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 2015, 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 2015, 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. 187
10 February 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

(US$ '000)

	Note	**2015**	2014
ASSETS			
Cash and bank balances	5	198,769	187,144
Investments	6	545,459	525,998
Accrued income	8	71,322	88,023
Insurance receivables	9	116,022	119,012
Insurance deposits	10	37,017	42,578
Deferred policy acquisition costs		20,400	24,452
Reinsurers' share of technical provisions	11	65,850	72,048
Other assets	12	21,987	17,596
Property and equipment	13	22,236	27,462
		1,099,062	**1,104,313**
LIABILITIES			
Technical provisions	14	679,543	707,631
Insurance payables	17	44,606	41,768
Borrowings	18	44,000	10,000
Other liabilities	19	51,933	42,503
		820,082	801,902
EQUITY			
Attributable to shareholders of parent company	20		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		33,750	39,857
Retained earnings		5,291	19,485
		244,248	264,549
Non-controlling interests	21	34,732	37,862
		278,980	302,411
		1,099,062	**1,104,313**

These consolidated financial statements were approved by the Board of Directors on 10 February 2016 and signed on its behalf by:

Khalid J. Bin Kalban
Chairman

Dr. Fouad A A Alfalah
Director

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(US$ '000)

	Note		2015	2014
Gross premiums written			220,442	315,300
Net earned premiums			219,924	256,433
Claims and related expenses			(148,259)	(171,399)
Policy acquisition costs			(58,422)	(68,956)
Investment income attributable to insurance funds	23		8,542	11,745
Operating expenses	24		(21,012)	(21,823)
Underwriting result	22		**773**	**6,000**
Investment income attributable to shareholders' funds	23		5,752	8,754
Operating expenses – non underwriting activities	24		(7,544)	(6,866)
Borrowing cost			(416)	(135)
Other income	25		5,945	5,376
Other expenses and provisions	26		(12,134)	(1,683)
(Loss) profit for the year			**(7,624)**	**11,446**
Attributable to:				
Non-controlling interests			(3,203)	(4,169)
Shareholders of parent company			(4,421)	15,615
			(7,624)	**11,446**
Earnings per share attributable to shareholders (basic and diluted)	27	US$	(0.02)	0.08

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

(US$ '000)

	2015	2014
(Loss) profit for the year	(7,624)	11,446
Other comprehensive income		
Items that will be reclassified to profit or loss		
Changes on remeasurement of available for sale investments	(6,382)	(451)
Transfers for recognition of losses on disposal of available for sale investments	477	386
Items that will not be reclassified subsequently to profit or loss		
Revaluation of property	-	(303)
Other comprehensive income	(5,905)	(368)
Total comprehensive income	**(13,529)**	**11,078**
Attributable to:		
Non-controlling interests	(3,130)	(4,247)
Shareholders of parent company	(10,399)	15,325
	(13,529)	**11,078**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(US$ '000)

			Reserves							
	Share capital	Treasury stock	Legal	Investment revaluation	Property revaluation	Total	Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total Equity
Balances at 31 December 2014	**220,000**	**(14,793)**	**33,144**	**783**	**5,930**	**39,857**	**19,485**	**264,549**	**37,862**	**302,411**
Net loss for the year	-	-	-	-	-	-	(4,421)	(4,421)	(3,203)	(7,624)
Changes on remeasurement of available for sale investments	-	-	-	(6,311)	-	(6,311)	-	(6,311)	(71)	(6,382)
Transfers for recognition of losses on disposal of available for sale investments	-	-	-	333	-	333	-	333	144	477
Total comprehensive income for the year	-	-	-	(5,978)	-	(5,978)	(4,421)	(10,399)	(3,130)	(13,529)
Dividend paid	-	-	-	-	-	-	(9,902)	(9,902)	-	(9,902)
Transfer of net depreciation on revalued property	-	-	-	-	(185)	(185)	185	-	-	-
Transfer to (from) non-distributable reserves	-	-	56	-	-	56	(56)	-	-	-
Balances at 31 December 2015	**220,000**	**(14,793)**	**33,200**	**(5,195)**	**5,745**	**33,750**	**5,291**	**244,248**	**34,732**	**278,980**
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 (from) 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**
Parent company balances at (note 35)										
31 December 2015	220,000	(14,793)	33,041	(5,190)	5,745	33,596	5,445	244,248	-	244,248
31 December 2014	220,000	(14,793)	33,041	874	5,930	39,845	19,497	264,549	-	264,549

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

(US$ '000)

	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		308,434	286,157
Reinsurance premiums paid		(58,869)	(30,501)
Claims and acquisition costs paid		(250,677)	(260,058)
Reinsurance receipts in respect of claims		31,190	30,324
Investment income		1,986	3,313
Interest received		2,211	2,750
Dividends received		1,878	1,473
Operating expenses paid		(22,700)	(24,995)
Other income/expenses, net		(3,332)	3,025
Insurance deposits received, net		5,444	3,261
Purchase of trading investments		(46,990)	(74,305)
Sale of trading investments		31,340	48,584
Directors' remunerations paid		(305)	-
Net cash used in operating activities	31	(390)	(10,972)
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity/sale of investments		329,987	267,889
Purchase of investments		(348,512)	(402,386)
Term deposit with bank		29,845	57,047
Interest received		9,347	6,353
Dividend received		10	44
Investment income		7,492	7,606
Collateralised cash deposits (paid) received, net		(10,137)	36,386
Purchase of property and equipment		(574)	(565)
Purchase of intangible assets		(38)	(56)
Disposal group held for sale		-	100
Investment in associate		-	(25)
Net cash provided by (used in) investing activities		17,420	(27,607)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings		34,000	10,000
Interest on borrowings		(328)	(135)
Dividends paid		(9,245)	(6)
Net cash provided by financing activities		24,427	9,859
Net increase (decrease) in cash and cash equivalents		41,457	(28,720)
Effect of exchange rate on cash and cash equivalents		13	(320)
Cash and cash equivalents, beginning of year		95,045	124,085
Cash and cash equivalents, end of year	5	**136,515**	**95,045**
Term deposit with bank		62,254	92,099
Cash and bank balances, end of year	5	**198,769**	**187,144**

The accompanying notes 1 to 35 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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 July 2014:

- 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 adoption of this amendment has no material impact on the financial statements.

- Improvements to IFRSs (2013)

  Improvements to IFRS issued in December 2013 include a number of amendments to various IFRSs. The amendments have been applied retrospectively. The adoption of these amendment 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 2015:

- 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 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 recognised. 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 27 Separate Financial Statements

  Amendments have been made to IAS 27 Separate Financial Statements, which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates).

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early application is permitted. The Group is not expecting a significant impact from the adoption of this amendment.

- IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures

  Amendments to standard clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

  Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investments in the associate or joint venture.

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

- IAS 1 Presentation of Financial Statements

  Amendments provide clarifications on a number of issues, including:

  Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

  Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance.

  Notes – confirmation that the notes do not need to be presented in a particular order.

  OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss.

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

- Improvements to IFRSs (2014)

  Improvements to IFRSs in the 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016 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 2015.

  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 2015.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short-term highly liquid assets (placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day to day operations of the Group are not included in cash and cash equivalents.

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 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

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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 realisation 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Contd.)

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 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 2015

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

2015	Receivables	Share of technical provisions	Total
Balance relating to reinsurers			
- With investment grade rating	702	25,839	26,541
- Other	11,079	11,919	22,998
	11,781	**37,758**	**49,539**

2014			
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**

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)

2015	Euro	Pound Sterling	Indian Rupee	Canadian Dollar	Other
Reinsurance Assets (Liabilities), net	(1,285)	291	(12,250)	(56)	(118,130)
Hedged	1,079	1,814	-	-	-

2014					
Reinsurance Assets (Liabilities), net	(1,032)	(1,061)	(16,317)	(509)	(116,620)
Hedged	2,126	-	-	-	-

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)

	2015	2014
5% increase in loss ratio	(10,996)	(12,822)
5% decrease in loss ratio	10,996	12,822
10% increase in US Dollar exchange rate	11,454	12,030
10% decrease in US Dollar exchange rate	(11,454)	(12,030)

FOR THE YEAR ENDED 31 DECEMBER 2015

5. CASH AND BANK BALANCES

(US$ '000)

	2015	2014
Cash and bank balances	92,503	80,173
Deposits with maturity within 3 months	44,012	14,872
Cash and cash equivalents	136,515	95,045
Deposits with maturity over 3 months	62,254	92,099
	198,769	**187,144**

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

	2015	2014
Interest receivable basis		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.01% to 2.20 %	0.01% to 3.10 %

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

Currency risk

(US$ '000)

	2015	2014
U.S. Dollar	172,751	110,964
Bahraini Dinar	17,307	59,353
UAE Dirham	336	4,860
Singapore Dollars	3,852	3,656
Qatari riyals	11	11
Other	4,512	8,300
	198,769	**187,144**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

6. INVESTMENTS

(US$ '000)

	2015	2014
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	44,825	66,281
	44,825	66,281
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	49,490	24,782
- Other	40,696	29,808
	90,186	54,590
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	1,000	12,993
- Other investment grade	4,000	13,007
- Non OECD country government	-	2,653
- Other	9,902	9,876
	14,902	38,529
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	77,147	87,653
- Other investment grade	199,147	160,975
- Other	83,177	89,856
Common stock of listed companies	12,214	4,484
Common stock of unlisted companies	6,422	6,448
Other equity type investment	17,202	16,866
	395,309	366,282
Investment in joint venture	-	21
Investment in associates	237	295
	545,459	**525,998**

FOR THE YEAR ENDED 31 DECEMBER 2015

6. INVESTMENTS (Contd.)

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

(US$ '000)

	2015	2014
At 1 January	19,805	19,945
Impairment recognised during the year		
- Unlisted companies	619	21
- Others	1,771	1,021
Reversal on sale of investments	(1,200)	(1,182)
At 31 December	**20,995**	**19,805**

Debt securities amounting to US$ 151.8 million (2014: US$ 107.7 million) 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

2015	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.125% - 1.625%	0.125% - 1.625%
Other investment grade debt securities	Monthly/Semi-annual/ Annual	0.709% - 8.625%	0.709% - 8.625%
Other securities	Monthly/Semi-annual/ Annual	2.383% - 5.500%	2.383% - 5.5%

2014			
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%

FOR THE YEAR ENDED 31 DECEMBER 2015

6. INVESTMENTS (Contd.)

Debt securities – currency risk

(US$ '000)

2015	U.S. Dollar	Euro	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	78,147	-	-	-	78,147
Other investment grade debt securities	246,036	3,610	-	2,991	252,637
Other debt securities	127,512	-	6,263	-	133,775
	451,695	**3,610**	**6,263**	**2,991**	**464,559**
2014					
Supra-nationals and OECD country government securities	100,647	-	-	-	100,647
Other investment grade debt securities	191,115	4,865	-	2,783	198,763
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**

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)

	2015		2014	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities				
- Due in one year or less	6,000	6,025	25,000	24,990
- One to five years	65,500	65,198	58,000	58,026
- More than five years	7,000	6,924	18,000	17,631
	78,500	78,147	101,000	100,647
Debt securities of other investment grade issuers				
- Due in one year or less	18,017	17,897	12,642	12,938
- One to five years	178,967	177,131	101,024	102,424
- More than five years	58,768	57,609	83,857	83,401
	255,752	252,637	197,523	198,763
Non-OECD country government securities				
- Due in one year or less	-	-	2,658	2,653
- One to five years	-	-	-	-
- More than five years	-	-	-	-
	-	-	2,658	2,653
Other debt securities				
- Due in one year or less	47	46	-	-
- One to five years	71,307	70,065	45,558	44,691
- More than five years	67,929	63,664	85,296	84,849
	139,283	133,775	130,854	129,540
	473,535	**464,559**	**432,035**	**431,603**

FOR THE YEAR ENDED 31 DECEMBER 2015

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)

	2015	2014
U.S. Dollar	49,883	42,450
Euro	3,467	4,958
Bahraini Dinar	433	487
Saudi Riyal	2,151	9,407
Pound Sterling	1,814	3,353
Japanese Yen	1,364	2,197
Other	4,349	14,361
	63,461	**77,213**

Commitments

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 5.2 million (2014: US$ 6.4 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)

	2015		2014	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	(1,562)	(9,958)	(931)	(9,469)
– 100 basis points shift in yield curves- debt instruments	1,616	10,302	963	9,797
Currency risk				
10% increase in US Dollar exchange rate	(3,388)	(48)	(7,673)	(364)
10% decrease in US Dollar exchange rate	4,141	54	9,710	101
Equity price				
10% increase in equity prices	4,483	1,221	6,628	449
10% decrease in equity prices	(4,483)	(1,221)	(6,628)	(449)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

8. ACCRUED INCOME

(US$ '000)

	2015	2014
Accrued insurance premiums		
Expected to be received		
- Within 12 months	59,068	71,084
- After 12 months	9,907	14,641
	68,975	85,725
Accrued interest		
- Expected to be received within 12 months	2,347	2,298
	71,322	**88,023**

9. INSURANCE RECEIVABLES

(US$ '000)

	2015	2014
Balances due		
- Within 12 months	115,763	118,843
- After 12 months	259	169
	116,022	**119,012**

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

(US$ '000)

	2015	2014
At 1 January	14,651	21,176
(Write back)/provision for impairment	208	(138)
Impaired receivables written-off	(107)	(6,387)
31 December	**14,752**	**14,651**

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

(US$ '000)

	2015	2014
Over two years	5,103	4,630
	5,103	**4,630**

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

(US$ '000)

	2015	2014
Upto 6 months	3,304	7,153
6 to 12 months	14,668	13,125
	17,972	**20,278**

FOR THE YEAR ENDED 31 DECEMBER 2015

10. INSURANCE DEPOSITS

(US$ '000)

	2015	2014
Balances due:		
- Within 12 months	28,521	33,174
- After 12 months	8,496	9,404
	37,017	**42,578**

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

(US$ '000)

	2015	2014
At 1 January	3,666	4,208
(Write back)/provision for impairment	(172)	21
Impaired deposits written-off	-	(563)
31 December	**3,494**	**3,666**

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

(US$ '000)

	2015	2014
Under ten years	2,564	1,018
Over ten years	8,855	5,698
	11,419	**6,716**

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

(US$ '000)

	2015	2014
Up to 1 year	8,970	9,120
1 to 3 years	22,589	28,013
	31,559	**37,133**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2015	2014
General insurance business		
- Claims outstanding	37,738	46,792
- Unreported claims	14,674	11,676
- Deferred retrocession premium reserve	13,304	12,960
	65,716	71,428
Life insurance business		
- Claims outstanding	20	68
- Unreported claims	114	546
- Deferred retrocession premium reserve	-	6
	134	620
	65,850	**72,048**

12. OTHER ASSETS

(US$ '000)

	2015	2014
Intangible assets		
- Computer software	9,530	9,492
	9,530	9,492
Less : Accumulated amortisation	(9,019)	(8,711)
Net intangible assets	511	781
Other assets due within 12 months		
- Collateralised cash deposits	19,104	8,967
- Prepayments and other receivables	2,372	7,848
	21,476	16,815
	21,987	**17,596**

(US$ '000)

	2015	2014
Movement in intangible assets		
Net book value at 1 January	781	1,169
- Additions	39	56
- Amortisation charge	(309)	(392)
- Disposal	-	(52)
Net book value at 31 December	**511**	**781**

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

FOR THE YEAR ENDED 31 DECEMBER 2015

13. PROPERTY AND EQUIPMENT

(US$ '000)

	2015	2014
Land	2,469	2,469
Building	19,182	25,001
Work in progress	19	64
Information systems, furniture, equipment and other	10,679	10,203
	32,349	37,737
Less: Accumulated depreciation	(10,113)	(10,275)
	22,236	**27,462**
Movements in property and equipment		
Net book value at 1 January	27,462	27,472
- Revaluation of land	-	1,129
- Revaluation of property	(4,850)	(800)
- Additions	532	565
- Disposals	(19)	(2)
- Depreciation charge	(889)	(902)
Net book value at 31 December	**22,236**	**27,462**

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., which was revalued 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 as of March 2015, the fair value of the premises was determined at US$ 13,750,000 as against a carrying amount of US$ 18,600,000. The decrease in fair value of US$ 4,850,000 has been taken to income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

14. TECHNICAL PROVISIONS

Technical provisions comprise:

(US$ '000)

	2015	2014
General insurance business		
Claims outstanding	298,985	331,979
Unreported losses	192,072	159,602
Unearned premiums	109,828	138,106
	600,885	**629,687**
Life insurance business		
Claims outstanding	17,976	16,283
Unreported losses	52,996	55,345
Unearned premiums	7,686	6,316
	78,658	77,944
	679,543	**707,631**

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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						
	2010	2011	2012	2013	2014	2015	**Total**
Gross							
Estimate of incurred claims costs							
- At end of underwriting year	119,232	128,402	113,735	112,367	106,448	101,570	
- One year later	210,700	205,558	178,609	190,431	182,358	-	
- Two years later	227,383	210,058	185,776	192,492	-	-	
- Three years later	229,046	218,371	179,510	-	-	-	
- Four years later	228,451	218,009	-	-	-	-	
- Five years later	226,635	-	-	-	-	-	
Current estimate of incurred claims	226,635	218,009	179,510	192,492	182,358	101,570	1,100,574
Cumulative payments to date	(199,568)	(180,323)	(135,822)	(121,535)	(81,182)	(5,009)	(723,439)
Liability recognised	27,067	37,686	43,688	70,957	101,176	96,561	377,135
Liability in respect of prior years							184,894
Total liability included in the statement of financial position							**562,029**

	2010	2011	2012	2013	2014	2015	Total
Net							
Estimate of incurred claims costs							
- At end of underwriting year	103,286	112,047	108,594	110,213	102,592	98,169	
- One year later	189,981	175,123	166,667	182,910	174,824		
- Two years later	187,265	181,617	175,275	182,685	-		
- Three years later	186,509	186,925	169,531	-	-		
- Four years later	185,478	186,389	-	-	-		
- Five years later	183,618	-	-	-	-		
Current estimate of incurred claims	183,618	186,389	169,531	182,685	174,824	98,169	995,216
Cumulative payments to date	(156,653)	(148,898)	(126,725)	(112,897)	(42,586)	(4,454)	(592,213)
Liability recognised	26,965	37,491	42,806	69,788	132,238	93,715	403,003
Liability in respect of prior years							106,480
Total liability included in the statement of financial position							**509,483**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

16. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

	Gross	Reinsurance	Net
2015			
Claims			
Claims outstanding	348,262	46,860	301,402
Unreported losses	214,947	12,222	202,725
Total at beginning of year	563,209	59,082	504,127
Change in provision during the year	183,273	2,707	180,566
Claims settled during the year	(184,453)	(9,243)	(175,210)
Balance at end of year	**562,029**	**52,546**	**509,483**
Unearned premium			
At beginning of year	144,422	12,966	131,456
Change in provision during the year	(26,908)	338	(27,246)
Balance at end of year	**117,514**	**13,304**	**104,210**
Accrued insurance premium			
At beginning of year	94,223	8,498	85,725
Movement during the year	(18,307)	(1,557)	(16,750)
Balance at end of year	**75,916**	**6,941**	**68,975**
Deferred policy acquisitions costs			
At beginning of year	24,659	207	24,452
Movement during the year	(3,645)	407	(4,052)
Balance at end of year	**21,014**	**614**	**20,400**

	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**

FOR THE YEAR ENDED 31 DECEMBER 2015

17. INSURANCE PAYABLES

		(US$ '000)
	2015	2014
Due Within 12 months	44,606	41,768
	44,606	**41,768**

18. BORROWINGS

		(US$ '000)
	2015	2014
Balances Due		
- Within 12 months	44,000	10,000
	44,000	**10,000**

Borrowings amounting to US$ 44 million (2014: US$ 10 million) are secured by debt securities amounting to US$ 56.1 million (2014: US$ 14.8 million). The effective interest rate on the borrowings was 1.7% (2014: 1.55%).

19. OTHER LIABILITIES

		(US$ '000)
	2015	2014
Post-employment benefits (note 29)	14,236	13,302
Reinsurance premiums accrued	8,619	8,619
Employee share scheme (note 28)	4,902	6,478
Accrued expense	7,978	7,185
Dividends payable	2,579	1,922
Other	13,619	4,997
	51,933	**42,503**
Balances due:		
- Within 12 months	32,795	22,723
- After 12 months	19,138	19,780
	51,933	**42,503**

20. SHAREHOLDERS' EQUITY

Share capital

a) Composition

		(US$ '000)
	2015	2014
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed & Fully Paid-up 220 million (2014: 220 million) ordinary shares of US$ 1 each	220,000	220,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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	
		2015	2014	**2015**	2014	**2015**	2014
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	
	2015	2014	**2015**	2014	**2015**	2014
Less than 1%	40.1	44.9	4,600	4,624	20.3	22.7
1% to 5%	37.1	32.3	4	5	18.7	16.3
5% to 10%	11.0	11.0	1	1	5.6	5.6
10% and above	109.8	109.8	4	4	55.4	55.4

Treasury stock

The Company held 21,967,818 of its own shares at 31 December 2015 (2014: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2014: 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.

FOR THE YEAR ENDED 31 DECEMBER 2015

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)

	2015	2014
At 1 January	37,862	42,109
Share of comprehensive income	(3,130)	(4,247)
At 31 December	**34,732**	**37,862**

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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
2015	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES									
Gross premiums written	52,557	27,384	14,876	14,765	50,186	32,459	27,676	539	220,442
Outward reinsurance premiums	(4,995)	(3,039)	(297)	(143)	(6,252)	(2,269)	(554)	(3)	(17,552)
Change in unearned premiums - gross	2,412	2,530	1,202	1,727	18,953	(3,022)	(1,629)	36	22,209
Change in unearned premiums - reinsurance	57	(68)	30	7	(6,885)	1,459	225	-	(5,175)
Net earned premiums	50,031	26,807	15,811	16,356	56,002	28,627	25,718	572	219,924
Investment income attributable to insurance funds	2,531	1,255	854	375	185	1,562	726	1,054	8,542
	52,562	28,062	16,665	16,731	56,187	30,189	26,444	1,626	228,466
COSTS AND EXPENSES									
Gross claims paid	(55,936)	(18,078)	(10,922)	(12,249)	(38,860)	(27,786)	(17,625)	(2,997)	(184,453)
Claims recovered from reinsurers	1,772	351	(2,788)	92	9,652	143	21	-	9,243
Change in provision for outstanding claims - gross	28,562	5,306	6,483	2,294	(6,188)	8,166	(194)	(777)	43,652
Change in provision for outstanding claims - reinsurance	(2,341)	(367)	(1,537)	(76)	2	(1,843)	(45)	(1)	(6,208)
Change in provision for unreported losses - gross	(8,496)	(3,412)	620	483	(563)	(3,104)	(724)	2,495	(12,701)
Change in provision for unreported losses - reinsurance	273	282	64	(31)	(279)	1,973	(73)	(1)	2,208
Claims and related expenses	(36,166)	(15,918)	(8,080)	(9,487)	(36,236)	(22,451)	(18,640)	(1,281)	(148,259)
Policy acquisition costs	(15,334)	(8,514)	(5,682)	(4,323)	(20,292)	(1,244)	(1,588)	(30)	(57,007)
Policy acquisition costs recovered from reinsurers	393	289	117	33	-	638	-	-	1,470
Change in deferred policy acquisition costs - gross	(636)	(725)	(81)	(830)	(220)	(51)	70	(5)	(2,478)
Change in deferred policy acquisition costs – reinsurance	(16)	33	(21)	(2)	-	(401)	-	-	(407)
Policy acquisition costs	(15,593)	(8,917)	(5,667)	(5,122)	(20,512)	(1,058)	(1,518)	(35)	(58,422)
Operating expenses	(7,342)	(2,751)	(1,919)	(1,856)	(499)	(3,574)	(2,603)	(468)	(21,012)
Underwriting result	**(6,539)**	**476**	**999**	**266**	**(1,060)**	**3,106**	**3,683**	**(158)**	**773**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

22. SEGMENT INFORMATION (Contd.)

Analysis of revenue by primary business segment

(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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)

	2015		2014	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	107,595	20,212	111,051	39,767
- Africa	21,885	4,111	29,032	3,013
- Asia	45,034	8,459	59,681	6,193
- Others	45,928	8,627	115,536	11,989
	220,442	**41,409**	**315,300**	**60,962**

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

Analysis of segment assets and liabilities

(US$ '000)

2015	Non-Life						Life		Corporate	Total
	Property	Engineering	Marine	Accident	Whole	Others	Short Term	Long term		
Reinsurance assets	46,355	32,083	22,948	11,590	138,563	56,487	12,895	258	-	321,179
Cash	24,161	15,926	7,386	7,349	13,057	11,727	6,077	8,776	104,310	198,769
Investments	78,538	48,212	24,113	19,637	43,979	40,093	20,317	32,316	238,255	545,460
Others	-	-	-	-	-	-	-	-	33,654	33,654
	149,054	96,221	54,447	38,576	195,599	108,307	39,289	41,350	376,219	1,099,062
Reinsurance liabilities	153,567	102,342	56,777	43,799	178,071	117,743	40,161	41,039	-	733,499
Others	-	-	-	-	-	-	-	-	86,583	86,583
	153,567	**102,342**	**56,777**	**43,799**	**178,071**	**117,743**	**40,161**	**41,039**	**86,583**	**820,082**
2014										
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

23. INVESTMENT INCOME

(US$ '000)

2015	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or Loss	500	268	768
- Others	6,150	4,689	10,839
Dividends	1,079	809	1,888
Realised gains			
- Trading investments	2,856	488	3,344
- Investment designated at fair value through profit or loss	347	142	489
- Available for sale	2,283	1,672	3,955
Loss on remeasurement of investments at fair value through profit & loss			
- Trading investments	(2,573)	(532)	(3,105)
- Investments designated at fair value through profit or loss	(1,069)	(520)	(1,589)
Impairment loss-available for sale	(326)	(863)	(1,189)
Other	(705)	(401)	(1,106)
	8,542	**5,752**	**14,294**

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

24. OPERATING EXPENSES

(US$ '000)

	Underwriting	Non-Underwriting	Total
2015			
Salaries and benefits	14,352	5,457	19,809
General and administration	6,660	2,087	8,747
	21,012	**7,544**	**28,556**
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**

25. OTHER INCOME

(US$ '000)

	2015	2014
Third party administration services	4,490	3,158
Royalty on software	-	938
Profit on revaluation of land	-	632
Other	1,455	648
	5,945	**5,376**

26. OTHER EXPENSES AND PROVISIONS

(US$ '000)

	2015	2014
Loss on revaluation of building (Note 13)	4,850	-
Foreign exchange loss	3,509	1,050
Provision for doubtful receivable & deposits	71	(813)
Other	3,704	1,446
	12,134	**1,683**

27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2015	2014
Weighted average number of shares outstanding	'000	198,032	198,032
Net (loss) profit	US$'000	(4,421)	15,615
Earnings per share	US$	(0.02)	0.08

FOR THE YEAR ENDED 31 DECEMBER 2015

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)

	2015	2014
Liability	4,902	6,478
Expense	1,907	2,599

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:

	2015	2014
Discount rate	2.0%	2.2%
Expected return on assets	2.0%	2.2%
Future salary increases	3.3%	3.3%

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

(US$ '000)

	2015	2014
Balance at 1 January	13,302	14,058
Accruals for the year	1,649	1,426
Payments during the year	(715)	(2,182)
Balance at 31 December	**14,236**	**13,302**

FOR THE YEAR ENDED 31 DECEMBER 2015

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)

	2015		2014	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	1,079	500	2,125	10,472
Pound Sterling	1,814	1,292	-	5,916
Japanese yen	-	1,190	-	2,105
Others	-	1,054	-	3,560
	2,893	**4,036**	**2,125**	**22,053**

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)

	2015		2014	
	Purchases	Sales	Purchases	Sales
Unrealised gains	7	161	-	624
Unrealised losses	(45)	(56)	(69)	(3)
	(38)	**105**	**(69)**	**621**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

(US$ '000)

	2015	2014
(Loss) profit for the year	(7,624)	11,446
(Decrease) increase in insurance funds	(12,277)	23,755
Change in insurance receivable/payable, net	5,828	(8,500)
Change in accrued insurance premiums	16,701	(3,541)
Change in other assets/liabilities, net	(3,018)	(34,132)
Net cash used in operating activities	**(390)**	**(10,972)**

32. FAIR VALUE DISCLOSURE

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

(US$ '000)

	Book value						Fair value
2015	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and bank balances	-	198,769	-	-	-	198,769	198,769
Investments	135,011	-	14,902	395,309	-	545,222	545,495
Accrued income	-	309	69,729	1,284	-	71,322	71,322
Insurance receivables	-	116,022	-	-	-	116,022	116,022
Insurance deposits	-	37,017	-	-	-	37,017	37,017
Other assets	-	21,476	-	-	-	21,476	21,476
LIABILITIES							
Insurance payables	-	-	-	-	44,606	44,606	44,606
Borrowings	-	-	-	-	44,000	44,000	44,000
Other liabilities	-	-	-	-	43,955	43,955	43,955

FOR THE YEAR ENDED 31 DECEMBER 2015

32. FAIR VALUE DISCLOSURE (Contd.)

(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 bank balances	-	187,144	-	-	-	187,144	187,144
Investments	120,871	-	38,529	366,282	-	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	-	16,815	-	-	-	16,815	16,815
LIABILITIES							
Insurance payables	-	-	-	-	41,768	41,768	41,768
Borrowings	-	-	-	-	10,000	10,000	10,000
Other liabilities	-	-	-	-	35,318	35,318	35,318

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 maximise the use of relevant observable inputs and minimise 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.

FOR THE YEAR ENDED 31 DECEMBER 2015

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 categorised:

(US$ '000)

2015	Level 1	Level 2	Level 3	Total
Held to maturity				
Debt Securities	15,175	-	-	15,175
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	44,825	-	-	44,825
Designated at fair value on initial recognition				
Debt Securities	90,186	-	-	90,186
Available for sale				
Debt securities	359,471	-	-	359,471
Common stock of listed companies	12,214	-	-	12,214
Common stock of unlisted companies	-	65	6,357	6,422
Other	-	1,307	15,895	17,202
Forward foreign exchange contracts	67	-	-	67
	521,938	**1,372**	**22,252**	**545,562**

2014				
Held to 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**

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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 2015	6,327	15,124	21,451
Gain (loss) recognised in			
- Income statement	(568)	(1,507)	(2,075)
- Other comprehensive income	315	(175)	140
Investments made during the year	291	5,073	5,364
Investments redeemed during the year	(8)	(2,620)	(2,628)
Balance at 31 December 2015	**6,357**	**15,895**	**22,252**
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**

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, 2015, there were no transfers in and out of level 1, level 2 and level 3 (2014: 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 capitalisation rates, discount rates, leasing and other factors, the amount which will be realised 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.

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33. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

1. Subsidiaries, joint ventures and associates

At 31 December 2015, 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 2014. The Company continues to hold 50% of the joint venture Hardy Arig Insurance Management W.L.L. which is incorporated in the Kingdom of Bahrain and currently under voluntary liquidation. 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)

	2015	2014
Non-controlling interest	46%	46%
Other assets	140,700	155,646
Other liabilities	65,192	71,937
Net Assets	**75,508**	**83,709**
Revenue	16,795	18,429
Loss for the year	(6,963)	(9,062)
Total comprehensive income	(6,803)	(9,233)
Comprehensive income attributable to non-controlling interests	(3,129)	(4,248)
Net cash used in operating activities	(51)	(13,840)
Net cash provided by investing activities	30,892	13,648
Net increase (decrease) in cash and cash equivalents	33,988	(192)

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.

The subsidiary's general assembly met in December 2015 and resolved to cease writing business with immediate effect.

3. Interests in joint venture and associates

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

(US$ '000)

	2015	2014
Carrying amount of interest in associates	237	295
Total comprehensive income	(58)	(389)

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

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

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

(US$ '000)

	2015	2014
Carrying amount of interest in joint ventures	-	21
Total comprehensive income	(21)	(98)

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)

	2015	2014
a) Gross premium retroceded by subsidiary to parent company	30,365	74,787
b) Service fees for administration services provided by parent company	860	919
c) Balances receivable	62,636	60,663

2. Joint venture

(US$ '000)

	2015	2014
a) Service fees for administration services provided	-	66
b) Balances receivable	-	460

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34. RELATED PARTY TRANSACTIONS (Contd.)

3. Compensation to directors and key management personnel

(US$ '000)

	2015	2014
a) Directors		
- Remuneration	-	305
- Attendance fees	145	123
- Travel expenses	148	168
b) Key management compensation		
- Salaries and other short-term employee benefits	2,102	2,571
- Post-employment benefits	302	313
- Share-based compensation	1,607	1,114
c) Balances payable (net)		
Key management		
- Maximum balance	7,096	7,707
- Closing balance	7,096	7,707

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 2015 and 2014 for any outstanding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

amounts due from related parties.

35. PARENT COMPANY

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

(US$ '000)

	2015	2014
ASSETS		
Cash and bank balances	124,318	126,529
Investments	457,767	445,875
Accrued income	65,004	76,935
Insurance receivables	47,844	62,234
Insurance deposits	35,347	40,151
Deferred policy acquisition costs	12,963	14,930
Reinsurers' share of technical provisions	29,383	34,579
Other assets	83,976	67,974
Investment in subsidiaries and associates	42,602	46,062
Property and equipment	8,492	8,482
	907,696	**923,751**
LIABILITIES		
Technical provisions	549,271	588,280
Insurance payables	32,287	24,392
Borrowings	44,000	10,000
Other liabilities	37,890	36,530
	663,448	659,202
SHAREHOLDERS' EQUITY (note 20)		
Share capital	220,000	220,000
Treasury stock	(14,793)	(14,793)
Reserves	33,596	39,845
Retained earnings	5,445	19,497
	244,248	264,549
	907,696	**923,751**