore become the cycle strategies of choice while premium growth from the Emerging Markets has slowed.

At the same time the effects of increasing regulation and political upheavals in certain territories have been mounting. Taking a cue from past experience and the Solvency II development within the European Union, supervisory authorities in our region have been increasingly engaging in securing risk based capital levels, in actuarial assessment of reserving while looking into pricing practices and the risk exposures incurred through investments in volatile asset classes. Equally, the organizational separation of Non-life from Life portfolios continues to be a growing trend. Even if this translates into additional expenditure for insurers and reinsurers operating in the region, it should eventually assist in leading the industry away from acting like fund managers to becoming seasoned managers of risk who understand how to derive profitability from their core business and sharing an interest in developing it.

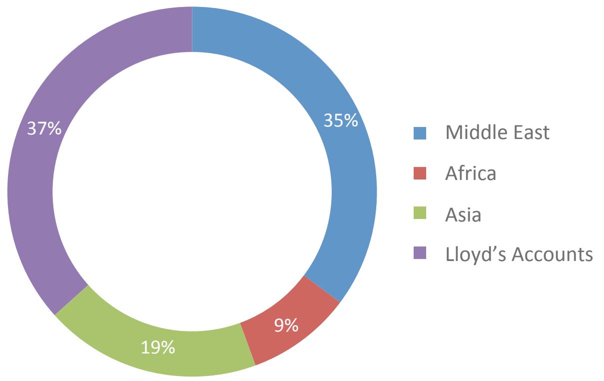
As we welcome growing regulatory consolidation as a positive trend, we remain concerned with the level of political instability in our region which is cutting into its economic potential. Premiums written from Iran, Iraq, Syria, Sudan, Libya or Russia have either reduced or dried up completely as a result of war-like activities or international sanctions. After the situation in Libya deteriorated further, Arig decided to close its Representative Office in Tripoli.

BUSINESS REVIEW

Portfolio development

Selective underwriting of risk without eroding our premium base has been one of Arig's key objectives for a number of years. A general decline in organic growth from the MENA region as a late effect of the 2008 financial crisis has meant that we needed to develop our overseas book of business. Subsequently we established a representation in the Sub-Sahara Africa region and also started building a sizeable presence in the Lloyd's market. Eventually Arig Capital Ltd. (ACL) was founded, Arig's corporate member at Lloyd's, which has since become a leading source of business for the company.

Territorial split by premium income



Please note that US$ 27.8 million of the Lloyd's premium were retroceded to a Lloyd's syndicate as part of a pre-agreed internal restructure.

Certain classes written in our regional markets continue to suffer from under-performance. As placements mostly happen in the form of multi-line bouquets, Arig preferred to walk away from loss making portfolios. Yet single-digit premium reductions from our Emerging Markets were over-compensated by year-on-year growth in our Lloyd's participations.

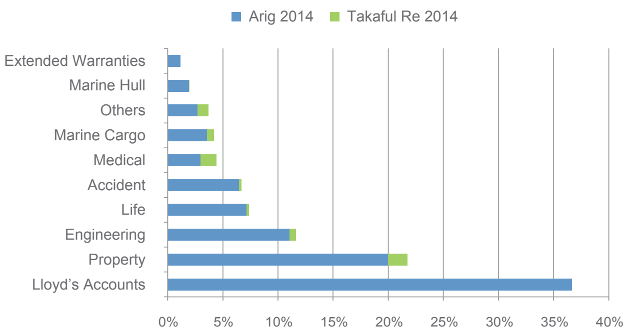
Combined, the Group's GWP increased by 20% but trends differed between Arig and its subsidiary Takaful Re. Whereas Arig's conventional reinsurance book grew 23% year-on-year, Takaful Re's gross premiums reduced by 14%. Together the Group's GWP reached US$ 315.3 million (2013: US$ 262 million) with Arig contributing 94% of the total or US$ 296.9 million and Takaful Re 6% or US$ 18.4 million.

The Group retained 82% of its portfolio or US$ 260.4 million (NWP 2013: US$ 246.3 million) as net written premiums grew by 6%.

OPERATING AND FINANCIAL REVIEW

Despite all measures taken previously, the Re-Takaful business segment continued to disappoint. Hence the Group reduced premiums further thereby de-risking its book. Yet it became clear that the problems are systemic and a more profound solution needs to be introduced. Related discussions are under way and have reached a progressed state.

Individual line contributions to Group's premium income



Reflecting the common structure of reinsurance in developing markets, Property represents the largest single class followed by construction (Engineering) business. The share of our (multi-line) Lloyd's interest in 2014 was inflated by a temporary retrocession agreement. On a net written basis, all Lloyd's business would account for 27% of total premiums.

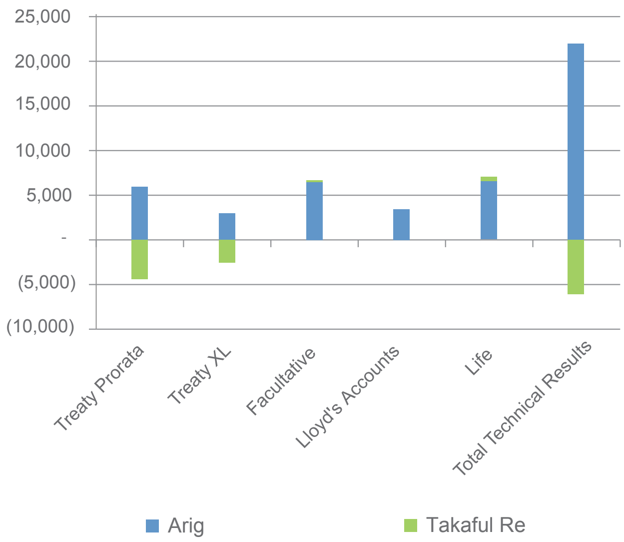
Performance

Insured catastrophe losses of US$ 31 billion in 2014 remained well below their rolling ten-year average of US$ 58 billion[1]. Equally, Arig's reinsurance portfolio was hardly affected by losses from natural perils. Yet we did see a slightly elevated frequency of mid-size risk losses from the MENA region that should still be regarded as normal within long-year trends.

The Group's overall loss ratio increased by 3.7 points to 66.8% over the reporting period (2013: 63.1%); Takaful Re's loss ratio rose 16.4 points to 105.9% (2013: 89.5%) while Arig's larger conventional portfolio produced an increase of 3.5 points to 63.4% (2013: 59.9%).

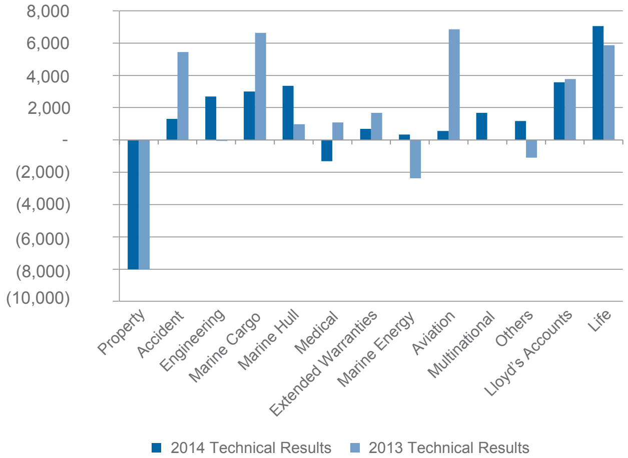
Property treaties continued to underperform yet they tend to be placed in conjunction with other, more profitable facilities by our regional clients. Overall, treaties produced a small profit for the year while the facultative book showed strong overall performance. The same holds true for our Life portfolio, which was additionally benefitting from strong reserving positions previously set up for long-term accounts.

Technical Results by source (in US$ 000)



Life and Lloyd's businesses continued to generate the highest Technical Results[2] relative to premiums in 2014. Following a shift to predominantly short-term Life portfolio, profits have increased further over and above the high level achieved in 2013. The poor returns from Property treaties continued to be the concession expected from reinsurers wanting to write business in the region, while the loss in Medical was driven by the run-off experience from one particular Re-Takaful account.

Group Technical Results by line (in US$ 000)



All in all, we are reasonably satisfied with Arig's performance in a highly challenging environment. Yet we are motivated knowing that even a difficult market holds promise for those who have the skills and innovative spirit to exploit it.

1 *Munich Re press release, January 2015*

2 *Technical results: returns from reinsurance operations before consideration of investment income and operating expenses*

OPERATING AND FINANCIAL REVIEW

Risk Capital Position

As has been the company's practice, we commissioned independent external actuaries to provide an updated estimate for the amount of capital needed to cater for risk events throughout the Group's operations at a 1:200 level, or with a 0.5% probability. At this return period, Arig's Economic Capital compares favorably against the Group's shareholders equity, demonstrating that the Group is offering substantial financial security to its customers even in a stressed model scenario.

The consolidation of Takaful Re under Arig's risk pool was moderated by the fact that our subsidiary does not share accounts in Arig's peak risk territories where natural catastrophes tend to drive capital requirements. Any existing correlation is limited to selected regional Property markets, which commonly share a low exposure to natural catastrophes.

Arig's book, which represents 94% of the Group's portfolio, has seen limited changes over the position one year ago. Following a thorough review by independent external actuaries, reserve risk has seen a notable reduction while market risk increased moderately. All movements combined resulted in a marginal decrease in the Group's Economic Capital requirement.

Key drivers for the Group's risk capital are underwriting risk, and to a lesser extent reserve risk, followed by market risk, operational risk and credit risk.

As it was endorsed through our actuarial analyses, we are comfortable that the diversity and the quality of the Group's portfolio provide solid protection to Arig's reinsured clients and shareholders' capital alike.

Outlook

The insurance and reinsurance industry continues to be challenged by lower demand and over-capacities in the sector as another benign loss year and capital market investors' interest have helped to amass risk capital to a historical high. We expect risk pricing to stay under pressure even if there appears to be less leeway for catastrophe pricing to go much lower before outside capital investors start losing interest.

Equally, insurers' investments need to perform a balancing act between the protection of their principal and generating a meaningful return on capital above inflation rates. Markets stay volatile and could correct at the slightest notion, hence proper risk management must be in place even if it comes at the expense of some earnings. We would therefore expect most insurers and reinsurers to rely on solid returns from their underwriting activities rather than building up additional risk positions from potentially volatile asset classes.

Despite the truly demanding industry environment, Arig remains confident that we are well equipped to deal with the challenges at hand. Reinsurance and investment portfolios are sufficiently diversified and risk management is vigilant. The company's reserving position is strong and able to deal with surprises. While our business model may not deliver the spectacular results of a riskier portfolio in a good year, we also avoided having to replace capital that could be lost in a bad year.

Markets are likely to show limited opportunities for profitable growth in 2015, yet we believe that by fine-tuning our operational platform further, the Group can realize its potential for solid returns throughout the business cycle.

INVESTMENTS

2014 was a year in which returns across asset classes was contrary to expectations. The benchmark 10-year US Treasury Note declined 86 basis points in yield to close at 2.17%. An accommodative monetary policy by the ECB resulted in yields of European sovereign paper, including that of troubled economies such as Spain and Italy, declining below US Treasuries of similar maturities. Short term interest rates for all major currencies remained virtually unchanged. The increase in interest rates anticipated in 2014, did not materialize. The biggest surprise was the development of crude oil prices. Spot Brent closed 50% lower from its peak of US$ 115 in June. This price action precipitated a sharp sell-off in regional equity markets, especially during the last quarter.

The performance of equity indices was mixed. There was no broad-based global rally. The development of the Morgan Stanley World Equity Index was unimpressive. The US market was stronger, reflecting in part the improved outlook for the economy. US equity indices scaled all-time highs. In our region, the pan-GCC equity index closed flat for the year.

There was a move to the relative safety of the US Dollar with the trade-weighted index increasing 12.8%. A strong Dollar and a stagnating global economy pushed demand for commodities lower. The broad commodity index lost substantial ground.

In line with the risk tolerance of the Group, our investment strategy remained unaltered. We continued to be conservative in our allocation. Most of the investment portfolio was deployed in less risky assets. At the year-end, the Group's investments stood at US $ 721.0 million (2013: US $ 642.2 million) with 87% allocated to cash, short term securities and bonds. Income generated in 2014 was US $ 20.5 million (2013: US $ 20.4 million).

Looking ahead, major issues remain. The European & Japanese economies face twin challenges of deflation and

OPERATING AND FINANCIAL REVIEW

slowing growth. Carefully calibrated fiscal and monetary strategies are required to infuse confidence and growth into these major economic blocs. The US economy is consolidating as is documented by lower unemployment and better than anticipated economic growth. The easy money program of the Federal Reserve will probably be unwound in 2015. It will be important for the stability of the markets that the agency clearly articulates its opinions and proposed actions. Bouts of volatility in asset prices continue to be a strong possibility. The prevailing low rates of interest challenge larger parts of the world economy, including predominantly short duration investors like Arig.

The company will continue to manage a diversified low-risk portfolio within the Group's investment risk appetite, carefully balancing market opportunities against our standing obligation to policyholders and shareholders. We continue to be at a low point in the investment cycle especially in terms of interest rates. Preservation and safety of capital at this stage is paramount to exploiting opportunities as they arise.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary reported a net loss of US$ 9.1 million (2013: net loss of US$ 8.1 million) due to adverse claim developments during the year. Arig's accounted share in the annual loss was US$ 4.9 million (2013: loss of US$ 4.4 million).

Gross underwriting contributions reduced by 14% to US$ 18.4 million (2013: US$ 21.5 million) as Takaful Re continued to de-risk its portfolio. Property, which represents 30% of total income, remained the largest class with contributions of US$ 5.6 million (2013: US$ 7.0 million). Other sizeable lines written were Medical and Auto, representing 24% (2013: 3%) and 15% (2013: 17%) of total contributions respectively.

Takaful Re's investments yielded an average return of 1.6% with investment earnings of US$ 1.9 million (2013: US$ 2.1 million). The company followed a conservative investment strategy maintaining a high degree of liquidity. About 49% of the US$ 111.5 million (2013: US$ 118.2 million) of invested assets were held in cash and short-term Islamic deposits.

Gulf Warranties (GW)

Gulf Warranties continued its turnaround recording a nominal profit of US$ 0.03 million for the year (2013: net loss US$ 0.2 million). Sustained marketing efforts saw motor warranty revenues grow by 53% to US$ 2.3 million (2013: US$ 1.5 million) while non-warranty income increased marginally to US$ 0.9 million (2013: US$ 0.8 million) for the year.

Arig Capital Limited (ACL)

ACL is a fully owned corporate member at Lloyd's of London that enables Arig to share in business written by Lloyd's syndicates. In 2014, ACL wrote business through four syndicates generating gross written premium of US$ 129 million (2013: US$ 47.1 million). ACL retains limited risk for its net account and cedes most of its business to Arig. In the absence of any major claims, ACL recorded a small profit of US$ 0.2 million for the year (2013: net loss US$ 0.2 million).

ARAB INSURANCE MARKET REVIEW

As a service to the industry,
Arig is pleased to present general information
collated from the Arab insurance markets

ARAB INSURANCE MARKET REVIEW

Gross premium by class and country - 2009 to 2013 in US$ million

				Non-Life					Life	
Country	Year	Exchange Rate	Total GPI	Motor	Property & Misc. Accident	Marine & Aviation	Total Non-Life	% of GPI	Total	% of GPI
Algeria	2009	72.6474	1,064.6	487.7	413.1	84.1	984.9	92.5%	79.7	7.5%
	2010	74.3860	1,098.6	542.2	373.8	81.3	997.3	90.8%	101.3	9.2%
	2011	72.9379	1,188.4	602.7	415.1	77.9	1095.7	92.2%	92.7	7.8%
	2012	77.5360	1,240.3	674.0	445.3	68.1	1187.4	95.7%	52.9	4.3%
	2013	80.3520	1,428.7	769.5	488.8	72.4	1330.7	93.1%	98.0	6.9%
Bahrain	2009	0.3769	532.2	151.3	207.9	20.9	380.1	71.4%	152.1	28.6%
	2010	0.3769	559.2	152.9	248.4	21.3	422.6	75.6%	136.6	24.4%
	2011	0.3769	546.1	147.9	249.4	18.8	416.1	76.2%	130.0	23.8%
	2012	0.3769	634.0	164.5	291.3	18.6	474.4	74.8%	159.6	25.2%
	2013	0.3769	579.3	181.0	214.6	16.7	412.3	71.2%	167.0	28.8%
Egypt(1)	2009	5.4578	1,567.1	285.9	356.5	225.2	867.6	55.4%	699.5	44.6%
	2010	5.5700	1,612.8	319.7	304.6	222.2	846.5	52.5%	766.3	47.5%
	2011	5.6219	1,678.8	345.7	387.2	220.3	953.2	56.8%	725.6	43.2%
	2012	6.0561	1,770.5	330.8	434.4	240.2	1005.4	56.8%	765.1	43.2%
	2013	6.8886	1,812.1	308.9	461.7	241.5	1012.1	55.9%	800.0	44.1%
Jordan	2009	0.7080	527.6	220.5	221.1	36.6	478.2	90.6%	49.4	9.4%
	2010	0.7080	589.3	257.7	241.5	36.2	535.4	90.9%	53.9	9.1%
	2011	0.7080	598.3	256.6	240.9	43.3	540.8	90.4%	57.5	9.6%
	2012	0.7080	679.7	273.3	300.8	42.7	616.8	90.7%	62.9	9.3%
	2013	0.7090	692.2	282.2	303.2	39.9	625.3	90.3%	66.9	9.7%
Kuwait	2009	0.2851	568.9	184.1	187.8	67.9	439.8	77.3%	129.1	22.7%
	2010	0.2806	627.4	198.3	232.1	61.7	492.1	78.4%	135.3	21.6%
	2011	0.2760	698.2	244.4	228.8	72.1	545.3	78.1%	152.9	21.9%
	2012	0.2816	763.7	269.7	256.8	64.7	591.2	77.4%	172.5	22.6%
	2013	0.2838	952.0	n/a	n/a	n/a	770.0	80.9%	182.0	19.1%
Lebanon	2009	1,507.5000	1,022.8	283.5	414.8	27.6	725.9	71.0%	296.9	29.0%
	2010	1,504.5000	1,168.6	201.5	643.0	33.5	878.0	75.1%	290.6	24.9%
	2011	1,504.0000	1,261.1	202.7	680.4	35.0	918.1	72.8%	343.0	27.2%
	2012	1,504.0000	1,294.9	323.7	559.4	35.0	918.1	70.9%	376.8	29.1%
	2013	1,505.0000	1,389.2	327.0	618.4	41.0	986.4	71.0%	402.8	29.0%
Libya(3)	2009	1.2034	309.3	69.4	198.5	36.5	304.4	98.4%	4.9	1.6%
	2010	1.1898	325.8	76.8	198.5	44.9	320.2	98.3%	5.6	1.7%
	2011	1.2251	140.7	24.2	95.9	15.1	135.2	96.1%	5.5	3.9%
	2012	1.2251	273.9	47.4	187.0	33.3	267.7	97.7%	6.2	2.3%
	2013	1.2515	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mauritania(4)	2009	262.0000	16.4	5.6	6.1	3.7	15.4	93.9%	1.0	6.1%
	2010	279.0000	n/a	n/a	n/a	n/a	12.0	n/a	n/a	n/a
	2011	288.0800	n/a	n/a	n/a	n/a	12.2	n/a	n/a	n/a
	2012	288.0800	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2013	288.0800	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Morocco	2009	7.6145	2,588.0	818.4	857.1	87.9	1763.4	68.1%	824.6	31.9%
	2010	8.2013	2,592.6	846.2	873.7	84.5	1804.4	69.6%	788.2	30.4%
	2011	8.2013	2,920.4	931.0	953.5	90.2	1974.7	67.6%	945.7	32.4%
	2012	8.2471	3,162.3	972.5	1096.5	76.2	2,145.2	67.8%	1,017.1	32.2%
	2013	8.4055	3,164.8	1,010.9	1062.1	69.9	2,142.8	67.7%	1,022.0	32.3%
Oman	2009	0.3852	644.7	270.0	229.7	38.7	538.4	83.5%	106.3	16.5%
	2010	0.3852	617.7	262.4	211.6	38.8	512.8	83.0%	104.9	17.0%
	2011	0.3850	733.0	313.2	252.5	46.3	612.0	83.5%	121.0	16.5%
	2012	0.3845	738.6	353.1	248.5	31.7	633.3	85.7%	105.3	14.3%
	2013	0.3850	774.5	383.4	265.3	37.8	686.5	85.7%	88.0	11.4%

(1) Egypt: Financial Year end as at 30 June (2) Sudan: Sudan's currency changed from the Sudanese dinar (SDD) to the new Sudanese Pound (SDG) introduced in January 2007. (3) Libya: Property & Miscellaneous Accident includes Energy (4) Mauritania: 2009 premium figures are estimate (5) Qatar: Life premium figures are estimate (6) Saudi Arabia: Property & Miscellaneous Accident includes Energy.

ARAB INSURANCE MARKET REVIEW

Gross premium by class and country - 2009 to 2013 in US$ million

				Non-Life					Life	
Country	Year	Exchange Rate	Total GPI	Motor	Property & Misc. Accident	Marine & Aviation	Total Non-Life	% of GPI	Total	% of GPI
Palestine	2009	3.5880	72.8	60.6	11.1	0.3	72.0	98.9%	0.8	1.1%
	2010	3.5880	125.8	74.8	46.2	1.3	122.3	97.2%	3.4	2.7%
	2011	3.5880	146.0	91.8	49.4	1.5	142.7	94.8%	3.3	2.2%
	2012	3.5880	144.4	87.9	51.2	1.7	140.9	97.5%	3.6	2.5%
	2013	3.5880	158.7	92.5	60.6	1.8	154.9	97.6%	3.8	2.4%
Qatar(5)	2009	3.6405	781.6	158.9	507.7	106.4	773.0	98.9%	8.6	1.1%
	2010	3.6408	929.0	181.0	634.7	98.6	914.3	98.4%	14.7	1.6%
	2011	3.6408	1,154.6	212.1	817.0	114.2	1,143.3	99.0%	11.3	1.0%
	2012	3.6408	1,114.6	85.9	862.8	149.3	1,098.0	98.5%	16.6	1.5%
	2013	3.6409	1,471.0	n/a	n/a	n/a	1,407.0	95.6%	64.0	4.4%
Saudi Arabia(6)	2009	3.7502	3,896.0	814.7	2,546.9	266.9	3,628.5	93.1%	267.5	6.9%
	2010	3.7500	4,370.1	863.7	2,940.0	307.1	4,110.8	94.1%	259.3	5.9%
	2011	3.7500	4,934.4	1,045.9	3,309.2	337.9	4,693.0	95.1%	241.4	4.9%
	2012	3.7503	5,645.8	1,234.9	3,958.0	216.0	5,408.9	95.8%	236.9	4.2%
	2013	3.7500	6,730.5	1,694.6	4,453.3	357.4	6,505.3	96.7%	225.2	3.3%
Sudan(2)	2009	2.3198	285.8	129.9	94.0	47.1	271.0	94.8%	14.8	5.2%
	2010	2.3725	294.1	144.6	73.2	59.0	276.8	94.1%	17.3	5.9%
	2011	2.6769	289.1	124.6	98.8	50.8	274.2	94.8%	14.9	5.2%
	2012	2.6769	337.2	145.9	118.0	59.0	322.9	95.8%	14.3	4.2%
	2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Syria	2009	50.0000	318.5	223.3	54.9	34.7	312.9	98.2%	5.6	1.8%
	2010	50.0000	329.5	221.0	73.5	29.3	323.8	98.3%	5.7	1.7%
	2011	50.0000	280.9	173.7	67.2	34.5	275.4	98.0%	5.5	2.0%
	2012	69.7000	150.6	94.9	39.4	13.3	147.6	98.0%	3.0	2.0%
	2013	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tunisia	2009	1.2824	800.3	370.7	273.9	50.7	695.3	86.9%	105.0	13.1%
	2010	1.4122	774.9	361.4	247.5	52.9	661.8	85.4%	113.1	14.6%
	2011	1.4078	900.7	382.4	250.4	52.2	685.0	76.1%	215.7	23.9%
	2012	1.5619	846.2	358.9	298.6	49.7	707.2	83.6%	139.0	16.4%
	2013	1.6247	986.8	386.5	338.0	44.6	769.1	77.9%	217.7	22.1%
U.A.E.	2009	3.6731	5,455.5	1,106.0	2,907.4	551.2	4,564.6	83.7%	890.9	16.3%
	2010	3.6728	6,003.7	1,230.8	3,065.6	609.4	4,905.8	81.7%	1097.9	18.3%
	2011	3.6725	6,513.8	1,121.2	3,479.6	635.2	5,236.0	80.4%	1277.8	19.6%
	2012	3.6728	7,154.6	1,091.0	3,808.9	632.1	5,532.0	77.3%	1622.6	22.7%
	2013	3.6725	8,036.8	1,226.9	4,426.6	465.8	6,119.3	76.1%	1,917.4	23.9%
Yemen	2009	206.3000	74.6	20.1	36.2	13.5	69.8	93.6%	4.8	6.4%
	2010	213.9000	84.0	22.7	40.0	14.4	77.1	91.8%	6.9	8.2%
	2011	213.8000	80.6	18.3	42.6	12.5	73.4	91.1%	7.2	8.9%
	2012	214.3508	85.5	17.8	45.6	14.0	77.4	90.5%	8.1	9.5%
	2013	214.8900	82.7	19.0	39.5	15.1	73.6	89.0%	9.1	11.0%
The premium figures are in local currency for Iraq only										
Iraq	2009		67,037.5	12,455.8	27,014.1	11,012.0	50,482.0	75.3%	16,555.5	24.7%
	2010		160,056.0	14,976.0	85,059.0	20,007.0	120,042.0	75.0%	40,014	25.0%
	2011		288,171.0	29,952.0	170,001.0	40,014.0	239,967.0	83.3%	48,204	16.7%
	2012		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2013		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Definition of gross premium income: This report is based on gross premium income, which includes direct and reinsurance inward premiums received in the year, net of cancellations but before deduction of commissions or reinsurance premiums ceded.

Portfolio split includes four main lines of business:

- Motor: Two main lines: Third Party and Comprehensive (in some cases, the classes under Motor were not available).
- Property & Miscellaneous Accident: Fire, Engineering, General Accident, Personal Accident, Workmen's Compensation, Medical, Public Liability, etc.
- Marine & Aviation: Aviation, Marine Cargo, Marine Hull and Inland Cargo.
- Life: Individual Life and Group Life.

Insurance and economic data sources: Insurance data for each country is sourced primarily from supervisory authorities, insurance associations and individual companies. Key economic data is extracted from public sources, including reports and documents from the World Bank. Premiums are converted into US dollars using official IMF exchange rates as of 31st December of respective year.

ARAB INSURANCE MARKET REVIEW

Key economic & demographic indicators - 2009 to 2013

Country	Year	Exchange Rate	Total GPI in US$ million	Premium per capita US$	GDP per capita US$	Premium as % of GDP	Population in million	GDP in US$ million
Algeria	2009	72.6474	1,064.6	30.50	4,642	0.7%	34.90	162,000
	2010	74.3860	1,098.6	31.03	4,322	0.7%	35.40	153,000
	2011	72.9379	1,188.4	33.01	4,917	0.7%	36.00	177,000
	2012	77.5360	1,240.3	33.98	5,096	0.7%	36.50	186,000
	2013	80.3520	1,428.7	38.61	5,681	0.7%	37.00	210,183
Bahrain	2009	0.3769	532.2	665.25	27,500	2.4%	0.80	22,000
	2010	0.3769	559.2	466.00	18,333	2.5%	1.20	22,000
	2011	0.3769	546.1	413.71	19,697	2.1%	1.32	26,000
	2012	0.3769	634.0	480.30	20,332	2.4%	1.32	26,838
	2013	0.3769	579.3	429.13	24,444	1.8%	1.35	33,000
Egypt[(1)]	2009	5.4578	1,567.1	18.88	2,265	0.8%	83.00	188,000
	2010	5.5700	1,612.8	19.09	2,592	0.7%	84.50	219,000
	2011	5.6219	1,678.8	20.06	2,820	0.7%	83.70	236,000
	2012	6.0561	1,770.5	21.10	2,913	0.7%	83.90	244,400
	2013	6.8886	1,812.1	22.07	3,313	0.7%	82.10	271,973
Jordan	2009	0.7080	527.6	83.75	3,492	2.4%	6.30	22,000
	2010	0.7080	589.3	90.66	4,154	2.2%	6.50	27,000
	2011	0.7080	598.3	94.97	4,444	2.1%	6.30	28,000
	2012	0.7080	679.7	104.57	4,769	2.2%	6.50	31,000
	2013	0.7080	692.2	104.88	5,152	2.0%	6.60	34,000
Kuwait	2009	0.2851	568.9	196.17	51,034	0.4%	2.90	148,000
	2010	0.2806	627.4	216.34	45,862	0.5%	2.90	133,000
	2011	0.2760	698.2	240.76	57,931	0.4%	2.90	168,000
	2012	0.2816	n/a	n/a	57,931	n/a	2.90	168,000
	2013	0.2838	952.0	340.00	65,435	0.5%	2.80	183,219
Lebanon	2009	1,507.5000	1,022.8	243.52	7,381	3.3%	4.20	31,000
	2010	1,504.5000	1,168.6	271.77	9,070	3.0%	4.30	39,000
	2011	1,504.0000	1,261.1	293.28	9,767	3.0%	4.30	42,000
	2012	1,504.0000	1,294.9	301.14	10,186	3.0%	4.30	43,800
	2013	1,505.0000	1,389.2	323.07	10,314	3.1%	4.30	44,352
Libya[(3)]	2009	1.2034	309.3	49.10	13,681	0.4%	6.30	86,190
	2010	1.1898	325.8	51.31	14,016	0.4%	6.35	89,000
	2011	1.2251	140.7	21.65	12,262	0.2%	6.50	79,700
	2012	1.2251	273.9	42.14	14,108	0.3%	6.50	91,700
	2013	1.2515	n/a	n/a	11,438	n/a	6.60	75,456
Mauritania[(4)]	2009	262.0000	16.4	5.13	803	0.6%	3.20	2,569
	2010	279.0000	n/a	n/a	843	n/a	3.20	2,697
	2011	288.0800	n/a	n/a	1,192	n/a	3.44	4,100
	2012	288.0800	n/a	n/a	1,268	n/a	3.54	4,490
	2013	288.0800	n/a	n/a	1,263	n/a	3.98	5,028
Morocco	2009	7.6145	2,588.0	79.88	2,840	2.8%	32.40	92,000
	2010	8.2013	2,592.6	81.02	2,844	2.8%	32.00	91,000
	2011	8.2013	2,920.4	90.41	2,954	3.1%	32.30	95,400
	2012	8.2471	3,162.3	97.00	2,945	3.3%	32.60	96,000
	2013	8.4055	3,164.8	96.19	3,191	3.0%	32.90	105,000
Oman	2009	0.3852	644.7	217.80	17,905	1.2%	2.96	53,000
	2010	0.3852	617.7	208.68	19,257	1.1%	2.96	57,000
	2011	0.3850	733.0	244.33	24,333	1.0%	3.00	73,000
	2012	0.3845	738.6	232.26	23,899	1.0%	3.18	76,000
	2013	0.3850	774.5	267.05	27,783	1.0%	2.90	80,570

ARAB INSURANCE MARKET REVIEW

Key economic & demographic indicators - 2009 to 2013

Country	Year	Exchange Rate	Total GPI in US$ million	Premium per capita US$	GDP per capita US$	Premium as % of GDP	Population in million	GDP in US$ million
Palestine	2009	3.5880	72.8	19.68	1,505	1.3%	3.70	5,568
	2010	3.5880	125.8	30.31	1,409	2.2%	4.15	5,846
	2011	3.5880	146.0	35.01	1,549	2.3%	4.17	6,460
	2012	3.5880	144.4	34.63	1,630	2.1%	4.17	6,797
	2013	3.5880	158.7	35.90	1,561	2.3%	4.42	6,899
Qatar(5)	2009	3.6405	781.6	558.29	66,429	0.8%	1.40	93,000
	2010	3.6408	929.0	619.33	79,333	0.8%	1.50	119,000
	2011	3.6408	1,154.6	641.44	96,111	0.7%	1.80	173,000
	2012	3.6408	1,114.6	586.63	108,947	0.5%	1.90	207,000
	2013	3.6409	1,471.0	700.48	96,405	0.7%	2.10	202,450
Saudi Arabia(6)	2009	3.7502	3,896.0	151.60	20,700	0.7%	25.70	532,000
	2010	3.7500	4,370.1	166.80	20,668	0.8%	26.20	541,500
	2011	3.7500	4,934.4	176.23	21,321	0.8%	28.00	597,000
	2012	3.7503	5,645.8	196.72	21,254	0.9%	28.70	610,000
	2013	3.7500	6,730.5	233.70	26,181	0.9%	28.80	754,000
Sudan(2)	2009	2.3198	285.8	6.92	1,475	0.5%	41.30	60,898
	2010	2.3725	294.1	6.95	1,546	0.4%	42.30	65,400
	2011	2.6769	289.1	6.83	1,537	0.4%	42.30	65,000
	2012	2.6769	337.2	7.97	1,976	0.4%	42.30	83,600
	2013	2.6769	n/a	n/a	2,011	n/a	42.40	85,272
Syria	2009	50.0000	318.5	14.15	2,394	0.6%	22.51	53,900
	2010	50.0000	329.5	14.64	2,497	0.6%	22.51	56,200
	2011	50.0000	280.9	13.38	2,814	0.5%	21.00	59,100
	2012	69.7000	150.6	7.17	2,095	0.3%	21.00	44,000
	2013	69.7000	n/a	n/a	n/a	n/a	21.99	n/a
Tunisia	2009	1.2824	800.3	77.70	3,883	2.0%	10.30	40,000
	2010	1.4122	774.9	74.51	4,327	1.7%	10.40	45,000
	2011	1.4078	900.7	84.18	4,299	2.0%	10.70	46,000
	2012	1.5619	846.2	78.06	4,328	1.8%	10.84	46,920
	2013	1.6247	986.8	90.95	4,240	2.1%	10.85	46,000
U.A.E.	2009	3.6731	5,455.5	1,185.98	58,761	2.0%	4.60	270,300
	2010	3.6728	6,003.7	1,305.15	64,696	2.0%	4.60	297,600
	2011	3.6725	6,513.8	1,357.04	70,625	1.9%	4.80	339,000
	2012	3.6728	7,154.6	1,460.12	74,286	2.0%	4.90	364,000
	2013	3.6730	8,036.8	864.17	41,269	2.1%	9.30	383,799
Yemen	2009	206.3000	74.6	3.09	1,165	0.3%	24.13	28,100
	2010	213.9000	84.0	3.49	1,347	0.3%	24.05	32,400
	2011	213.8000	80.6	3.25	1,452	0.2%	24.80	36,000
	2012	214.3508	85.5	3.38	1,653	0.2%	25.30	41,825
	2013	214.8900	82.7	3.25	1,415	0.2%	25.41	35,955
The premium figures are in local currency for Iraq only								
Iraq	2009		67,037.5				31.47	118,000
	2010		160,056.0				32.96	115,500
	2011		288,171.0				32.96	115,500
	2012		n/a				31.86	153,000
	2013		n/a				34.76	222,879

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

Arig is committed to follow international Best Practices of Corporate Governance. We firmly believe that there is a link between strong ethical standards, good governance and the creation of shareholder value. In our communication with stakeholders and the general business community, we aim to be fully transparent through high standards of disclosure.

Bahrain Corporate Governance Code

The company follows the Bahrain Corporate Governance Code ("Code"). This Corporate Governance Report is also included as a separate item as part of agenda for the Annual General Meeting.

Framework

The company, through its Board of Directors, maintains a governance framework in all areas of its operations, which includes formalized policies, procedures, guidelines and relevant management reporting requirements. Arig's governance practices are reviewed on a regular basis and amended from time to time.

The Board of Directors

The members of the Board are elected and can be terminated by the shareholders of the company in accordance with the provisions under the Articles of Association. The Board holds the ultimate responsibility for the overall direction, supervision and control of the company. It regularly assesses the company's financial and commercial performance and approves its business plan. The Board continuously oversees the corporate governance processes in order to ensure good standards within the company. The Board further reviews and assesses the adequacy of the management of all risks the company may be exposed to.

The current Board was elected by the shareholders at the Annual General Meeting in March 2014 for a term of three years. Formalized Board procedures enhance the professional development of the Board members and include induction training to new directors, continuous learning and self-evaluation. The names of the current directors and biographical details are set out in page 30.

Members of the Board are all non-executive and five out of nine members are independent non-executive directors. The Board formally reviews and evaluates its own performance together with the performance of the individual directors, as required by the Code.

Board Committees

While principal matters are handled by the Board, separate Committees are mandated to assist the Board in carrying out its duties in an efficient manner. The Executive Committee aids in the co-ordination, guidance and monitoring of the company's management and performance. The Audit Committee oversees financial reporting, internal controls and compliance with consideration of all applicable laws and regulations. The Nomination & Remuneration Committee is tasked to review the nomination and compensation of the Board of Directors and the members of the company's General Management. All Board Committees meet periodically to achieve their objectives and to assess their own efficiency.

Board meetings

According to the Articles of Association and local regulations, the Board is required to meet at least four times in a year. In addition to the seven meetings held in person during 2014, the Board approved first and second quarter results through circulation of a resolution.

The following table lists the number of meetings held during 2014, including Board Committees, and the individual attendance:

CORPORATE GOVERNANCE REPORT

Directors	Board meetings (7)	Executive Committee meetings (4)	Audit Committee meetings (4)	Nomination & Remuneration Committee (7)
Khalid Jassim Bin Kalban*	6	3	N	3(4)
Khalid Ali Al Bustani*(****)	5	N	N	2(3)
Dr. Fouad A A Alfalah*	6	N	4	4(4)
Sultan Ahmed Al Ghaith*	7	1(1)	N	7
Fathi M A ElHagie	7	N	3(3)	N
Mohamed Saif Al Suwaidi(***)	4(5)	2(3)	N	N
Saeed Mohamed Al Bahhar(***)	5(5)	3(3)	N	3(3)
Mohamed Saif Al Hameli(***)	5(5)	3(3)	N	N
Mohamed Ahmed Al Karbi*(***)	5(5)	N	3(3)	N
Abdulaziz Abdulla Al Zaabi*(**)	1(2)	1(1)	1(1)	N
Majed Omran Al Shamsi(**)	2(2)	1(1)	N	N
Mariam Mohamed Alameeri(**)	2(2)	N	1(1)	N
Saif Abdulrahman Al Shamsi(**)	1(2)	N	N	N

- *Figures in brackets indicate number of meetings applicable to the director*
- *N - Not member*
- ** - Independent non-executive director*
- *(**) - Stepped down on 25 March 2014*
- *(***) - Newly elected director*
- *(****) - Did not attend the minimum number of meetings as required by the Rulebook of the CBB. Based on the extraneous circumstances, the Board resolved to continue his membership and the CBB advised accordingly.*

Management

Responsibilities of the Chairman and the Chief Executive Officer are separated. The Chairman of the Board is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda, taking into account the issues relevant to the company and the concerns of all Board members.

The Chief Executive Officer (CEO) executes leadership in the day-to-day management of the company. The General Management team headed by CEO is responsible for the implementation of the Board strategies and the monitoring of its day-to-day operations. The team includes the General Manager - Reinsurance, General Manager - Finance & Administration, and Assistant General Manager – Reinsurance, as its members. The names of members of the General Management Team are set out in page 32 together with their biographical details.

Directors' and General Management compensation

The Directors' remuneration is determined in accordance with the Bahrain Commercial Companies Law and the provision under the company's Articles of Association, and is approved by the shareholders. Directors' compensation includes remuneration, allowances & reimbursement of expenses. The compensation of the General Management is determined by the Board of Directors based on the recommendations of the Nomination and Remuneration Committee, and includes salaries, allowances, reimbursement of expenses, post-employment benefits and performance related incentives. (for further information please see page 77). Details as required under the Code are held at company's premises for the availability of the shareholders.

Organizational structure

The company has put in place a detailed organizational structure (shown on page 29) to achieve the company's objectives, its strategic development and internal controls.

Management Committees

In order to assist the CEO in guiding and monitoring the functional departments within the company, a number of internal management Committees are operative. These include the areas of Reinsurance Management, Information Technology and Retrocession. Members are drawn from within the company and in accordance with their relevant areas of expertise.

CORPORATE GOVERNANCE REPORT

Succession planning

The company recognizes the value of its human resource and the significance of ensuring qualified and orderly successions. It operates a succession planning framework covering key positions within the company, and talent development programs based on periodical training needs analyses. Arig also periodically conducts a graduate development program to grow professional talent that is native to the Kingdom of Bahrain.

Key persons dealing in Arig securities

Arig has an established policy with regard to key persons dealing in Arig securities, which complies with the Bahrain Bourse guidelines issued by the Central Bank of Bahrain. During the year, the company has complied with relevant reporting and monitoring requirements as they are stipulated under these regulations.

Following are the details of Arig shares held by members of the Board, including their representatives, and members of the General Management, including their spouses, children or other persons under their control:

	Directors	General Management
Shares held at 1 January 2014	101,157,073	9,166
Add: Shares acquired during the year	200,000	-
Less: Shares transferred during the year	30,000	-
Shares held at 31 December 2014	101,327,073	9,166

Investor relations

Arig makes considerable effort to maintain active investor relations through open, fair and transparent communication. A dedicated shareholder affairs unit supervised by an investor relations officer is responsible for the timely dissemination of all relevant information to its stakeholders. The company's website (www.arig.net) provides detailed information on corporate governance, business and financial information and includes a secure portal for shareholders.

The Annual General Meeting of shareholders is held within three months of the close of the financial year in accordance with legal and regulatory requirements. Notice to the Annual General Meeting is released well in advance to shareholders, regulators and stock exchanges. Copies of the Annual Report and accounts are made available at least one week prior to the meeting ensuring that shareholders have sufficient time to prepare for the discussion of the company's performance with the Board of Directors.

Corporate social responsibility

Arig aspires to be a good corporate citizen. The company operates a corporate social responsibility program, which directs its efforts towards worthy projects and individuals in need in Bahrain.

Capital and shares

Arig's authorized capital is comprised of 500 million ordinary shares with a nominal value of US$ 1 each. The issued, subscribed and paid-up capital is US$ 220 million. Shares are held by more than 4,600 shareholders mostly throughout the GCC countries. These are tradable by people of any nationality through the stock exchanges where Arig is listed: the Bahrain Bourse and the Dubai Financial Market. Furthermore, Global Depositary Receipts, each equivalent to 10 ordinary shares, are registered on the London Stock Exchange. Further shareholding information is given on page no. 63 of this Annual Report.

Compliance

The company has a separate compliance unit headed by a Compliance Officer. This unit ensures that Arig meets all regulatory requirements stipulated by the Central Bank of Bahrain, the Bahrain Ministry of Industry and Commerce, and the authorities regulating the Branch Offices in Singapore and Labuan. It also makes sure that the company is in compliance with all rules and regulations of the stock exchanges where Arig is listed. There were no penalties incurred during the year 2014.

Internal control

The Board is holding the ultimate responsibility for the functioning of all internal controls within the company. A network of policies, guidelines, procedures, authorization levels and performance monitoring is operative in all areas of the company's operations, including periodical reviews and updates, where appropriate. All significant authority limits for underwriting, claims and other operational areas are reviewed and approved by the Board. In daily operations, the CEO safeguards the application of all control mechanisms. He further ensures that a positive control environment is maintained through ethical corporate behaviour and personal integrity. He provides leadership and direction to General Management and reviews the way the business is controlled. All transactions with related parties are conducted at arm's length.

On behalf of the Board, the Audit Committee periodically reviews the application of the company's internal control framework and the assessments of these controls from the evaluation reports produced by Arig's internal and external auditors. The Committee then advises the Board of Directors on the status and effectiveness of the company's control environment and necessary action taken by the management to strengthen any identified control weaknesses.

CORPORATE GOVERNANCE REPORT

Enterprise Risk Management (ERM)

Arig applies a corresponding ERM regime that aims at closely monitoring the risks the company could be exposed to and their potential effects on capital as well as financial and operational performance. Regular reviews by all layers of Arig's senior and middle management are carried out to assess the development and trends in the company's exposures and, whenever possible and reasonable, introduce measures to mitigate the potential for negative effects.

The company maintains an ERM framework under the responsibility of a Risk Officer who reports to the GM – Finance & Administration. The status quo is kept in a Risk Register, the positions of which are reviewed and actively managed with the goal to keep the use of capital at risk at efficient performance levels without over-exposing the shareholders' equity interest.

An independent risk management function, as required by the Central Bank of Bahrain, will be established in early 2015 and will be reporting to the Executive Committee of the Board of Directors.

Arig makes use of leading international actuarial firms for independent professional advice who assist in maintaining its Internal Capital Adequacy (ICA) model, which will consider and quantify the capital amount required to support all identified risk exposures that are incurred as part of the company's business operations.

Our key risk categories are underwriting risk, reserve risk, credit risk, market risk and operational risks. Property reinsurance with its exposure to natural and man-made catastrophes represents the largest class in Arig's book; therefore it comes as no surprise that underwriting risk dominates the quantum of our risk exposures. It is followed by reserve risk, which is a reflection of the company's long-standing operating history and former activities in discontinued underwriting lines. Market risk, i.e. the risk of changes in the financial markets, ranks third and followed by operational risks. Credit risk takes the least amount of capital funding.

The company has a number of risk avoidance and mitigation strategies in place to manage its key risk exposures.

- *Risk Appetite Statement* - first and foremost, Arig maintains a defined statement of its risk appetite expressing its maximum tolerance to losses for each of the main risk categories. The Risk Appetite Statement represents a key document in guiding the company's business conduct and it has been ratified by the Board of Directors.

- *Underwriting risk* is contained through a mixture of underwriting guidelines that are system and management controlled, pricing tools and reinsurance covers with highly rated retro markets to cap peak exposures.

- *Reserving risk* is managed through regular internal and external reviews to ensure that reserving is prudent and adequate. Our internal reviews are supported by an annually conducted, detailed estimation and report by professional actuaries.

- *Market risk* exposure is controlled by a basket of investment guidelines and policies that would include maximum allocations to asset classes, trend analyses, and performance monitoring tools, including stop loss disposal orders.

- *Operational risk* represents a basket of individual exposures, most of them relatively moderate in amount, which the company closely monitors and strives to reduce individually. The risk of business interruption caused by political violence received Arig's full attention and is quickly mitigated through the establishment of a warm site at the company's subsidiary's offices in Dubai. With contingency plans in place, this warm site can be upgraded to a hot site within the span of a few days, should a situation ever call for it.

- Finally, *credit risk* is managed by stringent counter-party checks and Arig's preference is to deal with solid and, for the most part, highly rated market entities. At the same time, receivables are monitored through ageing analyses and outstanding balances are actively pursued.

External auditors

External auditors are appointed by the shareholders through the General Assembly. The current auditors, KPMG of Bahrain, being eligible for re-election, were reappointed for the Financial Year 2014 based on the recommendation of the Board.

CORPORATE GOVERNANCE REPORT

Security ratings

Through its most recent rating published on Arig on 19 December 2014, A.M. Best reaffirmed the company's investment grade status with a Financial Strength Rating of 'B++ (Good)' and Issuer Credit Rating of "bbb+"; the outlook for both ratings remain 'positive', reflecting Arig's "improving track record of operating performance during challenging market conditions". In Best's opinion, "the ratings reflect the company's solid risk-adjusted capitalization and diverse regional business profile".

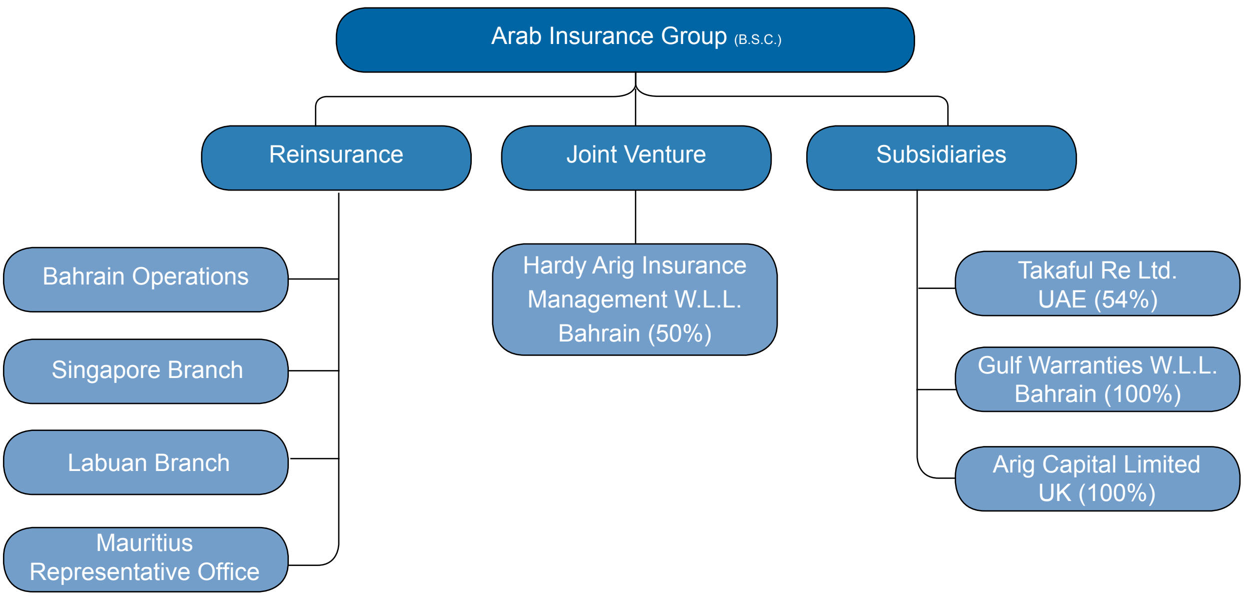
Solvency

Statutory Solvency requirements are determined by Arig's regulator in Bahrain, the Central Bank of Bahrain, and the regulators of its Branches in Singapore and Labuan. In Bahrain, minimum solvency is defined with reference to a prescribed premium and claims basis. The solvency position of the company including its Branches as at 31 December 2014 is given below:

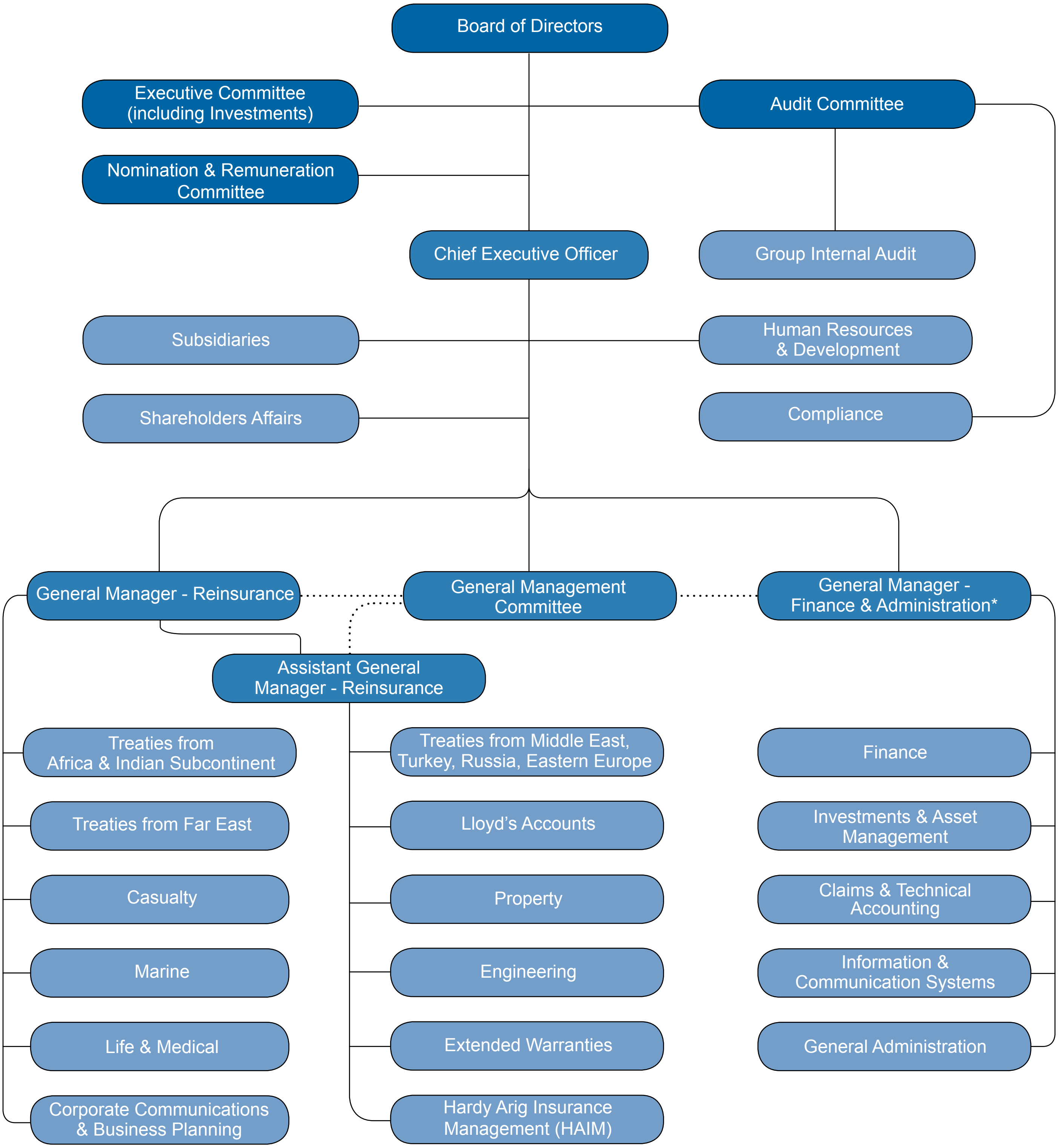
(in US$ '000)

	2014	2013
Capital available	187,782	171,742
Required margin of solvency	44,963	40,976
Total excess capital available over the required margin of solvency	**142,819**	**130,766**

ARIG GROUP STRUCTURE



ORGANIZATION CHART



* Also designated as Corporate Secretary

BIOGRAPHIES OF BOARD MEMBERS

BOARD MEMBERS

Khalid Jassim Bin Kalban
Chairman of the Board and member of the Executive Committee

B.Sc., Management Major Metropolitan State College, Denver, Colorado, U.S.A.

Khalid Jassim Bin Kalban has a degree in Business Management from U.S.A. and majored in management at the Metropolitan State College, U.S.A. His extensive experience covers the industrial, financial, investment and real estate sectors. He has been a Director of the company since May 1998. Mr. Kalban is currently the Chairman of the Board of Directors Union Properties PJSC and a Board member of National General Insurance PJSC, Islamic Bank of Asia – Singapore, Bank of Beirut - Lebanon, Arcapita – Bahrain and Takaful Re Ltd., U.A.E. Mr. Kalban is also the Managing Director and Chief Executive Officer of Dubai Investments PJSC and has been holding this position since 1998.

Khalid Ali Al Bustani
Vice Chairman of the Board and member of the Nomination & Remuneration Committee

B.Sc., Computer Engineering, Boston University, U.S.A.; MBA, Leicester University, U.K.

Khalid Ali Al Bustani is currently serving as Assistant Under Secretary for international financial relations within the Ministry of Finance of the United Arab Emirates. He was Chairman of the Board of Directors of Arig from May 2004 to March 2014, as Vice Chairman from June 2003 to April 2004 and as Chairman of the Executive Committee from October 2002 to April 2004. He is also the Chairman of the Board of Directors of Takaful Re Ltd., U.A.E.

Dr. Fouad A A Alfalah
Director and Chairman of the Audit Committee

B.A., The American University, Lebanon; M.A. and Ph.D, The American University, U.S.A.

Dr. Fouad Alfalah has been a Director of the company since October 2003 and Chairman of the Audit Committee since April 2005. He served as Chairman & Director General of Public Authority for Youth & Sports, Kuwait and also as Third Secretary at the Kuwait Ministry of Foreign Affairs. He is a member of the Board of Gulf Union Insurance and Reinsurance company, Bahrain and also serves as an Assistant Professor at the College of Administrative Sciences-Department of Public Administration, Kuwait University.

Sultan Ahmed Al Ghaith
Director and member of the Nomination & Remuneration Committee

B.Sc., U.A.E. University, U.A.E.

Sultan Ahmed Al Ghaith has been a Director of the company since October 2004. He served as Under Secretary & Director General of General Pensions & Social Security Authority, U.A.E., until April 2008. He holds directorship on the Boards of Takaful Re Ltd., the Emirates Co-operative Society and the Consumer Cooperative Union in U.A.E.

Fathi M A Elhagie
(Representing Central Bank of Libya)
Director and member of the Audit Committee

High Banking Diploma in Banking Studies, from Arab Institute of Banking Studies, Jordan

Fathi M A Elhagie is the Manager, Banking Operations Department of the Central Bank of Libya, Libya. He has been a Director of the company, since March 2008.

Mohamed Saif Al Suwaidi
(Representing Emirates Investment Authority, U.A.E.)
Director and Chairman of the Executive Committee

Bachelor of Commerce from U.A.E. University, U.A.E.

Mohamed Saif Al Suwaidi has been a member of the Board of Directors since March 2014. Further to Arig, he holds directorship on the Boards of the Emirates Investment Authority, Emirates Integrated Telecommunication company, and Zayed Higher Organization for Humanitarian Work, U.A.E.

Saeed Mohamed Al Bahhar
(Representing Emirates Development Bank, U.A.E.)
Director, Chairman of the Nomination & Remuneration Committee and member of the Executive Committee

B.Sc. Economics, Jacksonville University, U.S.A.

Saeed Mohamed Al Bahhar has been a member of the Board of Directors, since March 2014. He holds directorship on the Boards of the Emirates Development Bank, Takaful Re Ltd, U.A.E., Arab Satellite Organization, K.S.A. and Hellas-Sat Cyprus.

BIOGRAPHIES OF BOARD MEMBERS

Mohamed Saif Al Hameli
(Representing General Pensions & Social Security Authority (GPSSA), U.A.E.)
Director and member of the Executive Committee

M.Sc., California State Polytechnic University, U.S.A.

Mohamed Saif Al Hameli has been a member of the Board of Directors since March 2014. He also serves as the Executive Director of Investments in General Pensions & Social Security Authority (GPSSA), U.A.E.

Mohamed Ahmed Al Karbi
(Director and member of the Audit Committee)

Bachelor of Science in Civil Engineering, American University, Sharjah; MBA from Emirates University, U.A.E.

Mohamed Ahmed Al Karbi has been a member of the Board of Directors since May 2014. He holds Directorships on the Boards of Al Mushref Co-operative Society and Takaful Re Ltd., U.A.E.

Abdulaziz Abdulla Al Zaabi
Director and member of the Executive and the Audit Committees
(Stepped down w.e.f. 25 March 2014)

Business Administration, California State University, San Jose, U.S.A.

Abdulaziz Abdulla Al Zaabi was the Director of the company from March 2005 to March 2014.

Saif Abdulrahman Al Shamsi
(Representing General Pensions & Social Security Authority (GPSSA), U.A.E.)

Director
(Stepped down w.e.f. 25 March 2014)

Bachelor Degree in Political Science and Business Administration, U.A.E. University, U.A.E.

Saif Hadef Al Shamsi was a member of the Board of Directors from April 2012 to March 2014.

Mariam Mohamed Alameeri
(Representing Real Estate Bank, U.A.E.)
Director and member of the Audit Committee
(Stepped down w.e.f. 25 March 2014)

Bachelor of General Administration, Emirates University, U.A.E.

Mariam Alameeri was a member of the Board of Directors from March 2011 to March 2014.

Majed Omran Al Shamsi
(Representing Emirates Investment Authority, U.A.E.)
Director and member of the Executive Committee
(Stepped down w.e.f. 25 March 2014)

Bachelor of Administrative Sciences, Emirates University, U.A.E.

Majed Omran Al Shamsi was as member of the Board of Directors from March 2008 to March 2014.

BIOGRAPHIES OF GENERAL MANAGEMENT

GENERAL MANAGEMENT

Yassir Albaharna
Chief Executive Officer

MBA (High Honours) & M. Eng. (Manufacturing), Boston University, Boston; B. Eng. (Mechanical), McGill University, Montreal; Fellow & Chartered Insurer, Chartered Insurance Institute, London.

Yassir Albaharna joined Arig in 1987 and held a variety of underwriting and managerial positions throughout his career. Heading up the new management team, Yassir was appointed CEO in April 2006. He also serves as Chairman of Gulf Warranties (Bahrain), Arig Capital Limited (London), and FAIR Oil & Energy Insurance Syndicate (Bahrain). Yassir further holds Board memberships in Takaful Re (DIFC), Arima Insurance Software (Bahrain), FAIR Non-Life Reinsurance Pool (Istanbul), Hardy Arig Insurance Management, (Bahrain), GlobeMed (Bahrain), the International Insurance Society (New York), Federation of Afro-Asian Insurers & Reinsurers (Cairo), Association of Insurers and Reinsurers of Developing Countries (Philippines), Bahrain Insurance Association, Specific Council for Vocational Training - Banking Sector (Bahrain) as well as Board of Trustees of Human Resources Development Fund - Banking & Financial Sector (Bahrain).

Andreas Weidlich
General Manager, Reinsurance

Graduate in Economics; Free University of Berlin, Germany

Prior to joining Arig in April 2006, Andreas held senior managerial positions at Allianz Risk Transfer (Bermuda), Allianz Reinsurance Asia Pacific, Singapore and at Munich Re in Munich & Singapore. Andreas is furthermore an Executive Director and the Chief Executive Officer of Hardy Arig Insurance Management (HAIM), Bahrain.

Nagarajan Kannan
General Manager, Finance & Administration

Fellow member of the Chartered Insurance Institute, U.K. (FCII) & Chartered Institute of Management Accountants, U.K. (FCMA); Associate member of The Institute of company Secretaries of India (ACS) & the Cost & Works Accountants of India (AICWA)

Nagarajan Kannan joined Arig in April 1989 and has been part of the General Management Team since April 2007. He currently holds Board memberships at Arima Insurance Software, Hardy Arig Insurance Management (HAIM) Bahrain, Gulf Warranties, GlobeMed Bahrain and Arig Capital Limited, U.K. Prior to joining the company, he held managerial positions in leading insurance and manufacturing companies in India. During the year 2013 Kannan was appointed General Manager, Finance & Administration from his previous position.

Salah Al Maraj
Assistant General Manager, Reinsurance

Bachelor of Arts, Kuwait University, Kuwait

Salah Al Maraj joined the company in May 1982. He held senior underwriting positions before being appointed to the General Management in October 2009. Among others, Salah holds immediate responsibility for Arig's core markets in the Middle East and neighbouring territories.

KEY RATIOS

	2014	2013
PERFORMANCE RATIOS		
Premium growth (annual change in gross premiums written)	20.3%	-5.3%
Retention ratio (gross retained premiums over gross premiums written)	82.6%	94.0%
Combined ratio (aggregate of expenses over net written premiums & losses over net earned premiums)	101.7%	97.8%
Return on investments (proportion of investment income over average investment assets)	3.0%	3.1%
Return on equity (proportion of net profit to average shareholders' equity)	6.1%	7.7%
Growth in shareholders' equity	6.1%	5.9%
LEVERAGE RATIOS		
Underwriting exposure (ratio of gross premiums written to shareholders' equity)	119.2%	105.1%
Net technical provisions/ Shareholders' equity	240.3%	248.6%
Net technical provisions/ Net premiums written	244.1%	251.6%
LIQUIDITY RATIOS		
Investment assets/ Net technical provisions	113.4%	103.7%
Liquid assets/ Net technical provisions	109.7%	100.0%
OTHER		
Solvency ratio (ratio of Shareholders' equity to Net earned premium)	103.2%	104.8%
Shareholders' Equity/Economic Capital	1.8	1.7
Earnings per share attributable to shareholders	0.08	0.09
Book value per share (US$)	1.34	1.26
Price to book value per share	37.7%	34.9%

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Arab Insurance Group (B.S.C.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Arab Insurance Group B.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and (Volume 3) of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the directors' report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 83
12 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

(US$ '000)

	Note	2014	2013
ASSETS			
Cash and bank balances	5	192,703	273,231
Investments	6	525,998	366,707
Accrued income	8	88,023	84,482
Insurance receivables	9	119,012	114,332
Insurance deposits	10	42,578	46,538
Deferred policy acquisition costs		24,452	28,230
Reinsurers' share of technical provisions	11	72,048	59,082
Other assets	12	12,037	56,568
Property and equipment	13	27,462	27,472
		1,104,313	**1,056,642**
LIABILITIES			
Technical provisions	14	707,631	678,648
Insurance payables	17	41,768	45,588
Borrowings	18	10,000	-
Other liabilities	19	42,503	41,073
		801,902	765,309
EQUITY			
Attributable to shareholders of parent company	20		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		39,857	38,844
Retained earnings		19,485	5,173
		264,549	249,224
Non-controlling interests	21	37,862	42,109
		302,411	291,333
		1,104,313	**1,056,642**

These consolidated financial statements were approved by the Board of Directors on 12 February 2015 and signed on its behalf by:

Khalid J. Bin Kalban
Chairman

Khalid A. Al Bustani
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ '000)

	Note		2014	2013
Gross premiums written			315,300	261,988
Net earned premiums			256,433	237,712
Claims and related expenses			(171,399)	(150,103)
Policy acquisition costs			(68,956)	(66,854)
Investment income attributable to insurance funds	23		11,745	11,160
Operating expenses	24		(21,823)	(18,492)
Underwriting result	22		**6,000**	**13,423**
Investment income attributable to shareholders' funds	23		8,754	9,263
Operating expenses – non underwriting activities	24		(6,866)	(10,442)
Borrowing cost			(135)	(63)
Other income	25		5,376	5,444
Other expenses and provisions	26		(1,683)	(2,752)
Profit for the year			**11,446**	**14,873**
Attributable to:				
Non-controlling interests			(4,169)	(3,730)
Shareholders of parent company			15,615	18,603
			11,446	**14,873**
Earnings per share attributable to shareholders (basic and diluted)	27	US$	0.08	0.09

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ ’000)

	2014	2013
Profit for the year	11,446	14,873
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Changes on remeasurement of available for sale investments	(451)	(4,275)
Transfers for recognition of losses (gains) on disposal of available for sale investments	386	(732)
Items that will not be reclassified subsequently to profit or loss;		
Revaluation of property	(303)	-
Other comprehensive income	(368)	(5,007)
Total comprehensive income	**11,078**	**9,866**
Attributable to:		
Non-controlling interests	(4,247)	(4,129)
Shareholders of parent company	15,325	13,995
	11,078	**9,866**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ '000)

	Share capital	Treasury stock	Reserves: Legal	Reserves: Investment revaluation	Reserves: Property revaluation	Reserves: Total	Retained earnings/ (Accumulated deficit)	Attributable to shareholders of parent company	Non-controlling interests	Total Equity
Balances at 31 December 2013	**220,000**	**(14,793)**	**31,621**	**770**	**6,453**	**38,844**	**5,173**	**249,224**	**42,109**	**291,333**
Net profit (loss) for the year	-	-	-	-	-	-	15,615	15,615	(4,169)	11,446
Changes on remeasurement of available for sale investments	-	-	-	(393)	-	(393)	-	(393)	(58)	(451)
Transfers for recognition of losses (gains) on disposal of available for sale investments	-	-	-	406	-	406	-	406	(20)	386
Revaluation of property	-	-	-	-	(303)	(303)	-	(303)	-	(303)
Total comprehensive income for the year	-	-	-	13	(303)	(290)	15,615	15,325	(4,247)	11,078
Transfer of net depreciation on revalued property	-	-	-	-	(220)	(220)	220	-	-	-
Transfer to non-distributable reserves	-	-	1,523	-	-	1,523	(1,523)	-	-	-
Balances at 31 December 2014	**220,000**	**(14,793)**	**33,144**	**783**	**5,930**	**39,857**	**19,485**	**264,549**	**37,862**	**302,411**
Restated balances at 31 December 2012	220,000	(14,793)	29,759	5,378	6,840	41,977	(11,955)	235,229	46,238	281,467
Net profit (loss) for the year	-	-	-	-	-	-	18,603	18,603	(3,730)	14,873
Changes on remeasurement of available for sale investments	-	-	-	(4,060)	-	(4,060)	-	(4,060)	(215)	(4,275)
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(548)	-	(548)	-	(548)	(184)	(732)
Total comprehensive income for the year	-	-	-	(4,608)	-	(4,608)	18,603	13,995	(4,129)	9,866
Transfer of net depreciation on revalued property	-	-	-	-	(387)	(387)	387	-	-	-
Transfer to non-distributable reserves	-	-	1,862	-	-	1,862	(1,862)	-	-	-
Balances at 31 December 2013	**220,000**	**(14,793)**	**31,621**	**770**	**6,453**	**38,844**	**5,173**	**249,224**	**42,109**	**291,333**
Parent company balances at (note 35)										
31 December 2014	220,000	(14,793)	33,041	874	5,930	39,845	19,497	264,549	-	264,549
31 December 2013	220,000	(14,793)	31,480	769	6,453	38,702	5,315	249,224	-	249,224

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ '000)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		286,157	278,901
Reinsurance premiums paid		(30,501)	(9,662)
Claims and acquisition costs paid		(260,058)	(247,767)
Reinsurance receipts in respect of claims		30,324	15,278
Investment income		3,313	600
Interest received		2,750	4,352
Dividends received		1,473	1,188
Operating expenses paid		(24,995)	(25,288)
Other income/expenses, net		3,025	(636)
Insurance deposits received (paid), net		3,261	(919)
Purchase of trading investments		(74,305)	(43,099)
Sale of trading investments		48,584	44,088
Net cash (used in) provided by operating activities	31	**(10,972)**	**17,036**
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity/sale of investments		267,889	112,928
Purchase of investments		(402,386)	(161,648)
Term deposit with bank		57,047	(32,988)
Interest received		6,353	5,779
Dividend received		44	-
Investment income		7,606	1,503
Collateralised cash deposits received (paid), net		41,945	(28,847)
Purchase of property and equipment		(565)	(928)
Purchase of intangible assets		(56)	(393)
Disposal group held for sale		100	-
Investment in associate		(25)	-
Net cash used in investing activities		**(22,048)**	**(104,594)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings		10,000	(20,000)
Interest on borrowings		(135)	(371)
Dividends paid		(6)	(43)
Net cash provided by (used in) financing activities		**9,859**	**(20,414)**
Net decrease in cash and cash equivalents		(23,161)	(107,972)
Effect of exchange rate on cash and cash equivalents		(320)	(19)
Effect of assets held for sale on cash and cash equivalents		-	(120)
Cash and cash equivalents, beginning of year		124,085	232,196
Cash and cash equivalents, end of year	5	**100,604**	**124,085**
Term deposit with bank		92,099	149,146
Cash and bank balances, end of year	5	**192,703**	**273,231**

The accompanying notes 1 to 36 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. INCORPORATION AND PRINCIPAL ACTIVITY

Arab Insurance Group (B.S.C.) (the "Company", "parent company") is an international insurance company registered as a Bahraini Shareholding Company having its registered office at Arig House, Manama, Kingdom of Bahrain. The parent company and its subsidiaries (the "Group") are involved in provision of general (non-life) and life reinsurance and related service activities.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board and are consistent with prevailing practice within the insurance industry.

The Group's financial statements are presented in U.S. Dollars, which is its functional currency as its share capital and a significant proportion of its business, assets and liabilities are denominated in that currency.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and building and certain investment assets.

Comparative figures have been reclassified and restated, where necessary, to conform to the current year's presentation.

The Group has adopted the following new and revised IFRS and interpretations which became effective as of 1 January 2014:

- IAS 32 - Financial Instruments: Presentation

  Amendments to IAS 32 clarify the offsetting criteria by explaining when an entity currently has a legally enforceable right to set off. The amendments have been applied retrospectively. The adoption of this amendment has no material impact on the financial statements.

- IAS 36 Impairment of Assets

  Amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used. The application of these amendments had no material impact on the financial statements.

- IAS 39 – Financial Instruments: Recognition and Measurement

  Amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments have been applied retrospectively. The adoption of this amendment had no material impact on the financial statements.

- Investment Entities - Amendments to IFRS 10 Consolidated Financial Statements; IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements

  Amendments to IFRS 10, IFRS 12 and IAS 27, grants certain relief from consolidation to investment entities. It requires qualifying investment entities to account for investment in controlled investees at fair value through profit or loss in its consolidated and separate financial statements. The Group concluded that it does not meet the definition of an investment entity and hence the above amendments are not applicable to the Group.

- IFRIC 21 – Levies

  IFRIC Interpretation 21 on Levies provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The adoption of this interpretation had no material impact on the financial statements.

The following standards and interpretations have been issued but not yet effective for the year ended 31 December 2014:

- IFRS 9 Financial Instruments
  Standard issued July 2014

  IFRS 9 replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

  The standard is applicable from 1 January 2018 with early adoption permitted. The Group is assessing the impact of IFRS 9 on its consolidated financial statements.

- IFRS 11 Joint Arrangements

  Amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Combinations. The amendments to IFRS 11 apply prospectively for annual reporting periods beginning on or after 1 January 2016. The Group is not expecting a significant impact from the adoption of this amendment.

- IFRS 15 Revenue from Contracts with Customers Standard issued May 2014

  IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The standard is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is not expecting a significant impact from the adoption of this standard.

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

  Amendments to IAS 16 prohibit entities from using a revenue based depreciation method for items of property, plant and equipment. Amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. The Group is not expecting a significant impact from the adoption of this amendment.

- IAS 19 Employee Benefits

  Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments clarify accounting for contributions that are dependent or independent of the number of years of employee service. The amendments are effective for annual periods beginning on or after 1 July 2014. Early application is permitted. The Group is not expecting a significant impact from the adoption of this amendment.

- Improvements to IFRSs (2013)

  Improvements to IFRS issued in December 2013 include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014 with early application permitted. The Group is not expecting a significant impact from the adoption of this amendment.

The Group did not early-adopt new or amended standards in 2014.

The significant accounting policies of the Group are as follows:

Basis of consolidation

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries made up to 31 December 2014.

Subsidiaries are defined as entities that are controlled by the Group, on the basis of

- power over the entity;
- exposure to variable returns from the entity; and
- the ability to use its power to affect the amount of returns.

The purchase method is used to account for acquisitions.

The Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. The Group has assessed that its only joint arrangement be recognised as a joint venture and has applied the equity method.

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated on consolidation. Where necessary, the accounts of subsidiaries have been restated to ensure consistency with the accounting policies adopted by the Group.

A listing of the principal subsidiaries is set out in note 33. In the parent company, these investments are accounted under IAS 39, Financial Instruments: Recognition and Measurement.

Investments

Investment securities are classified as 'at fair value through profit or loss', which includes financial assets held for trading and those designated at fair value on initial recognition, 'available for sale', 'held to maturity' or 'loans and receivables'. Management determines the appropriate classification of investments at the time of purchase.

Securities are classified as at fair value through profit or loss if they are acquired for the purpose of generating a profit from short-term fluctuations in price or if so designated by management. Derivative financial instruments that are not designated as accounting hedge are classified as at fair value through profit or loss. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables. Securities intended to be held for an indefinite

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

period of time and those that are not classified as at fair value through profit or loss, held to maturity or loans and receivables, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale.

All purchases and sales of investments are recognised at the settlement date. All investment assets are recognised initially at cost. After initial recognition, investments are valued using principles described below.

Investments at fair value through profit or loss and investments available for sale are carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost, less any adjustment necessary for impairment.

Fair values are measured using market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in valuation (see note 32).

Provision for impairment of financial assets

A provision is made in respect of a financial asset that is impaired if its carrying amount is greater than its estimated recoverable amount.

Provisions for assets carried at amortised cost are calculated as the difference between the carrying amount of the assets and the present value of expected future cash flows discounted at their original effective interest rate. By comparison, the recoverable amount of an instrument carried at cost is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

In the case of available for sale financial assets, the Group assesses at each statement of financial position date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment is recognised in income. Evidence of impairment considers among other factors significant or prolonged decline in market values and financial difficulties of the issuer. Impairment recognised is not reversed subsequently except in case of debt instruments.

Investment in associated companies

Investments in associated companies are accounted for using the equity method. Associated companies are defined as those companies over which the Group is able to exercise significant influence but not control or joint control over the financial and operating policy decisions.

Investment in joint ventures

Investments in joint ventures are accounted for using the equity method. Joint ventures are defined as those companies over which the Group has joint control with another party and has rights to the net assets of the company. The Group does not have rights to the assets and obligation for the liabilities of the company.

Insurance receivables

Insurance receivables are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. In case of receivables not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

Insurance deposits

Insurance deposits comprise premium and claim deposits with cedants in accordance with policy terms and are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the deposits. In case of deposits not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Irrecoverable deposits are written off during the year in which they are identified. Irrecoverable deposits are identified on an analysis of the financial position of the counter party.

Intangible assets

Expenditure on software, patents, present value of future profits on acquisition of portfolio and licenses are capitalised and amortised using the straight line basis over their expected useful lives, not exceeding a period of 5 years.

Costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and has a probable benefit exceeding the costs beyond one year, are recognised as intangible assets. Costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Property & equipment

Property & equipment are stated at cost less accumulated depreciation except for land and building which are carried at their revalued amount being fair value on date of valuation on a rolling basis by independent external valuers, less accumulated depreciation. On revaluation, any increase in the carrying amount of the asset is carried in the shareholders' equity as Property Revaluation Reserve and any decrease is recognised as an expense, except to the extent that it reverses decreases or increases previously recognised through income or shareholders' equity. The balance in the Property Revaluation Reserve is transferred directly to Retained Earnings on sale of property and realization of surplus. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

The cost of additions and major improvements are capitalised; maintenance and repairs are charged to expense as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets, which are as follows:

Building	40 years
Electrical and mechanical	20 years
Information systems, furniture, equipment and others	3-5 years

Useful lives and residual values are reassessed at each reporting period and adjusted accordingly.

At each reporting date, the Group reviews the carrying amounts to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGU).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains or losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements are recognised when they accrue to employees, with a provision being carried for the estimated liability as a result of services rendered upto the statement of financial position date.

Post employment obligations

The Group operates a number of defined benefit plans for its employees.

For defined benefit plans, the accounting cost except for actuarial gains or losses, is charged to the income statement so as to spread it over the expected service lives of employees. The accounting costs under these plans are measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains or losses are carried in the comprehensive income statement.

Employee share scheme

The Group operates a cash settled, share-based compensation scheme. The fair value of the employee services received in exchange for virtual shares is recognised as an expense.

The shares are awarded based on the performance during the financial year (scheme year) and is expensed over the scheme year and the vesting period of two years from the end of Scheme year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

At each statement of financial position date, the liability is revalued with reference to the book value of the virtual shares allocated and the impact of the revaluation is recognised in the income statement with a corresponding adjustment to the liability.

Treasury stock

Treasury stock representing shares purchased by the parent company or its consolidated subsidiaries are carried at cost with the exception of holdings as on the date of capital reduction, 4 July 2002, which are carried at nominal value. All treasury stock is presented as a deduction from shareholders' equity and gains and losses from sale of these shares are presented as a change in shareholders' equity.

Recognition of underwriting result

Insurance business is accounted for in a manner consistent with prevailing practice within the insurance industry, more specifically, on an annual accounting basis. Specific accounting policies relating to individual items of insurance revenues and costs and technical provisions are explained below for each relevant item.

Premiums

Gross premiums written comprise the total premiums in relation to contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Group at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. Unearned premiums are those proportions of the premiums accounted for, which relate to periods of risk that extend beyond the end of the financial year; they are calculated based on a time apportionment basis. A provision for unexpired risks is made for estimated amounts required over and above provisions for unearned premiums to meet future claims and related expenses on business in force at the statement of financial position date. Such provision, where necessary, is made on the basis of an assessment of segments in which policies with similar risk profile are grouped together.

Claims and related expenses

Claims and related expenses are accounted for based on reports received and subsequent review on an individual case basis. Provision is made to cover the estimated ultimate cost of settling claims arising out of events, which have occurred by the end of the financial year, including unreported losses, and claims handling expenses. Provision for unreported claims is established based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business.

Policy acquisition costs

Commissions, taxes, brokerages and other variable underwriting costs directly associated with acquiring business are amortised over the period in which the related premiums are earned. Policy acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred policy acquisition costs.

Reinsurance arrangements

As part of managing its insurance risks, the Group enters into contracts with other reinsurers for compensation of losses on insurance contracts issued by the Group.

Compensations receivable from reinsurers are estimated in a manner consistent with the corresponding claim liability. The benefits and obligations arising under reinsurance contracts are recognised in income and the related assets and liabilities are recognised as accounts receivable, reinsurers' share of technical reserves and accounts payable.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure adequacy of the contractual liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual undiscounted cash flows and claims handling and administrative expenses are considered. The tests are performed on a portfolio basis where policies with similar risk profile are grouped together as a portfolio.

Investment income

Investment income comprises interest and dividend receivable for the financial year. Gains and losses arising from changes in the fair value of investments at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale investments are recognised in other comprehensive income and carried in investment revaluation income as part of equity. When available for sale investments are disposed or are impaired, the related fair value adjustments are included in the income statement.

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Investment income arising from insurance business investment assets are allocated to the underwriting results of insurance businesses based on the proportion of their respective insurance funds to shareholders' funds during the financial year.

Foreign currency translation

Transactions denominated in currencies other than U.S. Dollars are recorded at the rates ruling at the date of the transaction. All monetary and non-monetary assets carried at fair value denominated in currencies other than U.S. Dollars are translated at year-end exchange rates.

Unrealised gains or losses on translation are taken to income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

Unrealised gains and losses on translation of financial statements of subsidiaries are included in equity. Other foreign currency gains and losses are taken to income.

Derivative financial instruments and hedging

In the ordinary course of its business, the Group uses forward foreign exchange contracts as fair value hedges to protect its exposures in respect of foreign currency denominated investments and insurance liabilities and these contracts are carried at fair value.

Where a fair value hedge meets the conditions prescribed by International Financial Reporting Standards for qualifying as an effective hedge, gains or losses from remeasuring forward foreign exchange contracts and gains or losses on hedged assets attributable to the hedged risk are recognised in income.

Where the hedge is not effective, gains or losses from remeasuring forward foreign exchange contracts are recognised in income. Gains or losses on hedged assets are recognised in income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

The gain or losses from remeasuring insurance liabilities and related foreign exchange contracts are recognised in income.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying its accounting policies, the Group makes estimates and judgements that have an impact on the amounts recognised and reported in the financial statements. These estimates and judgements are based on historical experience, observable market data, published information and other information including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant impact on the recognised amounts in the financial statements and the processes used to determine these estimates and judgements are described below:

Claims and related expenses

The estimate of ultimate losses arising from existing insurance contracts include unreported claims. Provisions for unreported claims are estimated based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business. The ultimate insurance liability also includes the costs to administer the claims.

Ultimate premiums

The estimate of ultimate premiums is based on premium income estimates provided by cedants which is then adjusted to reflect underwriters' judgement taking into account market conditions and historical data. This estimate is subject to review by underwriters and actuaries.

Other significant estimates include fair value measurement and impairment of financial assets as disclosed in note 2.

4. MANAGEMENT OF INSURANCE RISKS

Risks under insurance contracts arise from uncertainty regarding the occurrence of the insured event and the amount of the resulting claim. In addition to underwriting risks, the Group is also exposed to other related risks such as credit, currency and liquidity risks.

The following is a summary of policies adopted to mitigate the key insurance risks facing the Group:

Underwriting risks

The Group manages its underwriting risks principally through policies and guidelines for accepting risks and reinsurance arrangements.

Risks are accepted based on an evaluation of pricing and prior underwriting experience in accordance with underwriting guidelines that have been laid out for each line of business. Underwriting guidelines are constantly reviewed and updated to take account of market developments, performance and opportunities. Accumulation limits are set to control exposures to natural hazards and catastrophes. Various underwriting and approval limits are specified for accepting risks.

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Marketing, Underwriting and Actuarial functions.

The reinsurance strategy of the Group is designed to protect exposures to individual and event risks based on current risk exposures through cost effective reinsurance arrangements.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practices involve the use of actuarial analysis and application of underwriting judgement. These are supplemented by periodical independent actuarial reviews for determining the adequacy of reserves.

Credit risks

Credit risk under insurance contracts is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is controlled through terms of trade for receipt of premium and in certain cases enforcement of premium warranty conditions. Most of the counterparties are insurance companies that are generally not rated. However, there are no significant exposures from any one counterparty.

Reinsurance arrangements are effected with reinsurers whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria. Exposure to any single reinsurer generally does not exceed a maximum of 25% of total exposure and risks are generally placed with counterparties with minimum investment grade rating except for proportional treaty arrangements placed on reciprocal basis.

FOR THE YEAR ENDED 31 DECEMBER 2014

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

2014	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	3,392	35,159	38,551
- Other	19,392	11,701	31,093
	22,784	**46,860**	**69,644**
2013			
Balance relating to reinsurers:			
- With investment grade rating	2,215	39,693	41,908
- Other	20,056	5,922	25,978
	22,271	**45,615**	**67,886**

Currency risks

As the Company writes business in various currencies, it is exposed to currency risk. Foreign exchange currency risks are hedged where exposures are significant and facility to hedge is available.

(US$ '000)

2014	Euro	Pound Sterling	Indian Rupee	Canadian Dollar	Other
Reinsurance Assets (Liabilities), net	(1,032)	(1,061)	(16,317)	(509)	(116,620)
Hedged	(3,289)	-	-	-	-
2013					
Reinsurance Assets (Liabilities), net	(2,205)	2,662	(9,838)	(475)	(99,490)
Hedged	(2,413)	(1,065)	-	959	-

Liquidity risks

Liquidity risk is the risk that cash may not be available to pay obligations when due. Limits have been specified in the investment policy and guidelines that requires a significant portion of investment funds representing insurance liabilities to be held in cash or readily marketable debt securities.

Sensitivity analysis

The sensitivity of the Group's income to market risks is as follows:

(US$ '000)

	2014	2013
5% increase in loss ratio	(12,822)	(11,886)
5% decrease in loss ratio	12,822	11,886
10% increase in US Dollar exchange rate	12,030	10,935
10% decrease in US Dollar exchange rate	(12,030)	(10,935)

FOR THE YEAR ENDED 31 DECEMBER 2014

5. CASH AND BANK BALANCES

(US$ '000)

	2014	2013
Cash and bank balances	85,732	80,506
Deposits with maturity within 3 months	14,872	43,579
Cash and cash equivalents	100,604	124,085
Deposits with maturity over 3 months	92,099	149,146
	192,703	**273,231**

Details of significant terms and conditions, exposures to credit, interest rate and currency risks are as follows:

Credit risk

Bank balances and deposits with short term maturities are held with leading financial institutions. The Group limits its concentration of time deposits with any one financial institution to a maximum of 10% of shareholders' equity.

Interest rate risk

	2014	2013
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.01% to 3.10 %	0.01% to 2.70 %

As the deposits are short term maturities, there is no sensitivity to interest rate fluctuation.

Currency risk

(US$ '000)

	2014	2013
U.S. Dollar	116,523	141,926
Bahraini Dinar	59,353	69,992
UAE Dirham	4,860	32,712
Singapore Dollars	3,656	3,477
Qatari Riyal	11	19,471
Other	8,300	5,653
	192,703	**273,231**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS

(US$ '000)

	2014	2013
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	66,281	53,934
	66,281	53,934
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	24,782	24,206
- Other	29,808	17,737
	54,590	41,943
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	12,993	22,973
- Other investment grade	13,007	20,024
- Non OECD country government	2,653	2,663
- Other	9,876	9,850
	38,529	55,510
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	87,653	32,694
- Other investment grade	160,975	118,796
- Non-OECD country governments	-	2,648
- Other	89,856	38,342
Common stock of listed companies	4,484	-
Common stock of unlisted companies	6,448	7,160
Other equity type investment	16,866	15,542
	366,282	215,182
Investment in joint venture	21	119
Investment in associates	295	19
	525,998	366,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS (Contd.)

Movements in the Group's impairment recognised on available for sale investments are as follows:

		(US$ '000)
	2014	2013
At 1 January	19,945	18,660
Impairment recognised during the year		
- Unlisted companies	21	312
- Others	1,021	1,291
Reversal on sale of investments	(1,182)	(318)
At 31 December	**19,805**	**19,945**

Debt securities amounting to US$ 107.7 million (2013: US$ 72.7million) have been pledged as security for reinsurance trust agreements, letters of credit, guarantees and borrowings.

Details of significant exposures to credit, interest rate and currency risks on investments are as follows:

Credit risk

The Group limits its investment concentration in debt securities in any one investee and in any one industry group to 10% and 20% respectively, of the total debt securities portfolio.

The Group also limits its investment concentration in common stock of listed companies of any one issue and any one issuer to 5% and 10% respectively, of its total common stock portfolio.

Debt securities - interest rate risk

2014	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.125% - 2.75%	0.125% - 2.75%
Other investment grade debt securities	Semi-annual/Annual	1.0% - 7.25%	1.0% - 7.25%
Non-OECD country government securities	Semi-annual/Annual	3.6%	3.6%
Other securities	Monthly/Semi-Annual	2.688% - 5.375%	2.688% - 5.375%

2013			
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.125% - 2.875%	0.125% - 2.875%
Other investment grade debt securities	Semi-annual/Annual	1.6% - 7.25%	1.6% - 7.25%
Non-OECD country government securities	Semi-annual/Annual	3.6% - 4.3%	3.6% - 4.3%
Other securities	Monthly/Semi-Annual	1.357% - 4.61%	1.357% - 4.718%

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS (Contd.)

Debt securities – currency risk

(US$ '000)

2014	U.S. Dollar	Euro	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	100,646	-	-	-	100,646
Other investment grade debt securities	191,116	4,865	-	2,783	198,764
Non-OECD country governments	-	-	2,653	-	2,653
Other debt securities	129,540	-	-	-	129,540
	421,302	**4,865**	**2,653**	**2,783**	**431,603**
2013					
Supra-nationals and OECD country government securities	55,667	-	-	-	55,667
Other investment grade debt securities	152,964	7,270	-	2,792	163,026
Non-OECD country governments	-	-	5,311	-	5,311
Other debt securities	65,929	-	-	-	65,929
	274,560	**7,270**	**5,311**	**2,792**	**289,933**

Debt securities - remaining term to maturity

The principal amount and book values of debt securities are shown in the table below by contractual maturity.

(US$ '000)

	2014		2013	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	25,000	24,990	14,000	14,001
- One to five years	58,000	58,026	35,000	35,147
- More than five years	18,000	17,631	7,000	6,519
	101,000	100,647	56,000	55,667
Debt securities of other investment grade issuers:				
- Due in one year or less	12,642	12,938	9,739	10,365
- One to five years	101,024	102,424	96,539	98,735
- More than five years	83,857	83,401	54,452	53,926
	197,523	198,763	160,730	163,026
Non-OECD country government securities:				
- Due in one year or less	2,658	2,653	-	-
- One to five years	-	-	2,658	2,663
- More than five years	-	-	2,658	2,648
	2,658	2,653	5,316	5,311
Other debt securities :				
- Due in one year or less	-	-	-	-
- One to five years	45,558	44,691	38,651	38,044
- More than five years	85,296	84,849	21,394	27,885
	130,854	129,540	60,045	65,929
	432,035	**431,603**	**282,091**	**289,933**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS (Contd.)

Common stock

Common stocks have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis.

The book value of common stock classified by currencies in which they are denominated are as follows:

(US$ '000)

	2014	2013
U.S. Dollar	42,450	35,250
Euro	4,958	2,574
Bahraini Dinar	487	489
Saudi Riyal	9,407	6,004
Pound Sterling	3,353	3,276
Japanese Yen	2,197	2,040
Other	14,361	11,461
	77,213	**61,094**

Commitments

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 6.4 million (2013: US$ 8.0 million).

7. SENSITIVITY ANALYSIS

The sensitivity of the Group's profit or loss and total equity to market risks on its cash and cash equivalents and investments is as follows:

(US$ '000)

	2014		2013	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	(931)	(9,469)	(846)	(5,305)
– 100 basis points shift in yield curves- debt instruments	963	9,797	851	5,488
Currency risk				
10% increase in US Dollar exchange rate	(7,673)	(364)	(10,413)	132
10% decrease in US Dollar exchange rate	9,710	101	21,450	123
Equity price				
10% increase in equity prices	6,587	449	1,060	134
10% decrease in equity prices	(6,587)	(449)	(1,060)	(134)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

8. ACCRUED INCOME

(US$ '000)

	2014	2013
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	71,084	60,322
- After 12 months	14,641	21,860
	85,725	82,182
Accrued interest		
- Expected to be received within 12 months	2,298	2,300
	88,023	**84,482**

9. INSURANCE RECEIVABLES

(US$ '000)

	2014	2013
Balances due :		
- Within 12 months	118,843	113,777
- After 12 months	169	555
	119,012	**114,332**

Movements in the Group's provision for impaired receivables are as follows:

(US$ '000)

	2014	2013
At 1 January	21,176	20,791
Provision for impairment	(138)	385
Impaired receivables written-off	(6,387)	-
31 December	**14,651**	**21,176**

The individually impaired receivables mainly relate to counter party in financial difficulty. The ageing of these receivables is as follows:

(US$ '000)

	2014	2013
Over two years	4,630	5,385
	4,630	**5,385**

The aging analysis of receivables that are past due and not considered impaired is as follows:

(US$ '000)

	2014	2013
Upto 6 months	7,153	12,124
6 to 12 months	13,125	13,628
	20,278	**25,752**

FOR THE YEAR ENDED 31 DECEMBER 2014

10. INSURANCE DEPOSITS

(US$ '000)

	2014	2013
Balances due :		
- Within 12 months	33,174	31,502
- After 12 months	9,404	15,036
	42,578	**46,538**

Movements in the Group's provision for impaired deposits are as follows:

(US$ '000)

	2014	2013
At 1 January	4,208	4,693
Provision for impairment written back	21	(485)
Impaired deposits written-off	(563)	-
31 December	**3,666**	**4,208**

The individually impaired deposits mainly relate to counter parties in financial difficulty. The ageing of these deposits is as follows:

(US$ '000)

	2014	2013
Under ten years	1,018	893
Over ten years	5,698	6,460
	6,716	**7,353**

The ageing analysis of deposits that are past due and not considered impaired is as follows:

(US$ '000)

	2014	2013
Up to 1 year	9,120	7,855
1 to 3 years	28,013	25,875
	37,133	**33,730**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2014	2013
General insurance business		
- Claims outstanding	46,792	45,420
- Unreported claims	11,676	8,388
- Deferred retrocession premium reserve	12,960	5,079
	71,428	58,887
Life insurance business		
- Claims outstanding	68	195
- Unreported claims	546	-
- Deferred retrocession premium reserve	6	-
	620	195
	72,048	**59,082**

12. OTHER ASSETS

(US$ '000)

	2014	2013
Intangible assets		
- Computer software	9,492	11,336
	9,492	11,336
Less : accumulated amortisation	(8,711)	(10,167)
Net intangible assets	781	1,169
Disposal group held for sale	-	543
Receivable on sale of subsidiary	150	-
Other assets due within 12 months:		
- Collateralised cash deposits	3,408	45,353
- Prepayments and other receivables	7,698	9,503
	11,256	55,399
	12,037	**56,568**

(US$ '000)

	2014	2013
Movement in intangible assets		
Net book value at 1 January	1,169	1,148
- Additions	56	393
- Amortisation charge	(392)	(372)
- Disposal	(52)	-
Net book value at 31 December	**781**	**1,169**

Collateralised cash deposits have been pledged as security for reinsurance letters of credit and guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

13. PROPERTY AND EQUIPMENT

(US$ '000)

	2014	2013
Land	2,469	1,340
Building	25,001	26,741
Work in progress	64	50
Information systems, furniture, equipment and other	10,203	14,217
	37,737	42,348
Less: Accumulated depreciation	(10,275)	(14,876)
	27,462	**27,472**
Movements in property and equipment		
Net book value at 1 January	27,472	27,675
- Revaluation of land	1,129	-
- Revaluation of property	(800)	-
- Additions	565	928
- Disposals	(2)	(6)
- Depreciation charge	(902)	(1,125)
Net book value at 31 December	**27,462**	**27,472**

Land and Building comprises the head office property owned and occupied by the Company since 1984. Building also includes office premises of the subsidiary Takaful Re Limited in Dubai, U.A.E.

The head office property was revalued at year end by independent external valuers and classified as level 2 in the fair value measurement hierarchy as it has been valued using indicative transaction prices for similar payments and adjusted to reflect the characteristics of the property. Based on open market valuation, the fair value of land was determined at US$ 2,469,000 as against a carrying amount of US$ 1,340,000. The carrying amount of the land would have been US$ 1,972,000 had the asset been carried under the cost model. Of the increase in fair value of US$ 1,129,000, US$ 632,000 has been taken to income to set off the loss recognised in a previous valuation. The residual increase of US$ 497,000 has been included in Property Revaluation Reserve. The fair value of the building has been determined at US$ 5,432,000 as against a carrying value of US$ 6,232,000. The decrease in fair value of US$ 800,000 has been adjusted from Property Revaluation Reserve.

FOR THE YEAR ENDED 31 DECEMBER 2014

14. TECHNICAL PROVISIONS

Technical provisions comprise:

(US$ '000)

	2014	2013
General insurance business		
Claims outstanding	331,979	323,420
Unreported losses	159,602	156,667
Unearned premiums	138,106	117,642
	629,687	**597,729**
Life insurance business		
Claims outstanding	16,283	15,271
Unreported losses	55,345	58,828
Unearned premiums	6,316	6,820
	77,944	80,919
	707,631	**678,648**

The mean term of reserves is 2.9 years and 2.7 years for non-life and life business respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

15. CLAIMS DEVELOPMENT

The table below shows the incurred gross and net claims including unreported losses computed with reference to earned premiums, compared with previous estimates for the last 5 years:

(US$ '000)

	Underwriting year						
	2009	2010	2011	2012	2013	2014	**Total**
Gross							
Estimate of incurred claims costs							
- At end of underwriting year	123,596	119,232	128,402	113,735	112,367	106,448	
- One year later	209,836	210,700	205,558	178,609	190,431	-	
- Two years later	208,488	227,383	210,058	209,841	-	-	
- Three years later	203,983	229,046	218,371	-	-	-	
- Four years later	198,608	228,451	-	-	-	-	
- Five years later	198,491	-	-	-	-	-	
Current estimate of incurred claims	198,491	228,451	218,371	209,841	190,431	106,448	1,152,033
Cumulative payments to date	(167,298)	(191,697)	(171,425)	(120,310)	(45,381)	(6,424)	(702,535)
Liability recognised	31,193	36,754	46,946	89,531	145,050	100,024	449,498
Liability in respect of prior years							113,711
Total liability included in the statement of financial position							**563,209**

Net							
Estimate of incurred claims costs							
- At end of underwriting year	121,438	103,286	112,047	108,594	110,213	102,592	
- One year later	207,630	189,981	175,123	166,667	182,910	-	
- Two years later	204,279	187,265	181,617	184,913	-	-	
- Three years later	199,358	186,509	186,925	-	-	-	
- Four years later	193,791	185,478	-	-	-	-	
- Five years later	193,772	-	-	-	-	-	
Current estimate of incurred claims	193,772	185,478	186,925	184,913	182,910	102,592	1,036,590
Cumulative payments to date	(163,360)	(148,911)	(140,280)	(113,203)	(41,706)	(4,365)	(611,825)
Liability recognised	30,412	36,567	46,645	71,710	141,204	98,227	424,765
Liability in respect of prior years							79,362
Total liability included in the statement of financial position							**504,127**

FOR THE YEAR ENDED 31 DECEMBER 2014

16. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

	Gross	Reinsurance	Net
2014			
Claims			
Claims outstanding	338,691	45,615	293,076
Unreported losses	215,495	8,388	207,107
Total at beginning of year	554,186	54,003	500,183
Change in provision during the year	194,077	26,692	167,385
Claims settled during the year	(185,054)	(21,613)	(163,441)
Balance at end of year	**563,209**	**59,082**	**504,127**
Unearned premium			
At beginning of year	124,462	5,079	119,383
Change in provision during the year	19,960	7,887	12,073
Balance at end of year	**144,422**	**12,966**	**131,456**
Accrued insurance premium			
At beginning of year	86,207	4,025	82,182
Movement during the year	8,016	4,473	3,543
Balance at end of year	**94,223**	**8,498**	**85,725**
Deferred policy acquisitions costs			
At beginning of year	28,352	122	28,230
Movement during the year	(3,693)	85	(3,778)
Balance at end of year	**24,659**	**207**	**24,452**
2013			
Claims			
Claims outstanding	316,180	42,609	273,571
Unreported losses	239,568	13,021	226,547
Total at beginning of year	555,748	55,630	500,118
Change in provision during the year	161,963	11,599	150,364
Claims settled during the year	(163,525)	(13,226)	(150,299)
Balance at end of year	**554,186**	**54,003**	**500,183**
Unearned premium			
At beginning of year	115,706	3,662	112,044
Change in provision during the year	8,756	1,417	7,339
Balance at end of year	**124,462**	**5,079**	**119,383**
Accrued insurance premium			
At beginning of year	103,201	4,712	98,489
Movement during the year	(16,994)	(687)	(16,307)
Balance at end of year	**86,207**	**4,025**	**82,182**
Deferred policy acquisitions costs			
At beginning of year	28,178	186	27,992
Movement during the year	174	(64)	238
Balance at end of year	**28,352**	**122**	**28,230**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

17. INSURANCE PAYABLES

(US$ '000)

	2014	2013
Due Within 12 months	41,768	45,588
	41,768	**45,588**

18. BORROWINGS

(US$ '000)

	2014	2013
Balances Due:		
- Within 12 months	10,000	-
	10,000	**-**

Borrowings amounting to US$ 10 million (2013: US$ nil) are secured by debt securities amounting to US$ 14.8 million. The effective interest rate on the borrowings was 1.55% (2013: 1.3%).

19. OTHER LIABILITIES

(US$ '000)

	2014	2013
Post-employment benefits (note 29)	13,302	14,058
Reinsurance premiums accrued	8,619	8,619
Dividends payable	1,922	1,928
Accrued expenses	7,185	7,245
Employee share scheme (note 28)	6,478	3,440
Other	4,997	5,783
	42,503	**41,073**
Balances due:		
- Within 12 months	22,723	23,575
- After 12 months	19,780	17,498
	42,503	**41,073**

20. SHAREHOLDERS' EQUITY

Share capital

a) Composition

(US$ '000)

	2014	2013
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed & Fully Paid-up 220 million (2013: 220 million) ordinary shares of US$ 1 each	220,000	220,000

FOR THE YEAR ENDED 31 DECEMBER 2014

20. SHAREHOLDERS' EQUITY (Contd.)

b) Major shareholders

Shareholders who have an interest of 5% or more of the outstanding and issued shares are as shown below:

Name	Nationality	No. of shares (in millions)		% of total outstanding shares		% of total issued shares	
		2014	2013	**2014**	2013	**2014**	2013
Central Bank of Libya	Libya	31.8	31.8	16.1	16.1	14.4	14.4
Emirates Investment Authority	UAE	30.5	30.5	15.4	15.4	13.9	13.9
General Pension & Social Security Authority	UAE	27.5	27.5	13.9	13.9	12.5	12.5
Kuwait Investment Authority	Kuwait	20.0	20.0	10.1	10.1	9.1	9.1
Emirates Development Bank	UAE	11.0	11.0	5.6	5.6	5.0	5.0

c) Shareholding pattern

The shareholding pattern in the outstanding shares of the company is as follows:

Shares	No. of shares (in millions)		No. of shareholders		% of total outstanding shares	
	2014	2013	**2014**	2013	**2014**	2013
Less than 1%	44.9	42.7	4,624	4,677	22.7	21.5
1% to 5%	32.3	34.5	5	8	16.3	17.4
5% to 10%	11.0	11.0	1	1	5.6	5.6
10% and above	109.8	109.8	4	4	55.4	55.5

Treasury stock

The Company held 21,967,818 of its own shares at 31 December 2014 (2013: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2013: US$ 14,793,000).

Legal reserve

In accordance with applicable legal provisions and Articles of Association, the Group is required to set aside 10% of net profits each year to build a Legal Reserve up to a maximum of 100% of the paid up value of its share capital.

Investment revaluation reserve

Investment Revaluation Reserve comprises gains or losses arising from remeasurement of available for sale investment assets. These gains or losses are carried in the reserve until the assets are disposed of, at which time the gains or losses are included in income.

Property revaluation reserve

Property Revaluation Reserve represents the difference between the cost of buildings less accumulated depreciation and their fair values. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

20. SHAREHOLDERS' EQUITY (Contd.)

Capital management

The Group's total capital comprises paid-up capital, legal reserve and retained earning less treasury shares. The Group's policy is to maintain a strong capital base so as to maintain client, investor and market confidence and to sustain future development of the business. The parent company is regulated by Central Bank of Bahrain, which sets and monitors capital requirement for the parent company. Central Bank of Bahrain (CBB) requires the parent company to compute the solvency margin requirement in accordance with provisions of the CBB Rule Book. The Company is in compliance with the required margin of solvency.

Additionally, the Company manages its capital adequacy on an evaluation of its capital requirement through risk based capital models.

21. NON-CONTROLLING INTERESTS

(US$ '000)

	2014	2013
At 1 January	42,109	46,238
Share of comprehensive income	(4,247)	(4,129)
At 31 December	**37,862**	**42,109**

FOR THE YEAR ENDED 31 DECEMBER 2014

22. SEGMENT INFORMATION

Analysis of revenue by primary business segment

The Group's reinsurance business consists of two main business segments, Non-life and Life. Non-life business primarily consists of Property, Engineering, Marine, Accident, Whole Account & other classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies.

(US$ '000)

	Non-life						Life		Total
2014	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES									
Gross premiums written	68,301	36,736	21,007	21,031	119,589	25,367	22,376	893	315,300
Outward reinsurance premiums	(5,010)	(3,110)	(552)	(91)	(45,884)	97	(362)	1	(54,911)
Change in unearned premiums - gross	2,307	3,005	1,459	599	(22,896)	1,501	354	132	(13,539)
Change in unearned premiums - reinsurance	47	101	191	(2)	9,240	-	6	-	9,583
Net earned premiums	65,645	36,732	22,105	21,537	60,049	26,965	22,374	1,026	256,433
Investment income attributable to insurance funds	3,752	1,674	1,193	268	127	2,325	952	1,454	11,745
	69,397	38,406	23,298	21,805	60,176	29,290	23,326	2,480	268,178
COSTS AND EXPENSES									
Gross claims paid	(57,114)	(19,946)	(10,600)	(9,605)	(41,255)	(27,732)	(15,083)	(3,714)	(185,049)
Claims recovered from reinsurers	3,044	475	261	229	17,574	(147)	176	-	21,612
Change in provision for outstanding claims - gross	(2,570)	(5,624)	2,287	(2,903)	(4,530)	4,469	(1,037)	(243)	(10,151)
Change in provision for outstanding claims - reinsurance	20	(936)	(358)	(120)	(13,521)	(777)	(129)	(1)	(15,822)
Change in provision for unreported losses - gross	4,427	2,908	154	(883)	1,335	2,039	(1,115)	5,127	13,992
Change in provision for unreported losses - reinsurance	(427)	314	(165)	(183)	4,460	2	21	(3)	4,019
Claims and related expenses	(52,620)	(22,809)	(8,421)	(13,465)	(35,937)	(22,146)	(17,167)	1,166	(171,399)
Policy acquisition costs	(17,706)	(10,409)	(6,639)	(7,422)	(21,470)	(1,364)	(497)	50	(65,457)
Policy acquisition costs recovered from reinsurers	236	332	178	39	-	(20)	(2)	(1)	762
Change in deferred policy acquisition costs - gross	(1,864)	(1,125)	(489)	616	(1,290)	(94)	74	34	(4,138)
Change in deferred policy acquisition costs - reinsurance	(28)	(36)	(60)	1	-	-	-	-	(123)
Policy acquisition costs	(19,362)	(11,238)	(7,010)	(6,766)	(22,760)	(1,478)	(425)	83	(68,956)
Operating expenses	(7,841)	(2,945)	(2,193)	(1,985)	(577)	(3,513)	(2,316)	(453)	(21,823)
Underwriting result	**(10,426)**	**1,414**	**5,674**	**(411)**	**902**	**2,153**	**3,418**	**3,276**	**6,000**

FOR THE YEAR ENDED 31 DECEMBER 2014

22. SEGMENT INFORMATION (Contd.)

Analysis of revenue by primary business segment

(US$ '000)

	Non-life						Life		
2013	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	Total
REVENUES									
Gross premiums written	77,319	34,351	19,075	19,846	54,867	31,510	24,616	404	261,988
Outward reinsurance premiums	(4,895)	(6,683)	4,937	778	(8,336)	(827)	(286)	(424)	(15,736)
Change in unearned premiums - gross	5,174	2,329	1,586	(153)	(13,476)	(4,182)	(1,071)	223	(9,570)
Change in unearned premiums - reinsurance	(18)	(111)	(86)	(33)	1,567	(270)	(19)	-	1,030
Net earned premiums	77,580	29,886	25,512	20,438	34,622	26,231	23,240	203	237,712
Investment income attributable to insurance funds	2,449	1,145	553	1,588	1,403	1,853	873	1,296	11,160
	80,029	31,031	26,065	22,026	36,025	28,084	24,113	1,499	248,872
COSTS AND EXPENSES									
Gross claims paid	(61,567)	(19,204)	(16,657)	(9,442)	(4,839)	(29,583)	(15,368)	(6,865)	(163,525)
Claims recovered from reinsurers	11,084	1,198	(750)	710	(1,441)	2,234	191	-	13,226
Change in provision for outstanding claims - gross	(9,190)	(5,230)	699	(549)	(13,567)	3,853	466	(539)	(24,057)
Change in provision for outstanding claims - reinsurance	151	(500)	(230)	143	5,355	(375)	(378)	-	4,166
Change in provision for unreported losses - gross	2,188	5,595	5,398	(38)	(958)	7,875	(904)	7,380	26,536
Change in provision for unreported losses - reinsurance	(2,045)	688	(103)	(305)	(3,764)	(948)	32	(4)	(6,449)
Claims and related expenses	(59,379)	(17,453)	(11,643)	(9,481)	(19,214)	(16,944)	(15,961)	(28)	(150,103)
Policy acquisition costs	(21,940)	(11,628)	(5,184)	(6,252)	(12,479)	(3,897)	(2,270)	412	(63,238)
Policy acquisition costs recovered from reinsurers	(1,434)	(320)	(1,959)	575	4	(54)	307	-	(2,881)
Change in deferred policy acquisition costs - gross	(929)	(578)	(768)	147	354	1,002	(11)	(61)	(844)
Change in deferred policy acquisition costs - reinsurance	(1)	39	30	9	-	26	6	-	109
Policy acquisition costs	(24,304)	(12,487)	(7,881)	(5,521)	(12,121)	(2,923)	(1,968)	351	(66,854)
Operating expenses	(6,963)	(2,826)	(1,900)	(1,042)	(463)	(2,469)	(2,264)	(565)	(18,492)
Underwriting result	**(10,617)**	**(1,735)**	**4,641**	**5,982**	**4,227**	**5,748**	**3,920**	**1,257**	**13,423**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

22. SEGMENT INFORMATION (Contd.)

Analysis of premiums and non-current asset based on geographical location of the risk insured and location of the asset respectively

(US$ '000)

	2014		2013	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	111,051	39,767	103,181	43,391
- Africa	29,032	3,013	30,668	4,384
- Asia	59,681	6,193	68,174	9,745
- Others	115,536	11,989	59,965	8,572
	315,300	**60,962**	**261,988**	**66,092**

There is no significant cedant group as the portfolio is diversified.

Analysis of segment assets and liabilities

(US$ '000)

	Non-Life						Life			
2014	Property	Engineering	Marine	Accident	Whole	Others	Short Term	Long term	Corporate	Total
Reinsurance assets	60,261	39,852	33,219	17,256	130,340	59,525	10,644	634	-	351,731
Cash	26,877	15,443	7,490	5,373	7,684	14,468	3,020	12,252	100,096	192,703
Investments	80,736	43,966	22,810	16,573	29,893	38,130	8,662	43,174	242,054	525,998
Others	-	-	-	-	-	-	-	-	33,881	33,881
	167,874	99,261	63,519	39,202	167,917	112,123	22,326	56,060	376,031	1,104,313
Reinsurance liabilities	179,505	107,963	66,504	41,168	165,632	122,823	23,976	56,060	-	763,631
Others	-	-	-	-	-	-	-	-	38,271	38,271
	179,505	**107,963**	**66,504**	**41,168**	**165,632**	**122,823**	**23,976**	**56,060**	**38,271**	**801,902**
2013										
Reinsurance assets	81,823	54,075	33,677	23,564	88,093	75,915	18,079	4,699	-	379,925
Cash	40,651	20,109	12,361	5,854	7,851	20,030	10,164	15,078	141,133	273,231
Investments	58,549	28,627	17,793	8,452	12,735	27,720	12,830	25,378	174,623	366,707
Others	-	-	-	-	-	-	-	-	36,779	36,779
	181,023	102,811	63,831	37,870	108,679	123,665	41,073	45,155	352,535	1,056,642
Reinsurance liabilities	183,620	108,882	70,113	37,905	115,842	138,660	34,560	47,063	-	736,645
Others	-	-	-	-	-	-	-	-	28,664	28,664
	183,620	**108,882**	**70,113**	**37,905**	**115,842**	**138,660**	**34,560**	**47,063**	**28,664**	**765,309**

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FOR THE YEAR ENDED 31 DECEMBER 2014

23. INVESTMENT INCOME

(US$ '000)

2014	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or loss	510	276	786
- Others	4,634	4,040	8,674
Dividends	840	677	1,517
Realised gains			
- Trading investments	4,062	3,186	7,248
- Investment designated at fair value through profit or loss	469	265	734
- Available for sale	4,774	3,689	8,463
Loss on remeasurement of investments at fair value through profit & loss			
- Trading investments	(1,861)	(1,985)	(3,846)
- Investments designated at fair value through profit or loss	(415)	(277)	(692)
Impairment loss-available for sale	(465)	(577)	(1,042)
Other	(803)	(540)	(1,343)
	11,745	**8,754**	**20,499**

2013			
Interest income			
- Investments designated at fair value through profit or loss	564	345	909
- Others	4,843	4,379	9,222
Dividends	649	539	1,188
Realised gains (loss)			
- Trading investments	1,569	1,463	3,032
- Investment designated at fair value through profit or loss	(35)	(21)	(56)
- Available for sale	1,119	1,288	2,407
Gain (loss) on remeasurement of investments at fair value through profit & loss			
- Trading investments	3,456	2,960	6,416
- Investments designated at fair value through profit or loss	(206)	(127)	(333)
Impairment loss-available for sale	(402)	(1,200)	(1,602)
Other	(397)	(363)	(760)
	11,160	**9,263**	**20,423**

FOR THE YEAR ENDED 31 DECEMBER 2014

24. OPERATING EXPENSES

(US$ '000)

	Underwriting	Non-Underwriting	Total
2014			
Salaries and benefits	15,014	4,472	19,486
General and administration	6,809	2,394	9,203
	21,823	**6,866**	**28,689**
2013			
Salaries and beneftits	13,404	7,052	20,456
General and administration	5,088	3,390	8,478
	18,492	**10,442**	**28,934**

25. OTHER INCOME

(US$ '000)

	2014	2013
Third party administration services	3,158	2,317
Software sales and related services	938	1,945
Profit on revaluation of land (note 13)	632	-
Other	648	1,182
	5,376	**5,444**

26. OTHER EXPENSES AND PROVISIONS

(US$ '000)

	2014	2013
Foreign exchange loss	1,050	941
Provision for doubtful receivable & deposits	(813)	30
Other	1,446	1,781
	1,683	**2,752**

27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic and diluted earnings per share has been computed as follows:

		2014	2013
Weighted average number of shares outstanding	'000	198,032	198,032
Net profit	US$'000	15,615	18,603
Earnings per share	US$	0.08	0.09

FOR THE YEAR ENDED 31 DECEMBER 2014

28. EMPLOYEE SHARE SCHEME

The Group operates a cash-settled, share based compensation scheme. Awards under the scheme are subject to the Company achieving specified minimum rates of return to shareholders and are determined based on an evaluation of employee performance against objectives agreed in advance. Virtual shares are allocated at the end of the financial year, being the allotment date, based on the book value of the Company's shares at the beginning of the financial year. These virtual shares will vest in the employees after two years from the allotment date.

The effect of the Scheme on the consolidated financial statements is presented below:

(US$ '000)

	2014	2013
Liability	6,478	3,440
Expense	2,458	1,141

29. POST EMPLOYMENT BENEFITS

The Group operates a number of post-employment plans on defined benefit basis. Eligibility for participation in the defined benefit plans is based on completion of a specified period of continuous service or date of hire. Benefits are based on the employee's years of service.

The principal assumptions used for accounting purposes were:

	2014	2013
Discount rate	2.2%	2.2%
Expected return on assets	2.2%	2.2%
Future salary increases	3.3%	3.3%

The movements in the liability recognised in the statement of financial position are:

(US$ '000)

	2014	2013
Balance at 1 January	14,058	12,484
Accruals for the year	1,426	2,528
Payments during the year	(2,182)	(954)
Balance at 31 December	**13,302**	**14,058**

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30. FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of its business, the Group uses forward foreign exchange contracts to hedge its exposure in respect of foreign currency denominated investments and insurance liabilities. In the event that the item being hedged is sold or settled prior to maturity of the forward foreign exchange contract, it is generally the Group's policy to enter into another offsetting forward foreign exchange contract of the same amount and maturity date. The notional amounts of these financial instruments are not recognised in the Group's consolidated financial statements but their fair values are recognised as assets or liabilities, as appropriate, with changes in fair value being taken to the statement of income. The contracts oblige the Group to exchange cash flows to be received in the future from foreign currency denominated investments for U.S. Dollars at predetermined exchange rates. The counter parties in respect of these transactions are leading financial institutions.

Forward foreign exchange contracts – by currency

(US$ '000)

	2014		2013	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	2,125	10,472	2,413	9,484
Pound Sterling	-	5,916	1,065	5,842
Japanese yen	-	2,105	-	2,343
Canadian Dollar	-	3,560	959	2,596
	2,125	**22,053**	**4,437**	**20,265**

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposures.

Forward foreign exchange contracts - remaining term to maturity

All of the forward foreign exchange contracts outstanding are due in one year or less.

Forward foreign exchange contracts - unrealised gains and losses

The following table summarises the fair value of the Group's hedging portfolio of forward foreign exchange contracts at the statement of financial position date, segregating the items between those that are in an unrealised gain position from those that are in an unrealised loss position.

(US$ '000)

	2014		2013	
	Purchases	Sales	Purchases	Sales
Unrealised gains	-	624	154	64
Unrealised losses	(69)	(3)	(17)	(353)
	(69)	**621**	**137**	**(289)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

31. RECONCILIATION OF NET RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

(US$ '000)

	2014	2013
Profit for the year	11,446	14,873
Increase in insurance funds	23,755	6,220
Change in insurance receivable/payable, net	(8,500)	(2,402)
Change in accrued insurance premiums	(3,541)	17,078
Change in other assets/liabilities, net	(34,132)	(18,733)
Net cash provided by operating activities	**(10,972)**	**17,036**

32. FAIR VALUE DISCLOSURE

The following table presents the fair values of the Group's financial instruments

(US$ '000)

	Book Value						Fair value
2014	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	192,703	-	-	-	192,703	192,703
Investments	121,701	-	38,529	365,452	-	525,682	526,316
Accrued income	-	435	86,402	1,186	-	88,023	88,023
Insurance receivables	-	119,012	-	-	-	119,012	119,012
Insurance deposits	-	42,578	-	-	-	42,578	42,578
Other assets	-	11,256	-	-	-	11,256	11,256
LIABILITIES							
Insurance payables	-	-	-	-	41,768	41,768	41,768
Borrowings	-	-	-	-	10,000	10,000	10,000
Other liabilities	-	-	-	-	35,318	35,318	35,318

FOR THE YEAR ENDED 31 DECEMBER 2014

32. FAIR VALUE DISCLOSURE (Contd.)

(US$ '000)

2013	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and bank balances	-	273,231	-	-	-	273,231	273,231
Investments	95,877	-	55,510	215,182	-	366,569	367,631
Accrued income	-	421	82,908	1,153	-	84,482	84,482
Insurance receivables	-	114,332	-	-	-	114,332	114,332
Insurance deposits	-	46,538	-	-	-	46,538	46,538
Other assets	-	55,399	-	-	-	55,399	55,399
LIABILITIES							
Insurance payables	-	-	-	-	45,588	45,588	45,588
Other liabilities	-	-	-	-	33,828	33,828	33,828

The information disclosed in the table above is not indicative of the net worth of the Group.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

General

The book values of the Group's financial instruments except investments and forward foreign exchange contracts were deemed to approximate fair value due to the immediate or short term maturity of these financial instruments.

Hence, the fair value measurement details are not disclosed.

Investments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

32. FAIR VALUE DISCLOSURE (Contd.)

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation includes risk free and benchmark interest rates, bond and equity prices, and foreign exchange rates. The objective of valuations technique is to arrive at fair value measurement that reflects the price that would be received on sale of the asset at the measurement date.

The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

(US$ '000)

2014	Level 1	Level 2	Level 3	Total
Held for maturity				
Debt securities	39,163	-	-	39,163
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	66,281	-	-	66,281
Designated at fair value on initial recognition				
Debt Securities	54,590	-	-	54,590
Available for sale				
Debt securities	338,484	-	-	338,484
Common stock of listed companies	4,484	-	-	4,484
Common stock of unlisted companies	-	121	6,327	6,448
Other	-	1,742	15,124	16,866
Forward foreign exchange contracts	552	-	-	552
	503,554	**1,863**	**21,451**	**526,868**

2013				
Held for maturity				
Debt securities	56,572	-	-	56,572
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	53,934	-	-	53,934
Designated at fair value on initial recognition				
Debt Securities	41,943	-	-	41,943
Available for sale				
Debt securities	192,480	-	-	192,480
Common stock of unlisted companies	-	1,514	5,646	7,160
Other	-	1,935	13,607	15,542
Forward foreign exchange contracts	(152)	-	-	(152)
	344,777	**3,449**	**19,253**	**367,479**

FOR THE YEAR ENDED 31 DECEMBER 2014

32. FAIR VALUE DISCLOSURE (Contd.)

The tables below show movements in the Level 3 financial assets measured at fair value:

(US$ ’000)

	Unlisted equity	Others	Total
Balance at 1 January 2014	5,646	13,607	19,253
Gain (loss) recognised in:			
- Income statement	(10)	(674)	(684)
- Other comprehensive income	137	(366)	(229)
Investments made during the year	891	5,238	6,129
Investments redeemed during the year	(337)	(2,681)	(3,018)
Balance at 31 December 2014	**6,327**	**15,124**	**21,451**

Balance at 1 January 2013	5,087	15,536	20,623
Gain (loss) recognised in:			
- Income statement	(538)	(1,037)	(1,575)
- Other comprehensive income	(8)	(178)	(186)
Investments made during the year	1,231	1,274	2,505
Investments redeemed during the year	(126)	(1,988)	(2,114)
Balance at 31 December 2013	**5,646**	**13,607**	**19,253**

The carrying values of the investment held in level 3 are based on unobservable inputs and reflects proportional share of the fair values of the respective companies and their underlying net assets. The Group does not expect the fair value of assets under level 2 & level 3 to change significantly on changing one or more of the unassumable inputs. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. For the year ended December 31, 2014, there were no transfers in and out of level 1, level 2 and level 3 (2013: none). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the Company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

The Group does not expect the fair value of assets under level 3 to change significantly on changing one or more of the measurable / observable inputs.

Forward foreign exchange contracts

The fair value of forward foreign exchange contracts, used for hedging purposes, is based on quoted market prices.

Fair value less than carrying amounts

The fair value of fixed interest debt securities fluctuates with changes in market interest rates. The book value of financial assets held to maturity has not been reduced to fair value where lower, because such market rate variations are considered temporary in nature and management intends, and has the financial resources and capacity, to generally hold such investments to maturity.

FOR THE YEAR ENDED 31 DECEMBER 2014

33. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

1. Subsidiaries, joint ventures and associates

At 31 December 2014, the principal subsidiaries of the Company were:

	Country of incorporation	Ownership	Non-controlling Interests	Principal Activities
Arig Capital Limited	United Kingdom	100%	Nil	Reinsurance
Gulf Warranties W.L.L.	Kingdom of Bahrain	100%	Nil	Warranty
Takaful Re Limited	United Arab Emirates	54%	46%	Retakaful

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2013 except for Arima Insurance Software W.L.L. The Company divested 51% of its holding in the subsidiary Arima Insurance Software W.L.L. for a total consideration of US$ 250,000. An amount of USD 100,000/- of the consideration has been received and the balance of USD 150,000 is to be settled by way of shares in the buyer BSynchro, Lebanon. The Company continues to hold 50% of the joint venture Hardy Arig Insurance Management W.L.L., Bahrain which has ceased operations. The Group also holds 49% and 25% of the equity shares in Arima Insurance Software W.L.L. and Globemed Bahrain W.L.L., Bahrain respectively

2. Interest in subsidiaries: Takaful Re Limited

(US$ '000)

	2014	2013
Non-controlling interest	46%	46%
Other assets	155,646	179,234
Other liabilities	71,937	75,685
Net Assets	83,709	91,542
Revenue	18,429	23,637
Loss for the year	(9,062)	(8,099)
Total comprehensive income	(9,233)	(8,975)
Comprehensive income attributable to non-controlling interests	(4,248)	(4,129)
Net cash used in operating activities	(13,840)	(2,584)
Net cash provided by (used in) investing activities	13,648	(2,248)
Net decrease in cash and cash equivalents	(192)	(4,832)

The subsidiary's policyholder funds are consolidated as these funds are controlled and managed by the subsidiary which is in a position to direct activities and operations.

3. Interests in joint venture and associates

a) The following table summarizes the financial information in all individually immaterial associates that are accounted for using the equity method

(US$ '000)

	2014	2013
Carrying amount of interest in associates	295	19
Total comprehensive income	(389)	(260)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

33. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES (Contd.)

3. Interests in joint venture and associates (contd.)

b) The following table summarizes the financial information in all individually immaterial joint ventures that are accounted for using the equity method

(US$ '000)

	2014	2013
Carrying amount of interest in joint ventures	21	119
Total comprehensive income	(98)	(8)

34. RELATED PARTY TRANSACTIONS

Related parties represent the Company's major shareholders, subsidiary companies, associates, joint ventures, directors and key management personnel.

The following is the summary of transactions with related parties.

1. Subsidiary companies

(US$ '000)

	2014	2013
a) Gross premium retroceded by subsidiary to parent company	74,787	34,932
b) Service fees for administration services provided by parent company	919	4,889
c) Balances outstanding		
- Receivables	60,663	40,193
d) Software royalty fees	-	61

2. Joint venture

(US$ '000)

	2014	2013
a) Service fees for administration services provided	66	123
b) Balances receivable	460	315

3. Compensation to directors and key management personnel

(US$ '000)

	2014	2013
a) Directors		
- Remuneration (proposed)	305	-
- Attendance fees	123	96
- Travel Expenses	168	116
b) Key management compensation		
- Salaries and other short-term employee benefits	2,571	2,144
- Post-employment benefits	313	719
- Share-based compensation	1,114	463
c) Balances payable (net)		
Key management		
- Maximum balance	7,707	6,036
- Closing balance	7,707	6,036

All transactions with related parties are conducted on an arm's length basis. All outstanding balances from related parties are expected to be settled within 12 months. No provisions have been required in 2014 and 2013 for any outstanding amounts due from related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

35. PARENT COMPANY

The unconsolidated statement of financial position of the parent company, Arab Insurance Group (B.S.C.), is presented below.

		(US$ '000)
	2014	2013
ASSETS		
Cash and bank balances	126,529	185,199
Investments	445,875	315,657
Accrued income	76,935	71,767
Insurance receivables	62,234	64,908
Insurance deposits	40,151	43,107
Deferred policy acquisition costs	14,930	18,203
Reinsurers' share of technical provisions	34,579	36,801
Other assets	67,974	89,137
Investment in subsidiaries and associates	46,062	51,183
Property and equipment	8,482	8,084
	923,751	**884,046**
LIABILITIES		
Technical provisions	588,280	576,323
Insurance payables	24,392	20,653
Borrowings	10,000	-
Other liabilities	36,530	37,846
	659,202	634,822
SHAREHOLDERS' EQUITY (note 21)		
Share capital	220,000	220,000
Treasury stock	(14,793)	(14,793)
Reserves	39,845	38,702
Retained earnings	19,497	5,315
	264,549	249,224
	923,751	**884,046**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

36. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The directors propose to recommend the following appropriations for approval of shareholders at the Annual General Assembly meeting to be held on 23 March 2015:

	(US$ '000)
Cash dividend of US$ 0.05 per share of US$ 1 each	11,000
Directors' remuneration	305

THE ARIG GROUP

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Arab Insurance Group (B.S.C.)

www.arig.net

Reinsurance firm regulated by the Central Bank of Bahrain