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Khalid Ali Al Bustani

Chairman

Khalid Jassim Bin Kalban

Vice Chairman of the Board, Chairman of the Executive Committee and the Nomination & Remuneration Committee

Dr. Fouad A A Alfalah

Director and Chairman of the Audit Committee and Member of the Nomination & Remuneration Committee

Sultan Ahmed Al Ghaith

Director and Member of the Executive Committee and the Nomination & Remuneration Committee

Abdulaziz Abdulla Al Zaabi

Director and Member of the Executive Committee & the Audit Committee

Fathi M A Elhagie

Director

Majed Omran Al Shamsi

Director and Member of the Executive Committee

Saif Abdulrahman Al Shamsi

Director

Mariam Mohamed Alameeri

Director & Member of the Audit Committee

REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The Directors of the Arab insurance Group (B.S.C.) (Arig) are pleased to present the Company's 33rd Annual Report and Consolidated Financial Statement for the 2013 Financial Year.

FINANCIAL RESULT

Over the reporting period, trading conditions for reinsurers remained challenging and yields on less volatile asset classes stayed at historical lows. Fortunately, conditions were moderated by another benign loss year for natural catastrophe covers and the strong performance of the world's key equity markets. In its 2013 Financial Year, our Group delivered a net profit of US$ 18.6 million (2012: US$ 17.6 million[1]) following the consolidation of Takaful Re's Participant's Fund in Arig's financial statements. Arig and its Lloyd's corporate member Arig Capital Limited (ACL) contributed US$ 23 million to profits, whereas Takaful Re contributed a net loss of US$ 4.4 million.

The underwriting result for the Group reached a profit of US$ 13.4 million (2012: US$ 23.7 million), with Arig/ACL generating income of US$ 18.7 million while Takaful Re registered an underwriting loss of US$ 5.2 million. The combined ratio[2], a measure for the profitability of the reinsurance portfolio, was 97.8% for the Group, 94.2% for Arig/ACL and 128.9% for Takaful Re respectively.

Similar to the income situation, premium development was diverse. Consolidated, the Group wrote US$ 262 million (2012: US$ 276.5 million) of premium income, to which Arig and ACL contributed US$ 240.5 million and Takaful Re US$ 21.5 million. During the reporting period, Arig/ACL marginally grew its book by 1%, whereas Takaful Re reduced its portfolio by 43% as the Company discontinued to support underperforming accounts.

Total investment income for the Group reached US$ 20.4 million (2012: US$ 21.6 million), with Arig/ACL generating US$ 17.8 million and Takaful Re US$ 2.1 million.

THE MARKET

Upon first glance, the 2013 state of the reinsurance industry would seem like a proliferation of what we reported to you a year ago. According to early estimates, natural catastrophe related claims reduced to US$ 38 billion in 2013[3], well below the US$ 75 billion recorded in 2012 or the record breaking US$ 127 billion in 2011. Similarly, single risk claims remained well within their expected ranges. At the same time, equity markets continued to rally. But ironically, while this may seem like good news to shareholders, it is a dose of bitter medicine for the industry.

Insurance and the insurance markets thrive on volatility. Customers wishing to protect their assets from large losses will be prepared to pay higher rates, if they expect losses to happen. Longer periods with low claims loads, on the other hand, are likely to lead to widespread deterioration in the terms of trade; thereby, making it more difficult to sustain present levels of profitability. This would adequately describe the current state of the global reinsurance markets. We are finding ourselves in a soft market, while the industry is being challenged on several fronts:

- New capacities: reinsurers across the globe continue to feel the competition from third party investors such as hedge funds and pension funds investing into catastrophe bonds, side cars or insurance linked securities (ILS). New capital from the financial markets is estimated to have climbed to US$ 50 billion in 2013[4], almost 10% of total reinsurance capital world-wide.
- Surplus capital: traditional reinsurers are believed to have increased their funds by another 4% to an estimated US$ 525 billion[5] after the 3rd quarter 2013. In their efforts to fend off competition, they have been reducing rates and widening policy conditions, which could impact future performance.
- Clients retaining more risk: better understanding of risk is leading to greater risk retention by large buyers of insurance, reducing general demand in developed markets.
- Overcrowded and uneconomical markets: many regional markets, including Takaful, appear fragmented by a large number of small companies that hold limited potential for development; yet, are intensifying pricing competition.
- Low interest rates: the availability of cheap capital has propelled equity markets to historical highs, but depressed return on capital for insurers as funds continue to push onto the industry's balance sheets. A possible market correction could have a devastating effect on investment incomes.
- Expensive regulation: regulators and auditors around the world have been increasing the speed by which new rules and regulations are introduced, adding more to overheads in a situation where capital returns are declining.

Though this may look like a daunting agenda, it is not all bad.

First and foremost, the industry has learned from its past. It seems unlikely that the extreme loss scenarios of the past millennium will be repeated. 2011 produced the highest catastrophe losses ever recorded, yet we saw limited capital fallout. Similar comments would apply to the effects

1 Comparative 2012 figures have been restated due to consolidation of Takaful Re Participants' Fund

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

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

3 Swiss Re: According to Sigma Press Release of 18 December, 2013

4 Willis Re, 1st View, 1 January 2014

5 AON Benfield, Reinsurance Market Outlook, January 2014

REPORT OF THE BOARD OF DIRECTORS

"Arig has shown its resilience to a testing trading environment, which we deem crucial as we would not expect conditions to ease during the remainder of 2014."

Khalid Ali Al Bustani

Chairman

REPORT OF THE BOARD OF DIRECTORS

that the 2008 financial crisis had on insurers' balance sheets. Giant strides were made in the way enterprise risk is managed today.

In spite of the consistent erosion in insurance rates, essential lessons have been learned by regulators and underwriters alike. Since 2005, the soft market has been a constant feature in most of our markets. Some even claim Asia has yet to experience a hard market. In short: insurers and reinsurers have learned to deal with adverse conditions. While there should be no doubt that weaker performers would eventually become targets, such survival of the fittest should only make our industry stronger as a whole. In the emerging markets, it is up to us to reduce growing pains, if we can manage our greed for topline growth and short-term return expectations. Sometimes, one needs to take a step back before making a big leap.

Finally, analysts agree that the growth in the insurance industry in emerging markets will continue to outpace GDP dynamics, even if profitability continues to trail behind mature markets for the time being.

ARIG'S POSITION

In 2013, Arig was faced with three key challenges, namely to

- continue with the positive underwriting performance shown in 2012 in a highly competitive market environment,
- replace US$ 47.6 million of premium income with new business following the sale of our Lloyd's partner Hardy Underwriting to the CNA Group, and finally
- consolidate Takaful Re's Participants Funds into Arig's consolidated financial statements as a result of a change in the IFRS accounting rules.

We are pleased to report that the Company successfully dealt with the issues at hand.

Nearly all segments of the organization contributed to a positive underwriting result. Arig's book alone, representing 91.8% of the Group's revenue, achieved a combined ratio of 94.2%. At the same time, the Company remains prudently reserved and well protected through retrocession programs. Yet, we are cognizant of the fact that the underwriting result of Takaful Re is highly unsatisfactory. This remains work in progress, as the Board has given highest priority to remedial action. We regard the current situation as temporary.

At Lloyd's, premium income generated from London grew to US$ 60 million in 2013 as we were able to enter into reinsurance agreements with four different syndicates. In our efforts to further spread risk by diversifying our engagements, Arig assumed equal shares in the net positions written by our business partners during the year. These shares are protected against large losses by separate reinsurance programs. Our Lloyd's business fits comfortably within the risk appetite of the Company, is highly complementary to Arig's own portfolio and effectively turns the Company into a globally operative reinsurer. By working through the recognized expertise resident at Lloyd's of London, we avoid incurring extra cost for territories where it would be uneconomical to build our own infrastructure.

As a result of single control model introduced by International Financial Reporting Standard (IFRS) 10 Consolidated Financial Statements, the Group reassessed its control conclusion and consequently, Takaful Re's Participants' Fund has been consolidated within consolidated financial statements of Arig for the full reporting period. As the Fund was in a deficit position at the time of consolidation, the Board voted to provide for Arig's proportionate 54% share - or US$ 12 million - through its Shareholders Fund.

Despite its dynamic premium growth, the Takaful market has been marked by performance issues, which have also reflected on Retakaful operators. Unless sponsored by government mandates, operators have found it difficult to compete on price only. Personal Lines in particular have either been characterized by cut throat competition, as in Motor and Medical covers, or by slow take-up, as in the segment of Life insurance, or Family Takaful. Our view is that the market may eventually consolidate and possibly offer opportunities through mergers and acquisitions. We are following a two-pronged strategy by firstly improving Takaful Re's underwriting performance through better risk selection, controls and efficiencies, and secondly, by making the Company less organizationally dependent on its parent so that it can further develop its own footprint. Until our measures will show results, Takaful Re will remain one of the lesser performing segments of our Group, even though its impact on the overall result is manageable considering its small size.

As far as the other units of Arig are concerned, we are pleased to say that the Company has delivered healthy profits in almost every segment of its income streams. No doubt, this was helped by a benign claims experience as far as natural catastrophes go. However, only 14% of our book is exposed to catastrophes, whereas the rest of our income is generated from ordinary treaty and facultative accounts. It is in these areas where the investment that we made into qualified manpower and underwriting infrastructure is now paying off.

All this is happening not a day too soon.

Typically, there is a limit as to how much a reinsurance Company should invest in volatile asset classes such as equities or real estate. First and foremost, the Company needs to ensure sufficient liquidity to honor even the largest of claims without delay. Preservation of capital is key. This is the reason why the majority of reinsurers' investments world-wide are either in Bonds, Fixed Term Deposits, money market instruments or cash. Only a minority, typically well below 15% of investable assets, would be found in assets with higher volatilities. At Arig, we thoroughly model our risk exposures, prudently set reserves and carefully assess claims payout patterns, in order to safeguard the availability of capital whenever it

REPORT OF THE BOARD OF DIRECTORS

is needed. We do our best to optimize returns from equity investments while equally protecting the interest of our shareholders and customers, knowing that there will be surprise events from time to time. It is a balancing act and while we have been achieving respectable investment results when compared to our reinsurance peers, there is no hiding that yields have reduced dramatically over the past six years. With interest rates and bond spreads remaining at exceptionally low levels, the contribution of investment income towards the Company's net result is considerably less than before, which is the very reason why it has become so essential to derive higher income from our reinsurance activities. Please allow us to highlight this by comparing some 2013 key figures against the same for 2007, i.e. the year before the Financial Crisis occurred: In 2007, Arig achieved a net profit of US$ 15.7 million. Before expenses, the contribution of investment income was a staggering US$ 40.6 million, whereas the underwriting result accounted for only US$ 424,000. In 2013, fortunes were more balanced as investments contributed US$ 17.8 million to our net profit, whereas the underwriting result was US$ 18.4 million – or 43 times the level of 2007.

OUTLOOK

The Company's reducing dependence on investment income was recognized as a positive development by A.M. Best, who rate most of the world's insurance and reinsurance companies. The agency recently allotted a "positive outlook" to Arig's 'B++' rating. In Best's own words: "Over the medium term, a strong track record of underwriting profitability and robust risk-adjusted capitalization could result in a rating upgrade.[6]" An upgrade would position our Company into the A-league, placing it on a level playing field with our most formidable competitors.

On the global scale, the World Bank has recently increased its global GDP surplus to 3.2% for this year[7] "with growth picking up in developing countries and high-income economies appearing to be finally turning the corner five years after the global financial crisis". At the same time, "…it brings with it risks of disruption as monetary policy tightens. To date the gradual withdrawal of quantitative easing has gone smoothly. However, if interest rates rise too rapidly, capital flows to developing countries could fall by 50 percent or more…" according to the Bank. Already, energy prices have declined by 9% and could fall further if Iranian oil exports were no longer sanctioned.

The developing economies of the Middle East and North Africa are expected to grow well below their potential at 2.8% in 2014 and 3.3% in 2015[8]. Political turmoil in Egypt, stalemate in Tunisia, the civil war in Syria with collateral effects on Lebanon and Jordan, and sanctions against Iran and Sudan have considerably weakened premium flow from the region into Arig. In addition, the Indian government has recently levied a 42.5% premium withholding tax on payments to Bahrain, which has effectively rendered it unattractive to write business from this emerging economy for the time being. In total, Arig has had to compensate for US$ 18 million of premium that was lost entirely due to external political effects since 2010. This has come on top of the economic fallout from the 2008 Financial Crisis, which led to reduced investment activity in the Gulf. However, looking at it more positively, we stand a solid chance of regaining the lion's share of our income losses, whenever the political situation normalizes in any of the mentioned country markets.

Arig has shown its resilience to a testing trading environment, which we deem crucial as we would not expect conditions to ease during the remainder of 2014. It seems likely that our main regional markets will continue to be underpriced and oversupplied, while investment yields would remain comparatively low but with an increasing risk of a correction in the equity markets. Our corporate strategy over the next 12-month period will remain focused on achieving sustainable bottom line results rather than forcing growth in challenging market conditions. We believe we have built a highly diversified reinsurance portfolio with good inherent risk balance, supported by strong management tools and controls, and a team of professionals that is among the best in the region. We look at 2014 with confidence but know we always have to expect the unexpected, which is a hallmark of our business.

Cost control is yet another important element of our corporate strategy in dealing with market conditions. As you will remember, we started dispensing with non-core activities in 2011 when our former Medical service provider was sold to a specialized Third Party Administrator. At the end of 2013, Arig additionally managed to negotiate potential sale of its majority equity stake in the software firm ARIMA. The future management and many of the associated financial risks of ARIMA will no longer be Arig's primary responsibility while we will maintain a minority share in the Company, ensuring that the interest of our reinsurance clients remains protected. As a result of the measures taken to improve efficiencies throughout the organization, we are pleased to report that the total staff force of the Group reduced by 41% since its peak in 2010, from 294 down to 173 employees today. The cost of human resources constitutes one of our largest expenditures and we are particularly happy that we were able to adjust the size of the organization to a commensurate level that will help Arig stay competitive; yet, warrant its professional performance.

Summarizing, allow us to say that Arig is in good shape. In its 34-year history, the Company has weathered years when the whole industry became stressed, most recently in 2008 and 2011. In both cases, capital spent was replenished within an 18-month period. Arig was one of the few regional reinsurers that did not need to raise capital after record losses to the industry from natural catastrophes in 2011. Creating value for our shareholders is our core target.

6 A.M. Best Press Release dated December 19, 2013: A.M. Best Revises Outlook to Positive for Arab Insurance Group (B.S.C.)

7 The World Bank: Global Economic Prospects, January 2014

8 ditto

REPORT OF THE BOARD OF DIRECTORS

Both, the investment and the reinsurance environment have been challenging, not only for Arig. Our 2013 net profit proves the Company's resilience in a difficult market. Nevertheless, it represents a compromise. Any higher return on capital would inevitably expose our shareholders' capital to more risk and volatility. We believe that this is not the right time to be aggressive, neither in our reinsurance business nor on investments. Notwithstanding, we know that our industry moves in cycles. Preserving our strength now means that we will be prepared to pounce ahead and grasp future opportunities as they will present themselves, be it in reinsurance or investments.

ACKNOWLEDGEMENTS

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

On behalf of the Board of Directors

Khalid Ali Al Bustani
Chairman
12 February 2014

FINANCIAL HIGHLIGHTS

KEY FIGURES

(US$ Million)	2013	2012 As restated	2012 As previously reported	2011	2010	2009
Gross Premium Written	262.0	276.5	238.6	247.5	239.5	279.4
Net Earned Premiums	237.7	254.7	216.4	215.8	211.9	270.7
Net Profit (loss)	18.6	17.6	15.3	(19.1)	20.8	21.9
Investment Assets	642.2	667.6	653.4	652.8	646.9	663.7
Total Assets	1,056.6	1,046.1	999.9	1,022.1	1,038.4	1,132.3
Net Technical Provisions	619.6	612.1	543.7	564.8	569.4	589.8
Shareholders' Equity	249.2	235.2	247.1	222.4	260.1	267.3

PERCENTAGE OF SHAREHOLDING

UAE Government	31.38%
Libya Government	14.45%
Kuwait Government	9.10%
Bahrain Government	1.32%
Kuwait Private	9.36%
UAE Private	13.92%
Other Private	20.47%

As of 31 December 2013

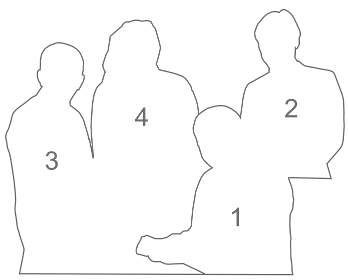
GENERAL MANAGEMENT

1. **Yassir Albaharna**
   Chief Executive Officer

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

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

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



OPERATING AND FINANCIAL REVIEW

OPERATING AND FINANCIAL REVIEW

“Good spread within our portfolio continues to be one of our top priorities in managing risk and returns in a highly challenging market place.”

Yassir Albaharna

Chief Executive Officer

OPERATING AND FINANCIAL REVIEW

REINSURANCE

In 2013, the convergence of reinsurance with capital markets became a global reality. Institutional investors flocked to the catastrophe bond and Insurance Linked Security (ILS) markets, as they became increasingly attracted by the excellent returns on catastrophe linked derivatives. The combined capital available through these channels was estimated to have reached US$ 45 billion at the end of the third quarter last year[1] , which represents a noteworthy 9% of the invested funds supporting the reinsurance industry. Together with a general decline in insurance demand, this resulted in a reduction in catastrophe rates. Price pressure is expected to persist, as catastrophe bond coupons remain attractive relative to other credit spreads, even as the difference in pricing between alternative and traditional catastrophe markets may erode.

The struggle for top line growth has not been exclusive to natural catastrophe reinsurers. Even in emerging markets, Arig's premier operating territories, our clients have come under pressure as sluggish economies, low investment returns and competitive pricing forced some companies to revisit their business plans. We have seen limited operational response from regional insurers thus far - markets that tend to rely on proportional cessions. In fact, there is little surprise as companies in developing markets continue to view generous reinsurance commissions as an indispensable part of their underwriting income.

Only two volume segments seem to challenge that comfortable equation. Next to Motor, Medical insurance is quickly becoming a mainstay as additional compulsory schemes are being launched by governments aiming to push medical expenses into the private sector. In the Middle East, Qatar and Dubai have recently announced the impending introduction of mandatory Medical insurance. However, in the absence of viable market statistics, pricing Medical policies has proven to be a Black Box for many. Volume portfolios can quickly turn toxic, and even compromise capital, when future cost is underestimated. As a consequence, the Saudi Arabian regulatory authority has introduced stringent pricing and reserving rules, which are sending waves through a stressed market.

2013 has generally turned out to be a benign loss year for most. The few major natural catastrophe events - tornadoes and floods in North America, or hail storms in Europe and Australia - did not radiate beyond these markets. Rather than through catastrophes, it was the practice of coinsurance or inward facultative acceptances that made some underwriters grief: in China and Korea, the S.K. Hynix account produced a noticeable loss of US$ 900 million to the industry that turned a great number of reinsurance programs negative. In Saudi Arabia, a number of mid-size risk losses were amplified throughout the market's net retentions. Yet, on average, most reinsurers were able to capitalize on underwriting results that were better than expected along with reserve releases from prior years, which further boosted bottom lines.

Struggling for premium and armed with good results, even retro markets turned soft at the end of the year, often presenting a chance to 'buy more [protection] for less'. This was welcome relief for reinsurers whose margins are being squeezed.

BUSINESS REVIEW

Portfolio development

With a reduction in Gross Written Premiums by 5%, Arig's revenue streams largely replicated last year's. There have been two major shifts within the underlying portfolio during the reporting period:

1. Subsequent to an amendment in the International Financial Reporting Standards, Arig needed to consolidate the Participants' Fund of its subsidiary Takaful Re into the parent's annual accounts. In 2013, Takaful Re's share in the Group's revenue represented 8%, or US$ 21.5 million, out of the Group's total gross written premium income.

   Takaful Re is a company with a separate balance sheet and corporate profile. We are working to create viable future options for the Group, to capitalize on its independent Re-Takaful operator.

2. Arig's business partner at Lloyd's, Hardy Underwriting Ltd., was bought over by the CNA Financial Group, USA, and subsequently terminated its quota share cessions to Arig. For 2013, the need arose to replace US$ 59 million of premium, while making Arig less dependent on a single partner.

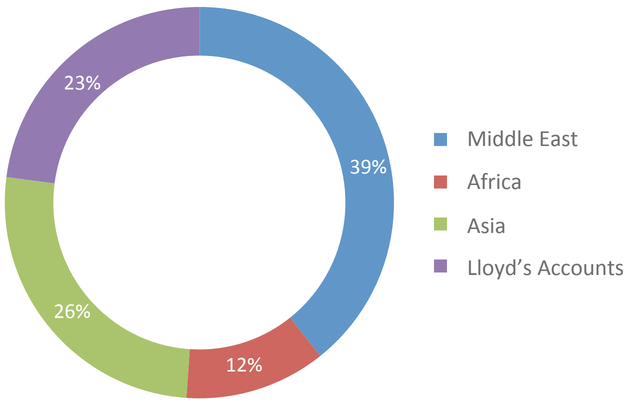
We are pleased to report that Arig managed to acquire a new Lloyd's portfolio that created over US$ 60 million in new premiums from four individual syndicates with significant future growth potential. Our new partners were selected by underwriting criteria that went well beyond the reputed Lloyd's franchise benefits. It was essential that their books should complement our own portfolio, rather than cumulating risks; and that they would fit in with our corporate risk appetite. For example: even though our premium written from Property classes has subsequently increased, growth was created from Direct & Facultative lines and mostly non-catastrophe areas that previously had not been part of Arig's accounts. All major risk exposures were thoroughly tested with our modeling tools before decisions were taken. We are reasonably comfortable that the quality of our portfolio would have further improved with the new structure.

In 2013, 23% of the Group's total gross written premiums were written through Lloyd's.

1 Aon Benfield: Reinsurance Market Outlook, January 2014

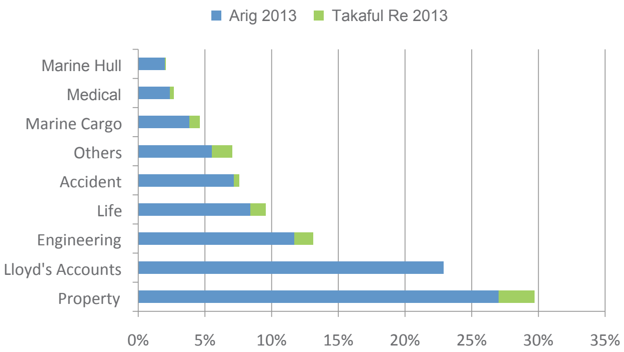
OPERATING AND FINANCIAL REVIEW

Territorial split by premium income



Regional premium distribution remained broadly the same; however there was a further reduction in the share coming from the Middle East by 6%, and that of Africa by 1%, which is mostly a reflection of the ongoing price competition in these markets. On the other hand, our income from Asia, including Turkey, and Lloyd's accounts grew by 5% and 2% respectively.

Individual line contributions to Group's premium income

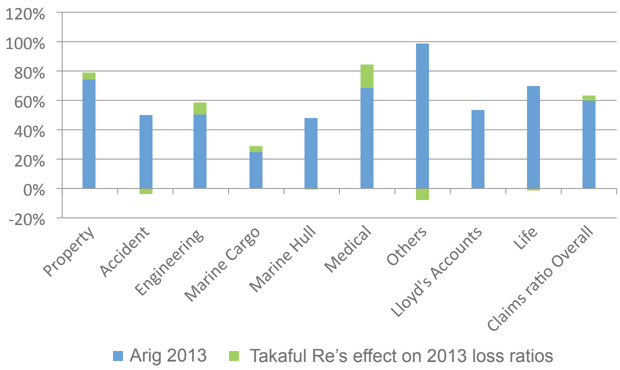


Despite the expansion in our largest line, Property, diversification throughout the Group's portfolio has increased as the growing Lloyd's book is composed of a diverse range of business lines and subclasses with very low or no correlation to Arig's own accounts. Good spread within our portfolio continues to be one of our top priorities in managing risk and returns in a highly challenging market place. In addition, Arig is determined to maintain a high degree of flexibility in its business, which would allow us to respond if market fortunes should change. In 2009, for example, our Medical book represented a sizeable share of 18% of total premiums. But when key markets chose to embark on a price war and we foresaw a downturn in future performance, Arig decided to reduce its exposure. Today, Medical reinsurance represents just 2.6% of the Group's premium income - and has remained profitable against the prevailing industry trend. We are now starting to see future opportunities again as our clients are returning to risk commensurate pricing levels or non-proportional forms of coverage, where we are able to support them with the assistance of our actuarial pricing tools.

Performance

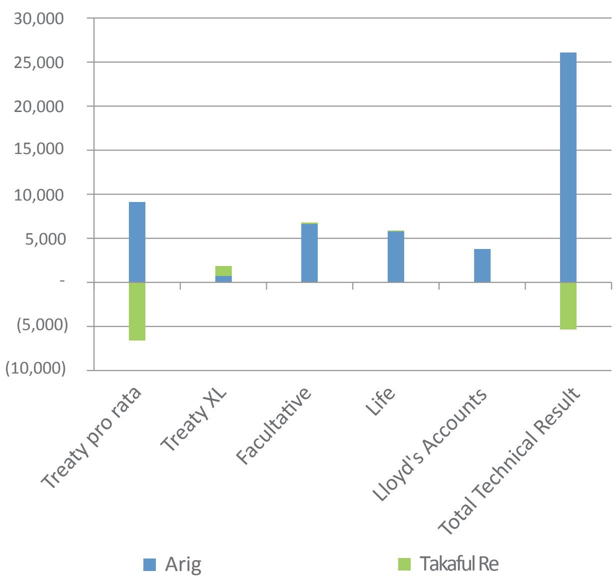
In 2013, after consolidation of Takaful Re's Participants' Fund under Arig's accounts, the Group's overall loss ratio slid by 2.9% to 63.1% against the previous year (2012: 60.2%). Arig alone showed limited movement as its loss ratio marginally rose from 59.4% in 2012 to 59.9% for the reporting period. The following graphic displays the effect of Takaful Re's book on the Group's loss ratios by lines of business.

Effect of Re-Takaful consolidation on loss ratios



While there has been a general increase in the loss load, the overall effect remained small due to the limited size of our subsidiary's portfolio. Overall technical results were largely influenced by Takaful Re's higher loss ratios in Property and Medical (Medical and short-term Life contracts are mostly written net of commissions, therefore target loss ratios tend to be higher than for other classes). Regional pro rata treaty business displayed mixed fortunes, in view of the ongoing battle between conventional insurers and Takaful operators over market shares. Profitability of treaties was mostly driven by volume rather than margin returns, whereas our facultative accounts and Life contracts contributed over-proportionally to the bottom line of our Group.

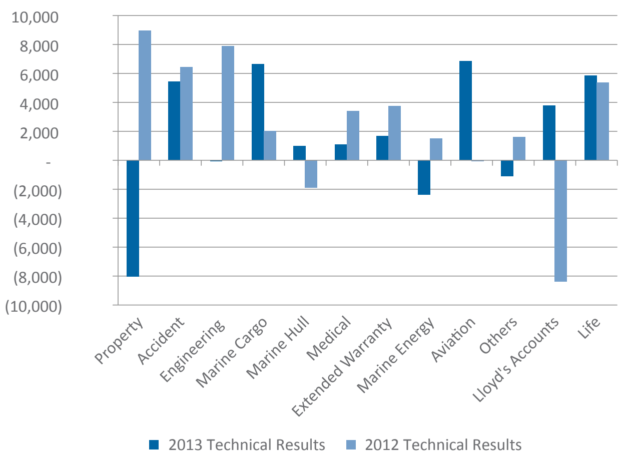
Technical Result by source (in US$ million)



OPERATING AND FINANCIAL REVIEW

Including the consolidated Participants' results of Takaful Re, the Group managed to produce a solid underwriting result even though the tuning of the conventional and Re-Takaful books will need to continue. Property and Takaful Re's Medical line results, in particular, remain challenging. In emerging markets, Property treaties are commonly placed as part of a pro rata treaty bouquet. For Arig, the technical loss originating from the Property treaties was turned into an overall profit by the results from the associated other proportional treaty lines; for Takaful Re this was not the case. We are rather pleased with our Lloyd's business, which generated healthy turn-around performance after its restructuring and despite the conservative first-year reserve loadings commonly applied by the syndicates (please note below that the profit shown for the aviation line is due to a change in allocation in our run-off portfolio).

Group Technical Result by line (in US$ million)



Following a shift to predominantly short-term Life portfolio, profits have increased further over and above the high level achieved in 2012. This comes on the heels of an earlier investment made into our actuarial resources and subsequent in-depth analysis, which we can now place at the disposal of our regional clients.

Risk Capital position

The Economic Capital position for the Group was recalculated[2] for the 2014 business year. As before, our independent external actuaries provided us an estimate for the amount of capital needed to cater for risk events throughout the Group's operations at a 1:200 level, or with a 0.5% probability. Our Economic Capital requirement compares very favorably against the Group's shareholders equity, which stood at US$ 249.2 million at the end of 2013, demonstrating that Arig is offering substantial financial security to its customers in a stressed model scenario.

The consolidation of Takaful Re under Arig's risk pool has added a manageable amount to the required risk capital for the Group. The increase was moderated by the fact that Takaful Re does not share accounts in Arig's peak risk territories where natural catastrophes tend to drive capital requirements. Correlation is therefore limited and mostly expected to occur within the Medical portfolios and selected regional Property markets.

Arig's book, which represents 92% of the Group's, has seen limited changes over the position one year ago. Following a thorough review by our independent external actuaries, reserve risk has seen a notable reduction (partly helped by an increase in the number of modeled classes, among other factors) while market risk increased moderately. All movements combined resulted in a marginal decrease in the parent's Economic Capital position.

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

As it was endorsed through our actuarial analyses, we are comfortable that the diversity and the quality of the Group's portfolio provide solid protection to Arig's reinsured clients and shareholders' capital alike. The Group is conscious of the fact that resources remain limited and that we need to use them efficiently, prudently and profitably.

Outlook

Following a disastrous 2011 business year, the global reinsurance industry was spoilt by the benign loss experience in 2012 and 2013, which has attracted additional capital into the markets. It appears to be general consensus that by and large, underwriters will struggle to grow, or even maintain their top lines beyond the current levels as most markets soften and prices remain under pressure. In several areas, risk rates have fallen below technical levels and it may be only a matter of time until results become tainted by increasing loss ratios. This is not unusual at all, and reinsurers have had ample opportunities to adjust to the regular cycles in our markets. In fact, it is fair to say that the swings in the industry's capital performance have actually reduced over the years - despite the ever increasing insured values and less predictable global weather patterns. This all is a sign of the growing use of modern risk management tools in minimizing risk exposure to corporate capital.

The same may not necessarily apply to the way some companies handle investments, especially when under pressure by shareholders' potentially unrealistic return expectations. The old correlation between risk and return still applies today even, as the memories of the 2008 Financial Crisis are starting to fade. A significant correction in global interest rates, major adjustment in the equity markets or a collapse of real estate bubbles in key locations could trigger losses that can wreak havoc on a risky investment portfolio. Just like in insurance, financial markets move in cycles but different to reinsurance, the financial impact of their swings appears to have grown in recent years.

The Arig Group has set itself prudent targets for the current business year. Bottom line profitability and protection of our shareholders' capital continue to enjoy top priority. As measures responding to the soft side of the market cycle, we will be reasonably 'technical' in our underwriting and conscious of the terms under which we accept business. Top line growth, although important over time, will not be our first order even though we will continue to target niche segments for viable opportunities. While willing

2 The Group's capital model was built and is run regularly with the support of independent actuaries and the model complies with actuarial best practices (e.g. FRC's TAS D, TAS R, TAS M etc.).

OPERATING AND FINANCIAL REVIEW

to invest into our future, the Group continues to look for ways to reduce its internal and external expenses, without compromising its professional standards. Bringing the performance of our Re-Takaful portfolio in line with the remainder of the Group is a top target, even if it means that we need to stem the tide of the Takaful market trends. If it requires a smaller pool of contributions to be profitable, we are ready to accept it.

INVESTMENTS

2013 was a decisive year for the advanced economies. Accommodative monetary policies pursued by the Federal Reserve, the European Central Bank and other central banks resulted in better than expected economic performance. Encouragingly, countries at the heart of the Euro crisis also showed signs of improvement. Growth in emerging economies on the other hand, which accounted for the bulk of global growth in recent years, registered a slowing trend. Inflation in these economies was well in excess of expectations. The International Monetary Fund reckons that the global economy grew by 2.9% in 2013 (3.2% in 2012).

There was a broad based rally in global equities, reflecting the optimistic outlook and easy availability of credit. US equity indices scaled all-time highs. Japanese and European stock markets were buoyant. GCC equity markets also participated in this global rally, with the Dubai market as a stand-out. Government bond yields rose reflecting the better conditions. Yields on the bench mark U.S. 10-Year Treasury note climbed in excess of 125 basis points to close above 3%. European government bond yields displayed a similar trend. Demand for commodities, however, was muted as growth slowed in emerging markets.

In line with the risk tolerance of the Group, our investment strategy remained unaltered. The increase in global equity markets notwithstanding, we continued to be defensive in our allocation. Most of the investment portfolio was deployed in less risky assets. At the year-end, the Group's investments stood at US $ 642.2 million (2012: US $ 667.6 million) with 88% allocated to cash, deposits and bonds. Income generated in 2013 was US $ 20.4 million (US $ 21.6 million in 2012).

Looking ahead, issues remain. The global economy and financial markets need to adjust as the quantitative easing program of the Federal Reserve draws to a close. Careful implementation and clear communication on the part of the agency is important. The fragmented financial system in the Euro zone and continuing high levels of public debt in the Organization for Economic Co-operation and Development economies remain as issues that could trigger new crises. Fresh bouts of volatility in asset prices continue to be a possibility, especially as rising interest rates could trigger global shifts in asset allocation. For now, the prevailing low rates of interest continue to challenge predominantly short duration investors like Arig.

We will continue to manage a diversified low-risk portfolio within the Company's affirmed investment risk appetite, carefully balancing market opportunities against our standing obligation to policyholders and shareholders. We are still at a low point in the investment cycle, especially in terms of interest rates. Preservation and safety of capital at this stage is paramount to our ability of exploiting opportunities later.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Takaful reinsurance subsidiary reported a net loss of US$ 8.1 million (2012: net loss of US$ 2.0 million) for the year, mostly the result of major claims and adverse claim developments during the year. Arig's share in the loss was US$ 4.4 million (2012: loss of US$ 1.1 million). Gross underwriting contributions reduced by 43% to US$ 21.5 million (2012: US$ 37.9 million) as Takaful Re discontinued writing facultative business and reduced its exposure to under-performing accounts primarily in the Medical line, where contributions reduced to US$ 0.7 million (2012: US$ 11.2 million). Property was the largest class with contributions of US$ 7 million (2012: US$ 9.8 million), representing 33% of total income. Other important classes were Engineering and Auto, representing 17% (2012: 15%) and 17% (2012: 8%) of total contributions respectively. With a new management team on board, the company has engaged in re-underwriting its portfolio and every effort is being made to improve its underwriting performance.

Takaful Re's investments yielded an average return of 1.8% with investment earnings of US$ 2.1 million (2012: US$ 2.3 million). About 66% of the US$ 118.2 million (2012: US$ 116.6 million) of invested assets were held in cash and short-term Islamic deposits while the company maintained a conservative investment strategy with a high degree of liquidity.

Gulf Warranties W.L.L. (GW)

Gulf Warranties was reorganized during the year and showed significantly improved performance with net losses reducing to a nominal US$ 0.2 million (2012: net loss US$ 2.8 million). Motor warranty revenues grew by 50% to US$ 1.5 million (2012: US$ 1.0 million) as vehicle sales picked up while non-warranty income increased marginally to US$ 0.5 million (2012: US$ 0.4 million) for the year.

Arima Insurance Software W.L.L. (ARIMA)

ARIMA offers a scalable suite of software solutions for insurers and reinsurers (including Takaful operators), covering General, Life, Medical insurance as well as Bancassurance and Reinsurance. ARIMA reported revenues of US$ 2.4 million (2012: US$ 2.6 million) and a net profit of US$ 27 thousand (2012: US$ 0.4 million). During the year, Arig negotiated potential sale of 51% of its equity stake in ARIMA.

Arig Capital Limited (ACL)

ACL is a registered and fully owned corporate member at Lloyd's of London, which allows Arig to share in business written by Lloyd's syndicates. In 2013, ACL wrote business through four syndicates and generated a gross written premium of US$ 47.1 million (2012: US$ 48.1 million) to Arig. ACL retains limited risk for its net account and cedes most of its business to Arig. In the absence of any major claims, ACL recorded a small profit of US$ 0.2 million for the year (2012: net loss US$ 0.4 million).

ARAB INSURANCE MARKET REVIEW

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

ARAB INSURANCE MARKET REVIEW

Gross Premium By Class and Country - 2008 to 2012 in US$ millions

				Non-Life					Life	
Country	Year	Exchange Rate	Total GPI	Motor	Property & Misc. Accident	Marine & Aviation	Total Non-Life	% of GPI	Total	% of GPI
Algeria	2008	67.7500	1,001.9	437.5	401.7	84.7	923.9	92.2%	78.0	7.8%
	2009	72.6474	1,064.6	487.7	413.1	84.1	984.9	92.5%	79.7	7.5%
	2010	74.3860	1,098.6	542.2	373.8	81.3	997.3	90.8%	101.3	9.2%
	2011	72.9379	1,188.4	602.7	415.1	77.9	1095.7	92.2%	92.7	7.8%
	2012	77.5360	1,240.3	674.0	445.3	68.1	1187.4	95.7%	52.9	4.3%
Bahrain	2008	0.3769	495.1	145.0	193.3	20.0	358.3	72.4%	136.8	27.6%
	2009	0.3769	532.2	151.3	207.9	20.9	380.1	71.4%	152.1	28.6%
	2010	0.3769	559.2	152.9	248.4	21.3	422.6	75.6%	136.6	24.4%
	2011	0.3769	546.1	147.9	249.4	18.8	416.1	76.2%	130.0	23.8%
	2012	0.3769	634.0	164.5	291.3	18.6	474.4	74.8%	159.6	25.2%
Egypt(1)	2008	5.5325	1,392.6	227.7	321.2	206.9	755.8	54.3%	636.8	45.7%
	2009	5.4578	1,567.1	285.9	356.5	225.2	867.6	55.4%	699.5	44.6%
	2010	5.5700	1,612.8	319.7	304.6	222.2	846.5	52.5%	766.3	47.5%
	2011	5.6219	1,678.8	345.7	387.2	220.3	953.2	56.8%	725.6	43.2%
	2012	6.0561	1,770.5	330.8	434.4	240.2	1005.4	56.8%	765.1	43.2%
Jordan	2008	0.7100	487.1	208.4	184.3	43.6	436.3	89.6%	50.8	10.4%
	2009	0.7080	527.6	220.5	221.1	36.6	478.2	90.6%	49.4	9.4%
	2010	0.7080	589.3	257.7	241.5	36.2	535.4	90.9%	53.9	9.1%
	2011	0.7080	598.3	256.6	240.9	43.3	540.8	90.4%	57.5	9.6%
	2012	0.7080	679.7	273.3	300.8	42.7	616.8	90.7%	62.9	9.3%
Kuwait	2008	0.2703	641.4	198.7	229.4	83.0	511.1	79.7%	130.3	20.3%
	2009	0.2851	568.9	184.1	187.8	67.9	439.8	77.3%	129.1	22.7%
	2010	0.2806	627.4	198.3	232.1	61.7	492.1	78.4%	135.3	21.6%
	2011	0.2760	698.2	244.4	228.8	72.1	545.3	78.1%	152.9	21.9%
	2012	0.2816	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lebanon	2008	1,507.5000	898.8	221.5	361.2	32.1	614.8	68.4%	284.0	31.6%
	2009	1,507.5000	1,022.8	283.5	414.8	27.6	725.9	71.0%	296.9	29.0%
	2010	1,504.5000	1,168.6	201.5	643.0	33.5	878.0	75.1%	290.6	24.9%
	2011	1,504.0000	1,261.1	202.7	680.4	35.0	918.1	72.8%	343.0	27.2%
	2012	1,504.0000	1,294.9	323.7	559.4	35.0	918.1	70.9%	376.8	29.1%
Libya(3)	2008	1.2935	229.0	52.5	138.7	33.0	224.2	97.9%	4.8	2.1%
	2009	1.2034	309.3	69.4	198.5	36.5	304.4	98.4%	4.9	1.6%
	2010	1.1898	325.8	76.8	198.5	44.9	320.2	98.3%	5.6	1.7%
	2011	1.2251	140.7	24.2	95.9	15.1	135.2	96.1%	5.5	3.9%
	2012	1.2251	273.9	47.4	187.0	33.3	267.7	97.7%	6.2	2.3%
Mauritania(4)	2008	252.1250	15.2	5.1	5.6	3.4	14.1	92.8%	1.1	7.2%
	2009	262.0000	16.4	5.6	6.1	3.7	15.4	93.9%	1.0	6.1%
	2010	279.0000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2011	288.0800	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2012	288.0800	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Morocco	2008	8.8166	2,548.1	773.1	827.2	101.6	1701.9	66.8%	846.2	33.2%
	2009	7.6145	2,588.0	818.4	857.1	87.9	1763.4	68.1%	824.6	31.9%
	2010	8.2013	2,592.6	846.2	873.7	84.5	1804.4	69.6%	788.2	30.4%
	2011	8.2013	2,920.4	931.0	953.5	90.2	1974.7	67.6%	945.7	32.4%
	2012	8.2471	3,148.5	972.5	1096.5	76.2	2084.4	66.2%	1064.1	33.8%
Oman	2008	0.3850	551.0	232.8	170.0	41.4	444.2	80.6%	106.8	19.4%
	2009	0.3852	644.7	270.0	229.7	38.7	538.4	83.5%	106.3	16.5%
	2010	0.3852	617.7	262.4	211.6	38.8	512.8	83.0%	104.9	17.0%
	2011	0.3850	733.0	313.2	252.5	46.3	612.0	83.5%	121.0	16.5%
	2012	0.3845	738.6	353.1	248.5	31.7	633.3	85.7%	105.3	14.3%

(1) Egypt: Financial Year end as at 30 June (2) Sudan: Sudan's currency changed from the Sudanese dinar (SDD) to the new Sudanese Pound (SDG) introduced in January 2007. (3) Libya: Property & Miscellaneous Accident includes Energy (4) Mauritania: 2008-2009 premium figures are estimate (5) Qatar: Life premium figures are estimate (6) Saudi Arabia: Property & Miscellaneous Accident includes Energy.

ARAB INSURANCE MARKET REVIEW

Gross Premium By Class and Country - 2008 to 2012 in US$ millions

				Non-Life					Life	
Country	Year	Exchange Rate	Total GPI	Motor	Property & Misc. Accident	Marine & Aviation	Total Non-Life	% of GPI	Total	% of GPI
Palestine	2008	3.7714	62.6	51.3	10.1	0.3	61.7	98.6%	0.9	1.4%
	2009	3.5880	72.8	60.6	11.1	0.3	72.0	98.9%	0.8	1.1%
	2010	3.5880	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2011	3.5880	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2012	3.5880	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Qatar[5]	2008	3.6416	855.6	173.9	555.6	116.5	846.0	98.9%	9.6	1.1%
	2009	3.6405	781.6	158.9	507.7	106.4	773.0	98.9%	8.6	1.1%
	2010	3.6408	929.0	181.0	634.7	98.6	914.3	98.4%	14.7	1.6%
	2011	3.6408	1,154.6	212.1	817.0	114.2	1,143.3	99.0%	11.3	1.0%
	2012	3.6408	1,114.6	85.9	862.8	149.3	1,098.0	98.5%	16.6	1.5%
Saudi Arabia[6]	2008	3.7515	2,911.8	677.9	1,817.6	257.9	2,753.4	94.6%	158.4	5.4%
	2009	3.7502	3,896.0	814.7	2,546.9	266.9	3,628.5	93.1%	267.5	6.9%
	2010	3.7500	4,370.1	863.7	2,940.0	307.1	4,110.8	94.1%	259.3	5.9%
	2011	3.7500	4,934.4	1,045.9	3,309.2	337.9	4,693.0	95.1%	241.4	4.9%
	2012	3.7503	5,645.8	1,234.9	3,958.0	216.0	5,408.9	95.8%	236.9	4.2%
Sudan[2]	2008	2.2133	278.1	132.6	89.7	41.5	263.8	94.9%	14.3	5.1%
	2009	2.3198	285.8	129.9	94.0	47.1	271.0	94.8%	14.8	5.2%
	2010	2.3725	294.1	144.6	73.2	59.0	276.8	94.1%	17.3	5.9%
	2011	2.6769	289.1	124.6	98.8	50.8	274.2	94.8%	14.9	5.2%
	2012	2.6769	337.2	145.9	118.0	59.0	322.9	95.8%	14.3	4.2%
Syria	2008	50.0000	241.1	160.3	49.7	28.1	238.1	98.8%	3.0	1.2%
	2009	50.0000	318.5	223.3	54.9	34.7	312.9	98.2%	5.6	1.8%
	2010	50.0000	329.5	221.0	73.5	29.3	323.8	98.3%	5.7	1.7%
	2011	50.0000	280.9	173.7	67.2	34.5	275.4	98.0%	5.5	2.0%
	2012	69.7000	150.6	94.9	39.4	13.3	147.6	98.0%	3.0	2.0%
Tunisia	2008	1.3970	696.3	306.8	260.3	51.0	618.1	88.8%	78.2	11.2%
	2009	1.2824	800.3	370.7	273.9	50.7	695.3	86.9%	105.0	13.1%
	2010	1.4122	774.9	361.4	247.5	52.9	661.8	85.4%	113.1	14.6%
	2011	1.4078	900.7	382.4	250.4	52.2	685.0	76.1%	215.7	23.9%
	2012	1.4414	891.8	358.9	298.6	49.7	707.2	79.3%	139.0	15.6%
U.A.E.	2008	3.6734	4,974.5	1,190.4	2,539.4	520.7	4,250.5	85.4%	724.0	14.6%
	2009	3.6731	5,455.5	1,106.0	2,907.4	551.2	4,564.6	83.7%	890.9	16.3%
	2010	3.6728	6,003.7	1,230.8	3,065.6	609.4	4,905.8	81.7%	1097.9	18.3%
	2011	3.6725	6,513.8	1,121.2	3,479.6	635.2	5,236.0	80.4%	1277.8	19.6%
	2012	3.6728	7,154.6	1,091.0	3,808.9	632.1	5,532.0	77.3%	1622.6	22.7%
Yemen	2008	200.0250	70.5	19.1	32.0	14.2	65.3	92.6%	5.2	7.4%
	2009	206.3000	74.6	20.1	36.2	13.5	69.8	93.6%	4.8	6.4%
	2010	213.9000	84.0	22.7	40.0	14.4	77.1	91.8%	6.9	8.2%
	2011	213.8000	80.6	18.3	42.6	12.5	73.4	91.1%	7.2	8.9%
	2012	214.3508	85.5	17.8	45.6	14.0	77.4	90.5%	8.1	9.5%
The Premium figures are in Local Currency for Iraq only										
Iraq	2008		26,913.5	11,700.0	7,800.0	3,900.0	23,400.0	86.9%	3,513.5	13.1%
	2009		67,037.5	12,455.8	27,014.1	11,012.0	50,482.0	75.3%	16,555.5	24.7%
	2010		90,496.0	14,976.0	85,059.0	20,007.0	50,482.0	55.8%	40,014	44.2%
	2011		98,686.0	29,952.0	170,001.0	40,014.0	50,482.0	51.2%	48,204	48.8%
	2012		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

Portfolio split includes four main lines of business:

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

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

ARAB INSURANCE MARKET REVIEW

Key Economic & Demographic Indicators - 2008 to 2012

Country	Year	Exchange Rate	Total GPI in US$ Millions	Premium Per Capita US$	GDP Per Capita US$	Premium as % of GDP	Population in Millions	GDP in US$ Millions
Algeria	2008	67.7500	1,001.9	29.13	5,055	0.6%	34.40	173,882
	2009	72.6474	1,064.6	30.50	4,642	0.7%	34.90	162,000
	2010	74.3860	1,098.6	31.03	4,322	0.7%	35.40	153,000
	2011	72.9379	1,188.4	33.01	4,917	0.7%	36.00	177,000
	2012	77.5360	1,240.3	33.98	5,096	0.7%	36.50	186,000
Bahrain	2008	0.3769	495.1	618.88	34,013	1.8%	0.80	27,210
	2009	0.3769	532.2	665.25	27,500	2.4%	0.80	22,000
	2010	0.3769	559.2	466.00	18,333	2.5%	1.20	22,000
	2011	0.3769	546.1	413.71	19,697	2.1%	1.32	26,000
	2012	0.3769	634.0	480.30	20,332	2.4%	1.32	26,838
Egypt[1]	2008	5.5325	1,392.6	17.09	1,998	0.9%	81.50	162,818
	2009	5.4578	1,567.1	18.88	2,265	0.8%	83.00	188,000
	2010	5.5700	1,612.8	19.09	2,592	0.7%	84.50	219,000
	2011	5.6219	1,678.8	20.06	2,820	0.7%	83.70	236,000
	2012	6.0561	1,770.5	21.10	2,913	0.7%	83.90	244,400
Jordan	2008	0.7100	487.1	77.32	3,365	2.3%	6.30	21,200
	2009	0.7080	527.6	83.75	3,492	2.4%	6.30	22,000
	2010	0.7080	589.3	90.66	4,154	2.2%	6.50	27,000
	2011	0.7080	598.3	94.97	4,444	2.1%	6.30	28,000
	2012	0.7080	679.7	104.57	4,769	2.2%	6.50	31,000
Kuwait	2008	0.2703	641.4	221.17	52,172	0.4%	2.90	151,300
	2009	0.2851	568.9	196.17	51,034	0.4%	2.90	148,000
	2010	0.2806	627.4	216.34	45,862	0.5%	2.90	133,000
	2011	0.2760	698.2	240.76	57,931	0.4%	2.90	168,000
	2012	0.2816	n/a	n/a	57,931	n/a	2.90	168,000
Lebanon	2008	1,507.5000	898.8	211.98	6,759	3.1%	4.24	28,660
	2009	1,507.5000	1,022.8	243.52	7,381	3.3%	4.20	31,000
	2010	1,504.5000	1,168.6	271.77	9,070	3.0%	4.30	39,000
	2011	1,504.0000	1,261.1	293.28	9,767	3.0%	4.30	42,000
	2012	1,504.0000	1,294.9	301.14	10,186	3.0%	4.30	43,800
Libya[3]	2008	1.2935	229.0	36.35	15,861	0.2%	6.30	99,926
	2009	1.2034	309.3	49.10	13,681	0.4%	6.30	86,190
	2010	1.1898	325.8	51.31	14,016	0.4%	6.35	89,000
	2011	1.2251	140.7	21.65	12,262	0.2%	6.50	79,700
	2012	1.2251	273.9	42.14	14,108	0.3%	6.50	91,700
Mauritania[4]	2008	252.1250	15.2	4.75	906	0.5%	3.20	2,900
	2009	262.0000	16.4	5.13	803	0.6%	3.20	2,569
	2010	279.0000	n/a	n/a	843	n/a	3.20	2,697
	2011	288.0800	n/a	n/a	1,192	n/a	3.44	4,100
	2012	288.0800	n/a	n/a	1,808	n/a	3.54	6,400
Morocco	2008	8.8166	2,548.1	81.67	2,767	3.0%	31.20	86,329
	2009	7.6145	2,588.0	79.88	2,840	2.8%	32.40	92,000
	2010	8.2013	2,592.6	81.02	2,844	2.8%	32.00	91,000
	2011	8.2013	2,920.4	90.41	2,954	3.1%	32.30	95,400
	2012	8.2471	3,148.5	96.58	2,945	3.3%	32.60	96,000
Oman	2008	0.3850	551.0	196.79	12,760	1.5%	2.80	35,729
	2009	0.3852	644.7	217.80	17,905	1.2%	2.96	53,000
	2010	0.3852	617.7	208.68	19,257	1.1%	2.96	57,000
	2011	0.3850	733.0	244.33	24,333	1.0%	3.00	73,000
	2012	0.3845	738.6	232.26	23,899	1.0%	3.18	76,000

ARAB INSURANCE MARKET REVIEW

Key Economic & Demographic Indicators - 2008 to 2012

Country	Year	Exchange Rate	Total GPI in US$ Millions	Premium Per Capita US$	GDP Per Capita US$	Premium as % of GDP	Population in Millions	GDP in US$ Millions
Palestine	2008	3.7714	62.6	17.06	1,127	1.5%	3.67	4,135
	2009	3.5880	72.8	19.68	1,505	1.3%	3.70	5,568
	2010	3.5880	n/a	n/a	1,409	n/a	4.15	5,846
	2011	3.5880	n/a	n/a	1,549	n/a	4.17	6,460
	2012	3.5880	n/a	n/a	n/a	n/a	4.17	n/a
Qatar(5)	2008	3.6416	855.6	611.14	66,179	0.9%	1.40	92,650
	2009	3.6405	781.6	558.29	66,429	0.8%	1.40	93,000
	2010	3.6408	929.0	619.33	79,333	0.8%	1.50	119,000
	2011	3.6408	1,154.6	641.44	96,111	0.7%	1.80	173,000
	2012	3.6408	1,114.6	586.63	108,947	0.5%	1.90	207,000
Saudi Arabia(6)	2008	3.7515	2,911.8	114.19	18,337	0.6%	25.50	467,601
	2009	3.7502	3,896.0	151.60	20,700	0.7%	25.70	532,000
	2010	3.7500	4,370.1	166.80	20,668	0.8%	26.20	541,500
	2011	3.7500	4,934.4	176.23	21,321	0.8%	28.00	597,000
	2012	3.7503	5,645.8	196.72	21,254	0.9%	28.70	610,000
Sudan(2)	2008	2.2133	278.1	6.73	1,415	0.5%	41.30	58,443
	2009	2.3198	285.8	6.92	1,475	0.5%	41.30	60,898
	2010	2.3725	294.1	6.95	1,546	0.4%	42.30	65,400
	2011	2.6769	289.1	6.83	1,537	0.4%	42.30	65,000
	2012	2.6769	337.2	7.97	1,976	0.4%	42.30	83,600
Syria	2008	50.0000	241.1	11.37	2,476	0.5%	21.20	52,500
	2009	50.0000	318.5	14.15	2,394	0.6%	22.51	53,900
	2010	50.0000	329.5	14.64	2,497	0.6%	22.51	56,200
	2011	50.0000	280.9	13.38	2,814	0.5%	21.00	59,100
	2012	69.7000	150.6	7.17	2,095	0.3%	21.00	44,000
Tunisia	2008	1.3970	696.3	67.60	3,901	1.7%	10.30	40,180
	2009	1.2824	800.3	77.70	3,883	2.0%	10.30	40,000
	2010	1.4122	774.9	74.51	4,327	1.7%	10.40	45,000
	2011	1.4078	900.7	84.18	4,299	2.0%	10.70	46,000
	2012	1.4414	891.8	82.27	4,328	1.9%	10.84	46,920
U.A.E.	2008	3.6734	4,974.5	1,105.44	69,978	1.6%	4.50	314,900
	2009	3.6731	5,455.5	1,185.98	58,761	2.0%	4.60	270,300
	2010	3.6728	6,003.7	1,305.15	64,696	2.0%	4.60	297,600
	2011	3.6725	6,513.8	1,357.04	70,625	1.9%	4.80	339,000
	2012	3.6728	7,154.6	1,460.12	74,286	2.0%	4.90	364,000
Yemen	2008	200.0250	70.5	3.05	1,150	0.3%	23.10	26,576
	2009	206.3000	74.6	3.09	1,165	0.3%	24.13	28,100
	2010	213.9000	84.0	3.49	1,347	0.3%	24.05	32,400
	2011	213.8000	80.6	3.25	1,452	0.2%	24.80	36,000
	2012	214.3508	85.5	3.38	1,653	0.2%	25.30	41,825
Total GPI in Local Currency for Iraq only								
Iraq	2008		26,913.5				30.39	84,700
	2009		67,037.5				31.47	118,000
	2010		90,496.0				32.96	115,500
	2011		98,686.0				32.96	115,500
	2012		n/a				31.86	153,000

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

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

Bahrain Corporate Governance Code

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

Framework

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

The Board of Directors

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

The current Board was elected by the shareholders at the Annual General Meeting in March 2011 for a term of three years. Formalized Board procedures enhance the professional development of the Board members and include induction training to new directors, continuous learning and self-evaluation. The names of the current directors and biographical details are set out in page 30.

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

Board committees

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

Board meetings

According to the Articles of Association and local regulations, the Board is required to meet at least 4 times in a year. In addition to the five meetings held in person during 2013, the Board approved quarterly results through circulation of a resolution.

The following table lists the number of meetings held during 2013, including Board Committees, and the individual attendance:

CORPORATE GOVERNANCE REPORT

Directors	Board meetings (5)	Executive Committee meetings (4)	Audit Committee meetings (4)	Nomination & Remuneration Committee (4)
Khalid Ali Al Bustani*	5	N	N	N
Khalid Jassim Bin Kalban*	4	4	N	4
Dr. Fouad AA Alfalah*	5	N	4	4
Sultan Ahmed Al Ghaith *	5	4	N	4
Abdulaziz Abdulla Alzaabi*	4	3	3	N
Fathi M A Elhagie	5	N	N	N
Majed Omran Al Shamsi	4	3	N	N
Mariam Mohamed Alameeri	5	N	4	N
Saif Abdulrahman Al Shamsi	4	N	N	N

- *N - Not member*
- ** - Independent non-executive directors*

Management

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

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

Directors' and General Management compensation

The Directors' remuneration is determined in accordance with the Bahrain Commercial Companies Law and the provision under the Company's Articles of Association, and is approved by the shareholders. Directors' compensation includes remuneration, allowances & reimbursement of expenses. The compensation of the General Management is determined by the Board of Directors based on the recommendations of the Nomination and Remuneration Committee, where salaries, allowances, reimbursement of expenses, post-employment benefits and performance related incentives are discussed (further information please see page 80). Details as required under the Code are held at Company's premises for the availability of the shareholders.

Organizational structure

The Company has put in place a detailed organizational structure (shown on page 29) to serve the company purpose, its strategic development and internal controls.

Management committees

In order to assist the CEO in guiding and monitoring the functional departments within the Company, a number of internal management committees are operative. These would include the areas of Reinsurance Management, Human Resources Development, Information Technology, Retrocessions and Security Evaluation. Members are drawn from within the Company and in accordance to their relevant areas of expertise.

CORPORATE GOVERNANCE REPORT

Succession planning

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

Key persons dealing in Arig securities

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

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

	Directors	General Management
Shares held at 1 January 2013	101,157,073	9,166
Add :Shares acquired during the year	-	-
Less : Shares transferred during the year	-	-
Shares held at 31 December 2013	101,157,073	9,166

Investor relations

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

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

Corporate social responsibility

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

Capital and shares

Arig's authorized capital is comprised of 500 million ordinary shares with a nominal value of US$ 1 each. The issued, subscribed and paid-up capital is US$ 220 million. Shares are held by more than 4,700 shareholders mostly throughout the GCC countries. They are negotiable by people of any nationality through the stock exchanges where Arig is listed: the Bahrain Bourse and the Dubai Financial Market. Furthermore, Global Depositary Receipts, each equivalent to 10 ordinary shares, are registered on the London Stock Exchange. Further shareholding information is given on page no. 63 of this Annual Report.

Compliance

The Company has a separate compliance unit headed by the Compliance Officer. This unit ensures that Arig meets all regulatory requirements stipulated by the Central Bank of Bahrain, the Bahrain Ministry of Industry and Commerce, and the authorities regulating the Branch Offices in Singapore & Labuan. It also makes sure that the Company is in compliance with all rules and regulations of the stock exchanges where Arig is listed. There were no penalties incurred during the year 2013 other than a SGD 1,250 fine paid by Singapore Branch for a one day delay in filing the 2012 annual return.

Internal control

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

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

Enterprise Risk Management (ERM)

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

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

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

Our key risk categories are underwriting risk, reserve risk, credit risk, market risk and operational risks. Property reinsurance with its exposure to natural and man-made catastrophes represents the largest class in Arig's book; therefore it comes as no surprise that underwriting risk dominates the quantum of our risk exposures. It is followed by reserve risk, which is a reflection of the Company's 34 year operating history and former activities in discontinued underwriting lines. Operational risks rank third and followed by Market risk, i.e. the risk of changes in the financial markets. Credit risk takes the least amount of capital funding.

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

- *Risk Appetite Statemen*t - First and foremost, Arig maintains a defined statement of its risk appetite expressing its maximum tolerance to losses for each of the main risk categories. The Risk Appetite Statement represents a key document in guiding the Company's business conduct and it has been ratified by the Board of Directors.

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

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

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

- *Credit risk* is managed by stringent counter-party checks and Arig's preference to deal with solid and, for the most part, highly rated market entities. At the same time, cash flow is monitored through ageing analyses and outstanding payments are actively pursued by all levels in the organization

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

External auditors

External auditors are appointed by the shareholders through the General Assembly. The current auditors, KPMG of Bahrain, being eligible for re-election, were reappointed for the Financial Year 2013 based on the recommendation of the Board.

CORPORATE GOVERNANCE REPORT

Security ratings

Through its most recent rating published on Arig on 19th of December 2013, A.M. Best reaffirmed the Company's investment grade status with a Financial Strength Rating of 'B++ (Good)' and Issuer Credit Rating of "bbb+"; the outlook for both ratings has been revised from 'stable' to 'positive', reflecting Arig's "improving underwriting performance stemming from enhanced underwriting discipline and risk selection." In Best's opinion, "the ratings reflect the Company's robust capitalization and strong regional business profile."

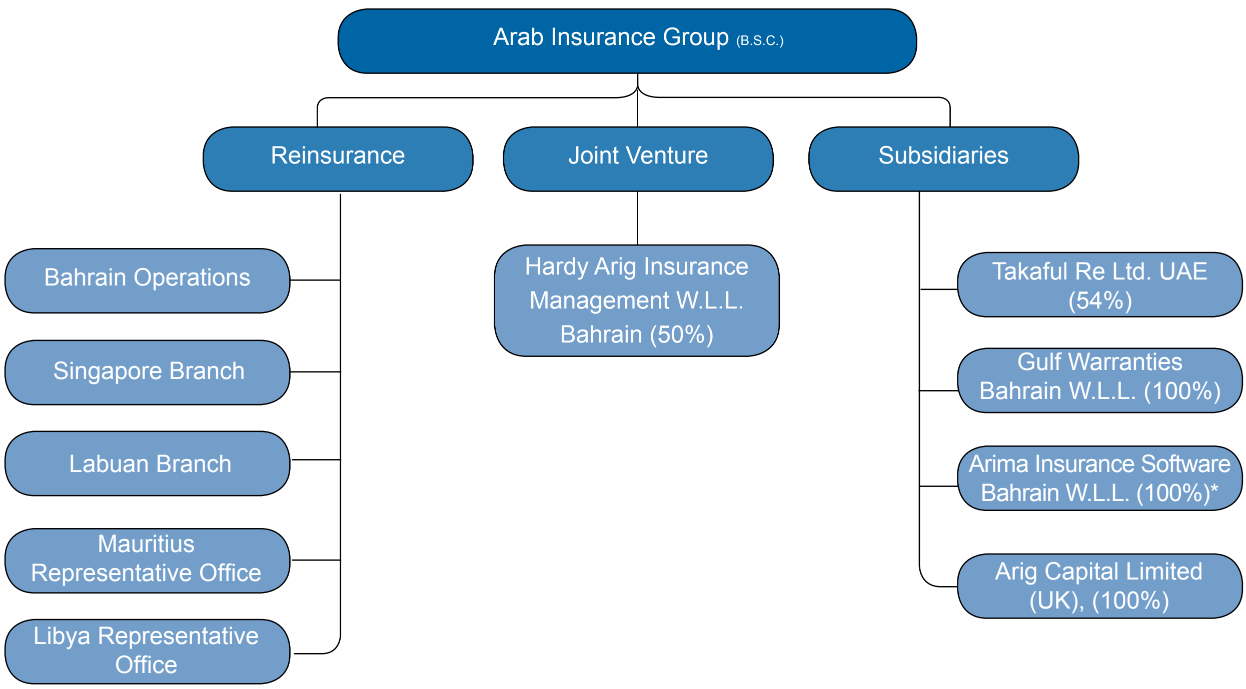
Solvency

Statutory Solvency requirements are determined by Arig's regulator in Bahrain, the Central Bank of Bahrain, and the regulators of its Branches in Singapore and Labuan. In Bahrain, minimum solvency is defined with reference to a prescribed premium and claims basis. The solvency position of the Company including its Branches as at 31 December 2013 is given below:

(in US$ '000)

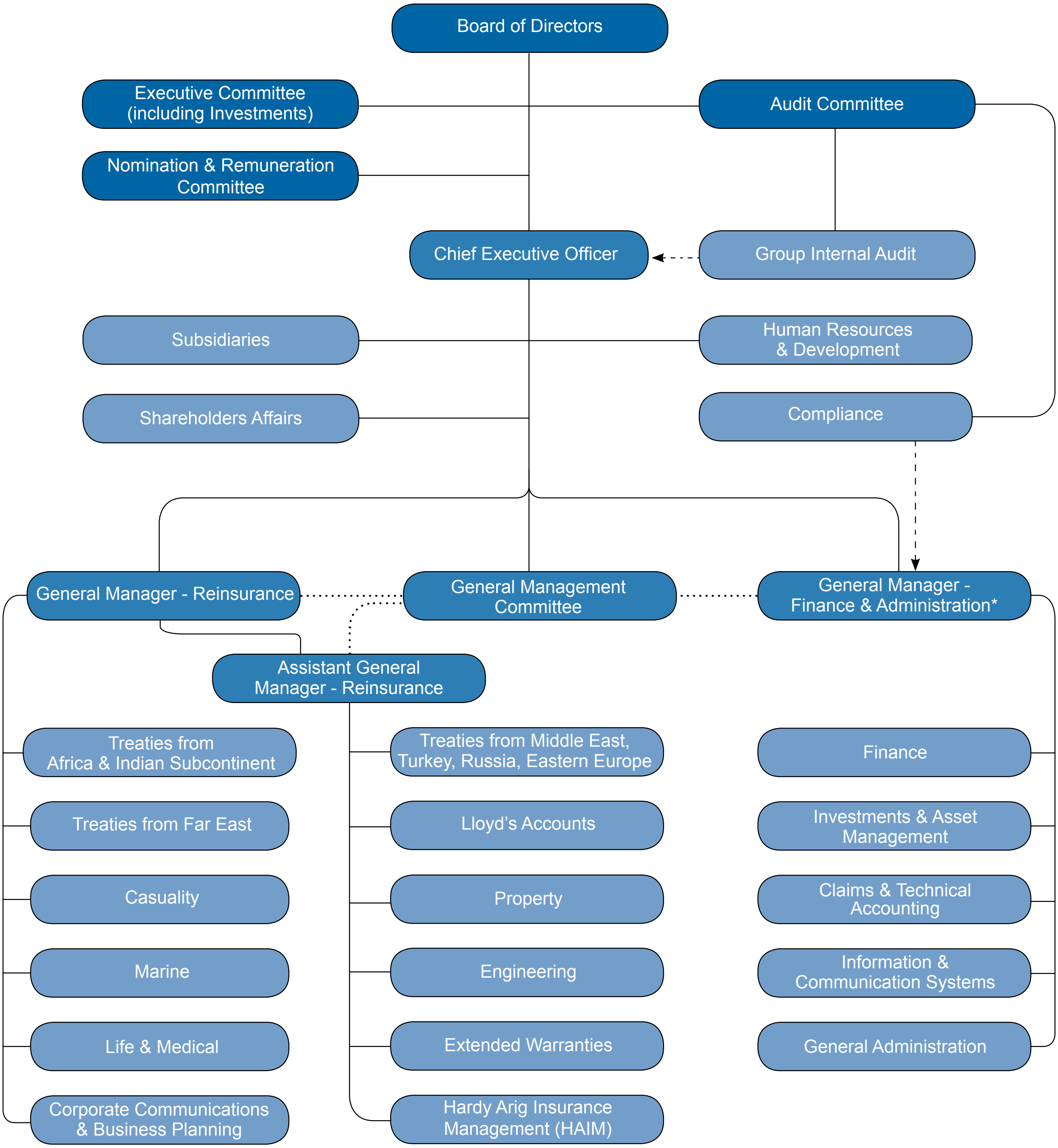
	2013	2012
Capital available	**171,742**	147,307
Required margin of solvency	**40,976**	38,820
Total excess capital available over the required margin of solvency	**130,766**	108,488

ARIG GROUP STRUCTURE



* During December 2013 Arig entered into an agreement to sell 51% share in its subsidiary Arima Insurance Software W.L.L.

ORGANIZATION CHART



* Also designated as Corporate Secretary

BIOGRAPHIES OF BOARD MEMBERS

BOARD MEMBERS

Khalid Ali Al Bustani
Chairman

B. Sc. Computer Engineering, Boston University, USA; MBA, Leicester University, UK

Khalid Ali Al Bustani is Assistant Under Secretary for International financial relations in the Ministry of Finance in the United Arab Emirates. He is Chairman of the Board of Directors since May 2004, prior to which he was Vice Chairman of the Board of Directors from June 2003. Khalid Ali Albustani has been a Director and Chairman of the Executive Committee from October 2002 to April 2004. He is also Chairman of Takaful Re Ltd.

Khalid Jassim Bin Kalban
Vice Chairman of the Board, Chairman of the Executive Committee and the Nomination & Remuneration Committee

B.Sc., Management Major Metropolitan State College, Denver, Colorado,USA

Khalid Jassim Bin Kalban is Vice Chairman of the Board of Directors since April 2005. He has been a Director of the Company since May 1998 and is the Chairman of the Executive Committee since May 2004. He is also the Chairman of the Nomination & Remuneration Committee. Khalid Jassim Bin Kalban is the M.D. & CEO of Dubai Investments PJSC in UAE. He is also the Chairman of Union Properties PJSC, UAE. He also serves on the boards of several companies in the UAE and other countries including, Al Thuraya Satellite Telecommunications Co., National General Insurance, Takaful Re Ltd. in UAE, First Energy Bank in Bahrain and Islamic Bank of Asia in Singapore.

Dr. Fouad A A Alfalah
Director and Chairman of the Audit Committee and Member of the Nomination & Remuneration Committee

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

Dr. Fouad Alfalah has served as Director of the Company since October 2003 and is the Chairman of the Audit Committee since April 2005. He was Chairman & Director General of Public Authority for Youth & Sports, Kuwait until November 2008. He has also served as Third Secretary at the Kuwait Ministry of Foreign Affairs. He is in the Board of Gulf Union Insurance and Reinsurance Company in Bahrain. Currently he serves as an Assistant Professor at the College of Administrative Sciences-Department of Public Administration, Kuwait University.

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

B.Sc., UAE University, UAE

Sultan Ahmed Al Ghaith has been a Director of the Company since October 2004. He was Under-Secretary & Director General of General Pensions & Social Security Authority, UAE, until April 2008. He serves on the boards of Takaful Re Ltd., Emirates Co-operative Society and the Consumer Cooperative Union in UAE.

Abdulaziz Abdulla Al Zaabi
Director and Member of the Executive Committee & the Audit Committee

Business Administration, California State University, San Jose, USA

Abdulaziz Abdulla Al Zaabi has been the Director of the Company since 2005. He serves on the boards of Takaful Re Ltd, National Bank of Ras Al Khaimah, RAK Properties and other organisations in the UAE.

Fathi M A Elhagie
(Representing Central Bank of Libya)

Director

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

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

Majed Omran Al Shamsi
(Representing Emirates Investment Authority, UAE)
Director and Member of the Executive Committee

Bachelor of Administrative Sciences, Emirates University, United Arab Emirates

Majed Omran Al Shamsi is the Director of International Financial Relations Department, the Ministry of Finance in the United Arab Emirates. He has been a Member of the Board of Directors, since March 2008.

BIOGRAPHIES OF BOARD MEMBERS

Saif Abdulrahman Al Shamsi
(Representing General Pensions & Social Security Authority (GPSSA), UAE

Director

Holds a Bachelor Degree in Political Science and Business Administration, UAE University, United Arab Emirates

Saif Abdulrahman Al Shamsi is currently the Assistant Governor for Monetary Policy & Financial Stability Affairs with the Central Bank of the United Arab Emirates. He has held several positions within the Central Bank since he joined in the year 1981. He has been a Member of the Board of Directors, since April 2012.

Mariam Mohamed Alameeri
(Representing Real Estate Bank, UAE)

Director & Member of the Audit Committee

Mariam Alameeri is currently the Assistant Under-Secretary for Financial Administration in the Ministry of Finance in UAE. She is also a Board Member in the Insurance Authority in UAE. She has been a Member of the Board of Directors, since March 2011.

GENERAL MANAGEMENT

Yassir Albaharna
Chief Executive Officer

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

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

Andreas Weidlich
General Manager, Reinsurance

Graduate in Economics; Free University of Berlin, Germany

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

Nagarajan Kannan
General Manager, Finance & Administration

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

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

Salah Al Maraj
Assistant General Manager, Reinsurance

Bachelor of Arts; Kuwait University, Kuwait

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

KEY RATIOS

	2013	2012 restated
PERFORMANCE RATIOS		
Premium growth (annual change in gross premiums written)	-5.3%	-3.8%
Retention ratio (gross retained premiums over gross premiums written)	94.0%	90.2%
Combined ratio (aggregate of expenses over net written premiums & losses over net earned premiums)	97.8%	96.2%
Return on investments (proportion of investment income over average investment assets)	3.1%	3.2%
Return on equity (proportion of net profit to average shareholders' equity)	7.7%	7.9%
Growth in shareholders' equity	5.9%	13.0%
LEVERAGE RATIOS		
Underwriting exposure (ratio of gross premiums written to shareholders' equity)	105.1%	117.6%
Net technical provisions/ Shareholders' equity	248.6%	260.2%
Net technical provisions/ Net premiums written	251.6%	245.5%
LIQUIDITY RATIOS		
Investment assets/ Net technical provisions	103.7%	109.0%
Liquid assets/ Net technical provisions	100.0%	104.9%
OTHER		
Solvency ratio (ratio of Shareholders' equity to Net earned premium)	104.8%	92.3%
Shareholders' Equity/Economic Capital	1.70	1.69
Earnings per share attributable to shareholders	0.09	0.09
Book value per share (US$)	1.26	1.19
Price to book value per share	34.9%	29.4%

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 2013, 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 of the Company 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 2013, 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 the Central Bank of Bahrain (CBB) Rule Book (Volume 3), we report that the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated financial statements; we are not aware of any violations 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, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Group or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

Kingdom of Bahrain
12 February 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

(US$ '000)

	Note	2013	2012 (restated)	1 January 2012 (restated)
ASSETS				
Cash and bank balances	5	273,231	348,354	359,297
Investments	6	366,707	316,128	305,894
Accrued income	8	84,482	101,560	121,200
Insurance receivables	9	114,332	97,385	101,707
Insurance deposits	10	46,538	45,592	51,478
Deferred policy acquisition costs		28,230	27,992	28,184
Reinsurers' share of technical provisions	11	59,082	59,292	61,496
Other assets	12	56,568	22,103	34,928
Property and equipment	14	27,472	27,675	27,657
		1,056,642	**1,046,081**	**1,091,841**
LIABILITIES				
Technical provisions	15	678,648	671,454	701,874
Insurance payables	18	45,588	31,043	27,252
Borrowings	19	-	20,000	40,000
Other liabilities	20	41,073	42,117	67,596
		765,309	764,614	836,722
EQUITY				
Attributable to shareholders of parent company	21			
Share capital		220,000	220,000	220,000
Treasury stock		(14,793)	(14,793)	(14,793)
Reserves		38,844	41,977	31,360
Retained earnings/(Accumulated deficit)		5,173	(11,955)	(28,323)
		249,224	235,229	208,244
Non-controlling interests	22	42,109	46,238	46,875
		291,333	281,467	255,119
		1,056,642	**1,046,081**	**1,091,841**

These consolidated financial statements were approved by the Board of Directors on 12 February 2014 and signed by:

Khalid A. Al Bustani
Chairman

Dr. Fouad A A Alfalah
Director

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(US$ '000)

	Note		2013	2012 (restated)
Gross premiums written			261,988	276,517
Net earned premiums			237,712	254,718
Claims and related expenses			(150,103)	(153,353)
Policy acquisition costs			(66,854)	(70,808)
Investment income attributable to insurance funds	24		11,160	11,963
Operating expenses	25		(18,492)	(18,863)
Underwriting result	23		**13,423**	**23,657**
Investment income attributable to shareholders' funds	24		9,263	9,631
Operating expenses – non underwriting activities	25		(10,442)	(9,547)
Borrowing cost			(63)	(407)
Other income	26		4,887	3,891
Other expenses and provisions	27		(2,195)	(10,594)
Profit for the year			**14,873**	**16,631**
Attributable to:				
Non-controlling interests			(3,730)	(922)
Shareholders of Parent Company			18,603	17,553
			14,873	**16,631**
Earnings per share attributable to shareholders (basic and diluted):	28	US$	0.09	0.09

Khalid A. Al Bustani
Chairman

Dr. Fouad A A Alfalah
Director

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

(US$ '000)

	2013	2012 (restated)
Profit for the year	14,873	16,631
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Changes on remeasurement of available for sale investments	(4,275)	3,936
Transfers for recognition of (gains) / losses on disposal of available for sale investments	(732)	5,054
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of property	-	727
Other comprehensive income for the year	(5,007)	9,717
Total comprehensive income for the year	**9,866**	**26,348**
Attributable to:		
Non-controlling interests	(4,129)	(637)
Shareholders of Parent Company	13,995	26,985
	9,866	**26,348**

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

(US$ '000)

			Reserves							
	Share capital	Treasury stock	Legal	Investment revaluation	Property revaluation	Total	Retained earnings/ (Accumulated deficit)	Attributable to shareholders of parent company	Non-controlling interests	Total Equity
Restated balances at 31 December 2012	**220,000**	**(14,793)**	**29,759**	**5,378**	**6,840**	**41,977**	**(11,955)**	**235,229**	**46,238**	**281,467**
Net profit (loss) for the year	-	-	-	-	-	-	18,603	18,603	(3,730)	14,873
Changes on remeasurement of available for sale investments	-		-	(4,060)	-	(4,060)	-	(4,060)	(215)	(4,275)
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(548)	-	(548)	-	(548)	(184)	(732)
Total comprehensive income for the year	**-**	**-**	**-**	**(4,608)**	**-**	**(4,608)**	**18,603**	**13,995**	**(4,129)**	**9,866**
Transfer of net depreciation on revalued property	-	-	-	-	(387)	(387)	387	-	-	-
Transfer to non-distributable reserves	-	-	1,862	-	-	1,862	(1,862)	-	-	-
Balances at 31 December 2013	**220,000**	**(14,793)**	**31,621**	**770**	**6,453**	**38,844**	**5,173**	**249,224**	**42,109**	**291,333**
Balances at 1 January 2012 as previously reported	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(14,179)	222,388	58,924	281,312
Impact of changes in accounting policies (note 34)	-	-	-	-	-	-	(14,144)	(14,144)	(12,049)	(26,193)
Restated balances as at 1 January 2012	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(28,323)	208,244	46,875	255,119
Net profit (loss) for the year	-	-	-	-	-	-	17,553	17,553	(922)	16,631
Changes on remeasurement of available for sale investments	-	-	-	3,659	-	3,659	-	3,659	277	3,936
Transfers for recognition of losses on disposal of available for sale investment	-	-	-	5,046	-	5,046	-	5,046	8	5,054
Revaluation of property	-	-	-	-	727	727	-	727	-	727
Total comprehensive income for the year	-	-	-	8,705	727	9,432	17,553	26,985	(637)	26,348
Transfer of net depreciation on revalued property	-	-	-	-	(380)	(380)	380	-	-	-
Transfer to non-distributable reserves	-	-	1,565	-	-	1,565	(1,565)	-	-	-
Restated balances at 31 December 2012	**220,000**	**(14,793)**	**29,759**	**5,378**	**6,840**	**41,977**	**(11,955)**	**235,229**	**46,238**	**281,467**

Parent company balances at (note 37)										
31 December 2013	220,000	(14,793)	31,480	769	6,453	38,702	5,315	249,224	-	249,224
Restated 31 December 2012	220,000	(14,793)	29,620	4,900	6,840	41,360	(11,338)	235,229	-	235,229

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

(US$ '000)

	Note	2013	2012 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		278,901	297,709
Reinsurance premiums paid		(9,662)	(40,547)
Claims and acquisition costs paid		(247,767)	(276,517)
Reinsurance receipts in respect of claims		15,278	36,583
Investment income		600	307
Interest received		4,352	5,304
Dividends received		1,188	1,138
Operating expenses paid		(25,288)	(25,102)
Other income/expenses, net		(636)	(2,330)
Insurance deposits paid, net		(919)	6,075
Purchase of trading investments		(43,099)	(64,122)
Sale of trading investments		44,088	94,591
Net cash provided by operating activities	32	**17,036**	**33,089**
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity/sale of investments		112,928	193,214
Purchase of investments		(161,648)	(222,068)
Term deposit with bank		(32,988)	(9,251)
Interest received		5,779	6,024
Dividend received		-	24
Investment income		1,503	6,395
Collateralised cash deposits paid, net		(28,847)	(3,814)
Purchase of property and equipment		(928)	(150)
Purchase of intangible assets		(393)	(422)
Net cash used in investing activities		**(104,594)**	**(30,048)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings		(20,000)	(20,000)
Interest on borrowings		(371)	(633)
Dividends paid		(43)	(2,501)
Net cash used in financing activities		**(20,414)**	**(23,134)**
Net decrease in cash and cash equivalents		(107,972)	(20,093)
Effect of exchange rate on cash and cash equivalents		(19)	(101)
Effect of assets held for sale on cash and cash equivalents		(120)	-
Cash and cash equivalents, beginning of year		232,196	252,390
Cash and cash equivalents, end of year		**124,085**	**232,196**
Term deposit with bank		149,146	116,158
Cash and bank balances, end of year		**273,231**	**348,354**

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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 in 2013:

- IAS 1 - Presentation of items of other comprehensive income

  The amendment to IAS 1 requires that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group has applied the standard from 1 January 2013. The adoption of the amendment has no material impact on the financial statement.

- IAS 19 - Employee benefits

  The amendments mainly require recognition in other comprehensive income of any actuarial gains and losses resulting from increases or decreases in the present value of defined benefit obligations because of changes in actuarial assumptions and experience adjustments. The Group has applied the standard from 1 January 2013. The adoption of this amendment has no material impact on the financial statements.

- IAS 28 – Investment in associates and joint ventures

  The amended standard requires investments in joint ventures, determined on the basis of IFRS 11 - Joint Arrangements, to be accounted for using the equity method. The earlier standard applied only to investment in associates. The Group has applied the standard from 1 January 2013. This amendment requires that the Group’s joint venture Hardy Arig Insurance Management W.L.L. be accounted using the equity method instead of the proportionate method of consolidation adopted earlier.

- IFRS 7 – Financial instruments: Disclosures

  Amendments to IFRS 7 introduce disclosures about the impact of netting arrangements on an entity’s financial position requiring the Group to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements. The Group has applied the standard from 1 January 2013. The adoption of this amendment has no material impact on the financial statements.

- IFRS 10 - Consolidated financial statements

  The standard introduces a single control model that is applicable to all investees; it requires the consolidation of an investee if the Group controls the investee on the basis of:

  - power over the investee
  - exposure to variable returns from the investee
  - the ability to use its power to affect the amount of returns

  In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its subsidiaries as at 1 January 2013. As a consequence, the Group has changed its control conclusion in respect of the subsidiary, Takaful Re Limited’s participants’ (policyholders) funds. The Group has concluded that Takaful Re Limited has control over the participants’ funds and as a result the participants’ fund accounts have been consolidated retrospectively. Previously Takaful Re Limited’s participants’ fund accounts were not being consolidated into the Group financial statements. The effect of adopting the standard is disclosed in note 34.

- IFRS 11 – Joint arrangements

  As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements. Under IFRS 11, 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 re-evaluated its involvement in its only joint venture and has assessed that it is in the nature of a joint venture, since it has a residual interest in the net assets, to be recognised by applying the equity method and is regarded as individually immaterial. There is no

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

significant impact on the recognised assets, liabilities and comprehensive income of the Group. The effect of adopting the standard is disclosed in note 34.

- IFRS 12 - Disclosures of interests in other entities

  IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The Group has applied the standard from 1 January 2013. Necessary disclosures are presented in note 35.

- IFRS 13 - Fair value measurement

  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Group has applied the standard from 1 January 2013. The adoption of this standard has 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 2013:

- IAS 19 Employee benefits

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

- IAS 32 Financial instruments: Disclosure and presentation

  Amendments have been made to IAS 32 to clarify the offsetting criteria by explaining when an entity currently has a legally enforceable right to set off. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted. The Group is not expecting a significant impact from the adoption of this amendment.

- IAS 36 Impairment of assets

  Amendments to IAS 36 have expanded disclosures of recoverable amounts for non-financial assets when the amounts are based on fair value less costs of disposals and impairment is recognized. The amendments are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13. The Group is not expecting a significant impact from the adoption of this amendment.

- IFRS 9 'Financial instruments'
  Standard issued October 2010 (IFRS9 (2010))

  IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives"

  The Group is yet to assess the impact of IFRS 9. However, initial indications are that it may affect the Group's accounting for its debt available for sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on debt investments not carried at amortised cost will therefore have to be recognised in profit or loss.

  While adoption of IFRS 9 is mandatory from 1 January 2017, earlier adoption is permitted. Prior periods need not be restated. Instead additional transition disclosures will be required on the effect of initial application of IFRS 9 on the classification and measurement of financial instruments.

- Investment Entities (Amendments to IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities)

  Amendments to IFRS 10 and IFRS 12, grants certain relief from consolidation to investment entities. It requires qualifying investment entities to account for investment in controlled investees on a fair value basis. The effective date is annual periods beginning on or after 1 January 2014, but early adoption is permitted to enable alignment with the adoption of IFRS 10. 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 2013.

FOR THE YEAR ENDED 31 DECEMBER 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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 2013.

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

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

The purchase method is used to account for acquisitions.

As a result of adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements. Under IFRS 11, 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 re-evaluated its involvement in its only joint venture and has assessed that it is in the nature of a joint venture to be recognised by applying the equity method and is regarded as individually immaterial. There is no significant impact on the recognised assets, liabilities and comprehensive income of the Group.

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 35. In the parent company, these investments are accounted under IAS 39, Financial Instruments: Recognition and Measurement.

Investments

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

Securities are classified as at fair value through profit or loss if they are acquired for the purpose of generating a profit from short-term fluctuations in price or if so designated by management. Derivative financial instruments that are not designated as accounting hedge are classified as at fair value through profit or loss. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables. Securities intended to be held for an indefinite 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 33).

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

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

able to exercise significant influence, being the power to participate in the financial and operating policy decisions of the company, but not the power to control such policy decisions. Generally, these are companies in which the Group owns 20% to 50% of the voting shares.

Insurance receivables

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

Insurance deposits

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

Intangible assets

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

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

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

Property & equipment and related depreciation

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

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

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

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

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.

FOR THE YEAR ENDED 31 DECEMBER 2013

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.

FOR THE YEAR ENDED 31 DECEMBER 2013

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.

FOR THE YEAR ENDED 31 DECEMBER 2013

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Claims and related expenses

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

Ultimate premiums

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

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

4. MANAGEMENT OF INSURANCE RISKS

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

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

Underwriting risks

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

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

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the 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 2013

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

2013	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	2,215	39,693	41,908
- Other	20,056	5,922	25,978
	22,271	**45,615**	**67,886**
2012			
Balance relating to reinsurers:			
- With investment grade rating	2,136	30,647	32,783
- Other	21,613	11,946	33,559
	23,749	**42,593**	**66,342**

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)

2013	Euro	Pound Sterling	Indian Rupee	Canadian Dollar	Other
Reinsurance Assets (Liabilities), net	(2,205)	2,662	(9,838)	(475)	(99,490)
Hedged	(2,413)	(1,065)	-	959	-
2012					
Reinsurance Assets (Liabilities), net	(3,930)	(451)	(10,778)	(610)	(97,363)
Hedged	(2,815)	(870)	-	(1,011)	-

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 and equity to market risks is as follows:

(US$ '000)

	2013	2012
5% increase in loss ratio	(11,886)	(12,736)
5% decrease in loss ratio	11,886	12,736
10% increase in US Dollar exchange rate	10,935	11,071
10% decrease in US Dollar exchange rate	(10,498)	(10,624)

FOR THE YEAR ENDED 31 DECEMBER 2013

5. CASH AND BANK BALANCES

(US$ '000)

	2013	2012
Cash and bank balances	80,506	82,331
Deposits with maturity within 3 months	43,579	149,865
Deposits with maturity over 3 months	149,146	116,158
	273,231	**348,354**

Bank deposits amounting to US$ Nil (2012: US$: 24.8 million) have been pledged against borrowings.

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

	2013	2012
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.01% to 2.70 %	0.125% to 2.50 %

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

Currency risk

(US$ '000)

	2013	2012
U.S. Dollar	141,926	154,313
Bahraini Dinar	69,992	83,368
UAE Dirham	32,712	66,142
Qatari Riyal	19,471	32,941
Other	9,130	11,590
	273,231	**348,354**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

6. INVESTMENTS

(US$ '000)

	2013	2012
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	53,934	45,476
	53,934	45,476
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	24,206	23,851
- Other	17,737	8,449
	41,943	32,300
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	22,973	36,975
- Other investment grade	20,024	26,045
- Non OECD country government	2,663	2,655
- Other	9,850	-
	55,510	65,675
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	32,694	21,995
- Other investment grade	118,796	73,104
- Non-OECD country governments	2,648	6,803
- Other	38,342	44,584
Common stock of listed companies	-	813
Common stock of unlisted companies	7,160	6,808
Other	15,542	18,164
	215,182	172,271
Investment in joint venture	119	127
Investment in associate	19	279
	366,707	**316,128**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

6. INVESTMENTS (Contd.)

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

(US$ '000)

	2013	2012
At 1 January	18,660	17,460
Impairment recognised during the year		
- Unlisted companies	312	86
- Others	1,291	1,416
Reversal on sale of investments	(318)	(302)
At 31 December	**19,945**	**18,660**

Debt securities amounting to US$ 72.7 million (2012: US$ 66.3 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

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

2013	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.125% - 2.875%	0.125% - 2.875%
Other investment grade debt securities	Semi-annual/Annual	1.6% - 7.25%	1.6% - 7.25%
Non-OECD country government securities	Semi-annual/Annual	3.6% - 4.3%	3.6% - 4.3%
Other securities	Monthly/Semi-Annual	1.357% - 4.61%	1.357% - 4.718%
2012			
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.13% - 4.14%	0.125% - 4.25%
Other investment grade debt securities	Semi-annual/Annual	1.25% - 6.81%	1.25% - 7.38%
Non-OECD country government securities	Semi-annual/Annual	1.8 % - 4.3%	1.80% - 4.3%
Other securities	Monthly/Semi-Annual	2.08% - 4.02%	2.10% - 4.15%

FOR THE YEAR ENDED 31 DECEMBER 2013

6. INVESTMENTS (Contd.)

Debt securities – currency risk

(US$ '000)

2013	U.S. Dollar	Euro	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	55,667	-	-	-	55,667
Other investment grade debt securities	152,964	7,270	-	2,792	163,026
Non-OECD country governments	-	-	5,311	-	5,311
Other debt securities	65,929	-	-	-	65,929
	274,560	**7,270**	**5,311**	**2,792**	**289,933**
2012					
Supra-nationals and OECD country government securities	58,970	-	-	-	58,970
Other investment grade debt securities	110,902	8,964	-	3,134	123,000
Non-OECD country governments	-	-	8,098	1,360	9,458
Other debt securities	53,033	-	-	-	53,033
	222,905	**8,964**	**8,098**	**4,494**	**244,461**

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)

	2013		2012	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	14,000	14,001	18,000	18,023
- One to five years	35,000	35,147	39,000	39,255
- More than five years	7,000	6,519	2,000	1,692
	56,000	55,667	59,000	58,970
Debt securities of other investment grade issuers:				
- Due in one year or less	9,739	10,365	10,200	10,420
- One to five years	96,539	98,735	85,343	90,658
- More than five years	54,452	53,926	20,488	21,922
	160,730	163,026	116,031	123,000
Non-OECD country government securities:				
- Due in one year or less	-	-	1,360	1,360
- One to five years	2,658	2,663	5,316	5,505
- More than five years	2,658	2,648	2,658	2,593
	5,316	5,311	9,334	9,458
Other debt securities :				
- Due in one year or less	-	-	1,000	999
- One to five years	38,651	38,044	36,139	36,085
- More than five years	21,394	27,885	15,975	15,949
	60,045	65,929	53,114	53,033
	282,091	**289,933**	**237,479**	**244,461**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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)

	2013	2012
U.S. Dollar	35,250	27,685
Euro	2,574	2,065
Bahraini Dinar	489	593
Saudi Riyal	6,004	7,117
Pound Sterling	3,276	2,777
Japanese Yen	2,040	2,168
Other	11,461	10,692
	61,094	**53,097**

Commitments

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 8.0 million (2012: 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)

	2013		2012	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	(846)	(5,305)	(859)	(4,233)
– 100 basis points shift in yield curves- debt instruments	851	5,488	888	3,972
Currency risk				
10% increase in US Dollar exchange rate	(10,413)	132	(16,570)	215
10% decrease in US Dollar exchange rate	21,450	123	20,253	(176)
Equity price				
10% increase in equity prices	1,060	134	4,614	212
10% decrease in equity prices	(1,060)	(134)	(4,614)	(212)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

8. ACCRUED INCOME

(US$ '000)

	2013	2012
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	60,322	71,828
- After 12 months	21,860	26,661
	82,182	98,489
Accrued interest		
- Expected to be received within 12 months	2,300	3,071
	84,482	**101,560**

9. INSURANCE RECEIVABLES

(US$ '000)

	2013	2012
Balances due :		
- Within 12 months	113,777	97,028
- After 12 months	555	357
	114,332	**97,385**

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

(US$ '000)

	2013	2012
At 1 January	20,791	18,398
Provision for impairment	385	2,393
31 December	**21,176**	**20,791**

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

(US$ '000)

	2013	2012
Over two years	5,385	10,869
	5,385	**10,869**

Receivables that are less than 12 months past due are not considered impaired. The ageing analysis of these receivables is as follows:

(US$ '000)

	2013	2012
Upto 6 months	12,124	12,012
6 to 12 months	13,628	15,322
	25,752	**27,334**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

10. INSURANCE DEPOSITS

(US$ '000)

	2013	2012
Balances due :		
- Within 12 months	31,502	32,453
- After 12 months	15,036	13,139
	46,538	**45,592**

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

(US$ '000)

	2013	2012
At 1 January	4,693	5,882
Provision for impairment written back	(485)	(1,189)
31 December	**4,208**	**4,693**

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

(US$ '000)

	2013	2012
Under ten years	893	891
Over ten years	6,460	6,278
	7,353	**7,169**

Deposits that are less than 3 years past due are not considered impaired. The ageing analysis of these deposits is as follows:

(US$ '000)

	2013	2012
Up to 1 year	7,855	6,596
1 to 3 years	25,875	26,267
	33,730	**32,863**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

		(US$ '000)
	2013	2012
General insurance business		
- Claims outstanding	45,420	42,036
- Unreported claims	8,388	13,021
- Deferred retrocession premium reserve	5,079	3,644
	58,887	58,701
Life insurance business		
- Claims outstanding	195	573
- Deferred retrocession premium reserve	-	18
	195	591
	59,082	**59,292**

12. OTHER ASSETS

		(US$ '000)
	2013	2012
Intangible assets :		
- Computer software	11,336	10,944
	11,336	10,944
Less : accumulated amortisation	(10,167)	(9,796)
Net intangible assets	1,169	1,148
Disposal group held for sale (Note 13)	543	-
Other assets due within 12 months:		
- Collateralised cash deposits	45,353	16,506
- Prepayments and other receivables	9,503	4,449
	55,399	20,955
	56,568	**22,103**

		(US$ '000)
	2013	2012
Movement in intangible assets:		
Net book value at 1 January	1,148	1,088
- Additions	393	422
- Amortisation charge	(372)	(362)
Net book value at 31 December	**1,169**	**1,148**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

13. DISPOSAL GROUP HELD FOR SALE

In December 2013, management committed to a plan to sell 51% of its equity stake in ARIMA Insurance Solutions W.L.L. Accordingly, ARIMA is presented as a disposal group held for sale. Sale is expected to be completed during 2014. The arrangement was approved by the board of directors at the meeting held on 8 December 2013. An impairment of US$ 55 thousand has been recorded as the sale price is lower than the carrying amount.

At 31 December, the disposal group include:

	(US$ '000)
	2013
Assets of disposal group held for sale:	
- Cash	20
- Accounts receivables	757
	777
Liabilities of disposal group held for sale:	
- Accrued expenses and other payables	234
	234

The results relating to assets held-for-sale included in the consolidated statement of income are as follows:

		(US$ '000)
	2013	2012
Income	1,945	2,176
Expenses	(1,918)	(1,939)
	27	**237**

The cash flow relating to assets held-for-sale included in the consolidated statement of cash flows are as follows:

		(US$ '000)
	2013	2012
Net cash used in operating activities	(100)	(124)
	(100)	**(124)**

The fair value has been measured on the indicative price multiple expected from the buyer for this disposal group and classified as level 1 in fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

14. PROPERTY AND EQUIPMENT

		(US$ '000)
	2013	2012
Land	1,340	1,340
Building	26,741	7,221
Work in progress	50	19,058
Information systems, furniture, equipment and other	14,217	13,941
	42,348	41,560
Less: accumulated depreciation	(14,876)	(13,885)
	27,472	**27,675**
Movements in property and equipment		
Net book value at 1 January	27,675	27,657
- Revaluation of property	-	727
- Additions	928	150
- Disposals	(6)	(1)
- Depreciation charge	(1,125)	(858)
Net book value at 31 December	**27,472**	**27,675**

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in March 2012 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. Building also includes office premises of the subsidiary Takaful Re Limited in Dubai, U.A.E; US$ 19.1 million. This property, earlier carried as work in progress, was brought into use during the year and carried at cost.

15. TECHNICAL PROVISIONS

Technical provisions comprise

		(US$ '000)
	2013	2012
General insurance business		
Claims outstanding	323,420	301,039
Unreported losses	156,667	174,235
Unearned premiums	117,642	109,740
	597,729	**585,014**
Life insurance business		
Claims outstanding	15,271	15,141
Unreported losses	58,828	65,333
Unearned premiums	6,820	5,966
	80,919	86,440
	678,648	**671,454**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

16. 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						
	2008	2009	2010	2011	2012	2013	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	113,740	123,596	119,232	128,402	113,735	112,367	
- One year later	209,160	209,836	210,700	205,558	178,609	-	
- Two years later	216,027	208,488	227,383	210,058	-	-	
- Three years later	221,811	203,983	229,046	-	-	-	
- Four years later	219,615	198,608	-	-	-	-	
- Five years later	217,642	-	-	-	-	-	
Current estimate of incurred claims	217,642	198,608	229,046	210,058	178,609	112,367	1,146,330
Cumulative payments to date	(186,955)	(161,723)	(182,616)	(125,349)	(80,814)	(5,021)	(742,478)
Liability recognised	30,687	36,885	46,430	84,709	97,795	107,346	403,852
Liability in respect of prior years							150,334
Total liability included in the statement of financial position							**554,186**

	2008	2009	2010	2011	2012	2013	Total
Net							
Estimate of incurred claims costs:							
- At end of underwriting year	111,183	121,438	103,286	112,047	108,594	110,213	
- One year later	204,736	207,630	189,981	175,123	166,667	-	
- Two years later	211,446	204,279	187,265	181,617	-	-	
- Three years later	216,730	199,358	186,509	-	-	-	
- Four years later	214,641	193,791	-	-	-	-	
- Five years later	212,684	-	-	-	-	-	
Current estimate of incurred claims	212,684	193,791	186,509	181,617	166,667	110,213	1,051,481
Cumulative payments to date	(182,517)	(157,892)	(140,529)	(107,101)	(74,225)	(2,944)	(665,208)
Liability recognised	30,167	35,899	45,980	74,516	92,442	107,269	386,273
Liability in respect of prior years							113,910
Total liability included in the statement of financial position							**500,183**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

	Gross	Reinsurance	Net
2013			
Claims			
Claims outstanding	316,180	42,609	273,571
Unreported losses	239,568	13,021	226,547
Total at beginning of year	555,748	55,630	500,118
Change in provision during the year	161,963	11,599	150,364
Claims settled during the year	(163,525)	(13,226)	(150,299)
Balance at end of year	**554,186**	**54,003**	**500,183**
Unearned premium			
At beginning of year	115,706	3,662	112,044
Change in provision during the year	8,756	1,417	7,339
Balance at end of year	**124,462**	**5,079**	**119,383**
Accrued insurance premium			
At beginning of year	103,201	4,712	98,489
Movement during the year	(16,994)	(687)	(16,307)
Balance at end of year	**86,207**	**4,025**	**82,182**
Deferred policy acquisitions costs			
At beginning of year	28,178	186	27,992
Movement during the year	174	(64)	238
Balance at end of year	**28,352**	**122**	**28,230**
2012			
Claims			
Claims outstanding	319,372	50,758	268,614
Unreported losses	260,411	5,978	254,433
Total at beginning of year	579,783	56,736	523,047
Change in provision during the year	184,290	31,524	152,766
Claims settled during the year	(208,325)	(32,630)	(175,695)
Balance at end of year	**555,748**	**55,630**	**500,118**
Unearned premium			
At beginning of year	120,595	4,760	115,835
Change in provision during the year	(4,889)	(1,098)	(3,791)
Balance at end of year	**115,706**	**3,662**	**112,044**
Accrued insurance premium			
At beginning of year	123,853	5,867	117,986
Movement during the year	(20,652)	(1,155)	(19,497)
Balance at end of year	**103,201**	**4,712**	**98,489**
Deferred policy acquisitions costs			
At beginning of year	28,499	316	28,183
Movement during the year	(321)	(130)	(191)
Balance at end of year	**28,178**	**186**	**27,992**

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FOR THE YEAR ENDED 31 DECEMBER 2013

18. INSURANCE PAYABLES

(US$ '000)

	2013	2012
Due Within 12 months	45,588	31,043
	45,588	**31,043**

19. BORROWINGS

(US$ '000)

	2013	2012
Balances Due:		
- Within 12 months	-	20,000
	-	**20,000**

Borrowings amounting to US$ Nil (2012: US$ 20 million) are secured by bank deposits. The effective interest rate on the borrowings was 1.3% (2012: 1.7%).

20. OTHER LIABILITIES

(US$ '000)

	2013	2012
Post-employment benefits (note 30)	14,058	12,484
Reinsurance premiums accrued	8,619	8,619
Dividends payable	1,928	1,971
Accrued expenses	7,245	8,882
Employee share scheme (note 29)	3,440	2,480
Other	5,783	7,681
	41,073	**42,117**
Balances due:		
- Within 12 months	23,575	27,153
- After 12 months	17,498	14,964
	41,073	**42,117**

21. SHAREHOLDERS' EQUITY

Share capital

a) Composition

(US$ '000)

	2013	2012
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed & Fully Paid-up 220 million (2012: 220 million) ordinary shares of US$ 1 each	220,000	220,000

FOR THE YEAR ENDED 31 DECEMBER 2013

21. SHAREHOLDERS' EQUITY (Contd.)

b) Major Shareholders

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

Name	Nationality	No. of shares (in millions)		% of total outstanding shares	
		2013	2012	**2013**	2012
Central Bank of Libya	Libya	31.8	31.8	16.1	16.1
Emirates Investment Authority	UAE	30.5	30.5	15.4	15.4
General Pension & Social Security Authority	UAE	27.5	27.5	13.9	13.9
Kuwait Investment Authority	Kuwait	20.0	20.0	10.1	10.1
Real Estate Bank	UAE	11.0	11.0	5.6	5.6

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	
	2013	2012	**2013**	2012	**2013**	2012
Less than 1%	42.7	46.3	4,677	4,779	21.5	23.3
1% to 5%	34.5	30.9	8	6	17.4	15.6
5% to 10%	11.0	11.0	1	1	5.6	5.6
10% and above	109.8	109.8	4	4	55.5	55.5

Treasury stock

The company held 21,967,818 of its own shares at 31 December 2013 (2012: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2012: US$ 14,793,000).

Legal reserve

In accordance with applicable legal provisions, 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 2013

21. 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.

22. NON-CONTROLLING INTERESTS

(US$ '000)

	2013	2012
At 1 January	46,238	58,924
Impact of changes in accounting policies (note 34)	-	(12,049)
Restated at 1 January	46,238	46,875
Share of comprehensive income	(4,129)	(637)
At 31 December	**42,109**	**46,238**

FOR THE YEAR ENDED 31 DECEMBER 2013

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

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23. SEGMENT INFORMATION (Contd.)

(US$ '000)

2012	Non-life Property	Non-life Engineering	Non-life Marine	Non-life Accident	Non-life Whole Account	Non-life Others	Life Short term	Life Long term	Total (restated)
REVENUES									
Gross premiums written	78,056	36,943	25,780	18,242	53,790	37,836	20,204	5,666	276,517
Outward reinsurance premiums	(7,258)	(1,965)	(1,030)	(484)	(13,347)	(868)	(2,189)	(11)	(27,152)
Change in unearned premiums - gross	4,807	2,259	2,915	(6)	(9,873)	3,230	1,382	(270)	4,444
Change in unearned premiums - reinsurance	(945)	23	(8)	(351)	2,024	147	19	-	909
Net earned premiums	74,660	37,260	27,657	17,401	32,594	40,345	19,416	5,385	254,718
Investment income attributable to insurance funds	2,713	1,345	727	1,893	480	2,180	986	1,639	11,963
	77,373	38,605	28,384	19,294	33,074	42,525	20,402	7,024	266,681
COSTS AND EXPENSES									
Gross claims paid	(79,433)	(20,727)	(18,103)	(12,483)	(13,563)	(35,846)	(17,901)	(10,269)	(208,325)
Claims recovered from reinsurers	25,620	828	526	2,020	3,200	210	226	-	32,630
Change in provision for outstanding claims - gross	930	1,091	1,820	(1,139)	(9,262)	6,620	1,739	2,002	3,801
Change in provision for outstanding claims - reinsurance	(9,431)	(462)	(953)	(262)	4,403	(2,385)	(20)	(1)	(9,111)
Change in provision for unreported losses - gross	11,931	1,065	163	5,264	(10,521)	9,256	2,817	4,021	23,996
Change in provision for unreported losses - reinsurance	(329)	1,367	10	1,126	4,561	(3,184)	112	(7)	3,656
Claims and related expenses	(50,712)	(16,838)	(16,537)	(5,474)	(21,182)	(25,329)	(13,027)	(4,254)	(153,353)
Policy acquisition costs	(19,439)	(12,188)	(9,329)	(5,520)	(11,570)	(6,009)	(3,136)	225	(66,966)
Policy acquisition costs recovered from reinsurers	141	344	388	132	-	65	594	-	1,664
Change in deferred policy acquisition costs - gross	(1,778)	(693)	(878)	(188)	(2,894)	678	100	57	(5,596)
Change in deferred policy acquisition costs - reinsurance	30	(1)	-	87	-	(21)	(5)	-	90
Policy acquisition costs	(21,046)	(12,538)	(9,819)	(5,489)	(14,464)	(5,287)	(2,447)	282	(70,808)
Operating expenses	(7,123)	(2,703)	(2,195)	(1,520)	(617)	(2,131)	(1,532)	(1,042)	(18,863)
Underwriting result	**(1,508)**	**6,526**	**(167)**	**6,811**	**(3,189)**	**9,778**	**3,396**	**2,010**	**23,657**

FOR THE YEAR ENDED 31 DECEMBER 2013

23. 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)

	2013		2012	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	103,181	43,391	123,654	48,020
- Africa	30,668	4,384	38,293	5,877
- Asia	68,174	9,745	59,461	9,074
- Others	59,965	8,572	55,109	8,357
	261,988	**66,092**	**276,517**	**71,328**

Analysis of segment assets and liabilities

(US$ '000)

	Non-Life						Life			
2013	Property	Engineering	Marine	Accident	Whole	Others	Short Term	Long term	Corporate	Total
Reinsurance assets	81,823	54,075	33,677	23,564	88,093	75,915	18,079	4,699	-	379,925
Cash	40,651	20,109	12,361	5,854	7,851	20,030	10,164	15,078	141,133	273,231
Investments	58,549	28,627	17,793	8,452	12,735	27,720	12,830	25,378	174,623	366,707
Others	-	-	-	-	-	-	-	-	36,779	36,779
	181,023	102,811	63,831	37,870	108,679	123,665	41,073	45,155	352,535	1,056,642
Reinsurance liabilities	183,620	108,882	70,113	37,905	115,842	138,660	34,560	47,063	-	736,645
Others	-	-	-	-	-	-	-	-	28,664	28,664
	183,620	**108,882**	**70,113**	**37,905**	**115,842**	**138,660**	**34,560**	**47,063**	**28,664**	**765,309**
2012										
Reinsurance assets	87,903	60,900	37,265	22,221	28,237	63,487	12,619	7,077	-	319,709
Cash	46,542	25,287	17,581	7,282	4,801	36,579	10,248	22,806	177,228	348,354
Investments	45,921	24,837	17,508	7,092	6,102	33,311	9,907	24,487	146,963	316,128
Others	-	-	-	-	-	-	-	-	61,890	61,890
	180,366	111,024	72,354	36,595	39,140	133,377	32,774	54,370	386,081	1,046,081
Reinsurance liabilities	183,410	113,964	79,193	48,685	69,974	134,677	32,711	54,131	-	716,745
Others	-	-	-	-	-	-	-	-	47,949	47,949
	183,410	**113,964**	**79,193**	**48,685**	**69,974**	**134,677**	**32,711**	**54,131**	**47,949**	**764,694**

FOR THE YEAR ENDED 31 DECEMBER 2013

24. INVESTMENT INCOME

(US$ '000)

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

2012			
Interest income			
- Investments designated at fair value through profit or loss	546	333	879
- Others	5,745	5,041	10,786
Dividends	622	539	1,161
Realised gains			
- Trading investments	843	428	1,271
- Investment designated at fair value through profit or loss	482	293	775
- Available for sale	2,528	2,357	4,885
Gain on remeasurement of investments at fair value through profit & loss			
- Trading investments	2,172	2,224	4,396
- Investments designated at fair value through profit or loss	20	12	32
Impairment loss – available for sale	(354)	(1,148)	(1,502)
Other	(641)	(448)	(1,089)
	11,963	**9,631**	**21,594**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

25. OPERATING EXPENSES

(US$ '000)

	Underwriting	Non-Underwriting	Total	2012
2013				
Salaries and benefits	13,404	7,052	20,456	20,127
General and administration	5,088	3,390	8,478	8,283
	18,492	**10,442**	**28,934**	**28,410**

26. OTHER INCOME

(US$ '000)

	2013	2012
Software sales and related services	1,945	2,176
Third party administration services	2,317	1,338
Other	625	377
	4,887	**3,891**

27. OTHER EXPENSES AND PROVISIONS

(US$ '000)

	2013	2012
Foreign exchange loss	941	4,641
Provision for doubtful receivable & deposits	30	4,177
Other	1,224	1,776
	2,195	**10,594**

28. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2013	2012
Weighted average number of shares outstanding	'000	198,032	198,032
Net profit	US$'000	18,603	17,553
Earnings per share	US$	0.09	0.09

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

29. 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)

	2013	2012
Liability	3,440	2,480
Expense	1,141	1,809

30. 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:

	2013	2012
Discount rate	2.2%	2.0%
Expected return on assets	2.2%	2.0%
Future salary increases	3.3%	3.3%

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

(US$ '000)

	2013	2012
Balance at 1 January	12,484	14,696
Accruals for the year	2,528	962
Payments during the year	(954)	(3,174)
Balance at 31 December	**14,058**	**12,484**

FOR THE YEAR ENDED 31 DECEMBER 2013

31. 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)

	2013		2012	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	2,413	9,484	2,815	10,606
Pound Sterling	1,065	5,842	5,565	10,599
Japanese yen	-	2,343	-	2,026
Canadian Dollar	959	2,596	1,011	1,728
	4,437	**20,265**	**9,391**	**24,959**

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)

	2013		2012	
	Purchases	Sales	Purchases	Sales
Unrealised gains	154	64	277	91
Unrealised losses	(17)	(353)	(3)	(607)
	137	**(289)**	**274**	**(516)**

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FOR THE YEAR ENDED 31 DECEMBER 2013

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

(US$ '000)

	2013	2012
Profit for the year	14,873	16,631
Increase (decrease) in insurance funds	6,220	(14,669)
Change in insurance receivable/payable, net	(2,402)	708
Change in accrued insurance premiums	17,078	15,115
Change in other assets/liabilities, net	(18,733)	15,304
Net cash provided by operating activities	**17,036**	**33,089**

33. FAIR VALUE DISCLOSURE

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

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2013

33. FAIR VALUE DISCLOSURE (Contd.)

(US$ '000)

2012	Book Value: At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	Fair value
ASSETS							
Cash and bank balances	-	348,354	-	-	-	348,354	348,354
Investments	77,776	-	65,675	172,271	-	315,722	318,432
Accrued income	-	1,118	99,424	1,018	-	101,560	101,560
Insurance receivables	-	97,385	-	-	-	97,385	97,385
Insurance deposits	-	45,592	-	-	-	45,592	45,592
Other assets	-	20,955	-	-	-	20,955	20,955
LIABILITIES							
Insurance payables	-	-	-	-	31,043	31,043	31,043
Borrowings	-	-	-	-	20,000	20,000	20,000
Other liabilities	-	-	-	-	33,235	33,235	33,235

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

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

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

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

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

General

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

Hence, the fair value measurement details are not disclosed.

Investments

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities

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33. FAIR VALUE DISCLOSURE (Contd.)

- 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.

- 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.

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

(US$ '000)

2013	Level 1	Level 2	Level 3	Total
Held for maturity				
Debt securities	56,572	-	-	56,572
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	53,934	-	-	53,934
Designated at fair value on initial recognition				
Debt Securities	41,943	-	-	41,943
Available for sale				
Debt securities	192,480	-	-	192,480
Common stock of unlisted companies	-	1,514	5,646	7,160
Other	-	1,935	13,607	15,542
	344,929	**3,449**	**19,253**	**367,631**

2012				
Held for maturity				
Debt securities	68,385	-	-	68,385
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	45,476	-	-	45,476
Designated at fair value on initial recognition				
Debt Securities	32,300	-	-	32,300
Available for sale				
Debt securities	146,486	-	-	146,486
Common stock of listed companies	813	-	-	813
Common stock of unlisted companies	-	1,721	5,087	6,808
Other	-	2,628	15,536	18,164
	293,460	**4,349**	**20,623**	**318,432**

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33. 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 2013	5,087	15,536	20,623
Gain (loss) recognised in:			
- Income statement	(538)	(1,037)	(1,575)
- Other comprehensive income	(8)	(178)	(186)
Investments made during the year	1,231	1,274	2,505
Investments redeemed during the year	(126)	(1,988)	(2,114)
Balance at 31 December 2013	**5,646**	**13,607**	**19,253**

Balance at 1 January 2012	6,073	16,892	22,965
Gain (loss) recognised in:			
- Income statement	(86)	(1,302)	(1,388)
- Other comprehensive income	(122)	445	323
Investments made during the year	1,307	1,000	2,307
Investments redeemed during the year	(2,085)	(1,499)	(3,584)
Balance at 31 December 2012	**5,087**	**15,536**	**20,623**

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, 2013, there were no transfers in and out of level 1, level 2 and level 3 (2012: none). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

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

Forward foreign exchange contracts

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

Fair value less than carrying amounts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

34. CHANGES IN ACCOUNTING POLICIES

The following tables summarise the cumulative effect, of adopting IFRS 10 and IFRS 11 on the Group's financial statements as described in Note 2.

Consolidated statement of financial position

As at 31 December 2012

(US$ '000)

	Effect of changes in accounting policies		
	As previously reported	Subsidiaries	As restated
ASSETS			
Cash and bank balances	334,345	14,009	348,354
Investments	316,001	127	316,128
Accrued income	79,595	21,965	101,560
Insurance receivables	91,008	6,377	97,385
Insurance deposits	42,225	3,367	45,592
Deferred policy acquisition costs	23,876	4,116	27,992
Reinsurers' share of technical provisions	57,248	2,044	59,292
Other assets	27,959	(5,856)	22,103
Property and equipment	27,675	-	27,675
	999,932	**46,149**	**1,046,081**
LIABILITIES			
Technical provisions	600,990	70,464	671,454
Insurance payables	30,015	1,028	31,043
Borrowings	20,000	-	20,000
Other liabilities	45,513	(3,396)	42,117
	696,518	68,096	764,614
EQUITY			
Attributable to shareholders of Parent Company			
Share capital	220,000	-	220,000
Treasury stock	(14,793)	-	(14,793)
Reserves	41,977	-	41,977
Accumulated deficit	(104)	(11,851)	(11,955)
	247,080	(11,851)	235,229
Non-controlling interests	56,334	(10,096)	46,238
	303,414	(21,947)	281,467
	999,932	**46,149**	**1,046,081**
Earnings per share attributable to shareholders (basic & diluted) US$	0.08	0.01	0.09

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

34. CHANGES IN ACCOUNTING POLICIES (Contd.)

As at 1 January 2012

(US$ ’000)

	Effect of changes in accounting policies		
	As previously reported	Subsidiaries	As restated
ASSETS			
Cash and bank balances	343,844	15,453	359,297
Investments	305,728	166	305,894
Accrued income	94,583	26,617	121,200
Insurance receivables	89,404	12,303	101,707
Insurance deposits	48,938	2,540	51,478
Deferred policy acquisition costs	23,523	4,661	28,184
Reinsurers’ share of technical provisions	53,889	7,607	61,496
Other assets	34,520	408	34,928
Property and equipment	27,657	-	27,657
	1,022,086	**69,755**	**1,091,841**
LIABILITIES			
Technical provisions	618,660	83,214	701,874
Insurance payables	27,703	(451)	27,252
Borrowings	40,000	-	40,000
Other liabilities	54,411	13,185	67,596
	740,774	95,948	836,722
EQUITY			
Attributable to shareholders of Parent Company			
Share capital	220,000	-	220,000
Treasury stock	(14,793)	-	(14,793)
Reserves	31,360	-	31,360
Accumulated deficit	(14,179)	(14,144)	(28,323)
	222,388	(14,144)	208,244
Non-controlling interests	58,924	(12,049)	46,875
	281,312	(26,193)	255,119
	1,022,086	**69,755**	**1,091,841**
Earnings per share attributable to shareholders (basic & diluted) US$	(0.10)	(0.01)	(0.11)

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34. CHANGES IN ACCOUNTING POLICIES (Contd.)

Consolidated statement of income

For the year ended 31 December 2012

(US$ '000)

	As previously reported	Effect of changes in accounting policies Subsidiaries	As restated
Gross premiums written	238,642	37,875	276,517
Net earned premiums	218,231	36,487	254,718
Claims and related expenses	(129,714)	(23,639)	(153,353)
Policy acquisition costs	(61,513)	(9,295)	(70,808)
Investment income attributable to insurance funds	11,740	223	11,963
Operating expenses	(18,863)	-	(18,863)
Underwriting result	**19,881**	**3,776**	**23,657**
Investment income attributable to shareholders' funds	9,631	-	9,631
Operating expenses - non underwriting activities	(9,638)	91	(9,547)
Borrowing cost	(407)	-	(407)
Other income	8,128	(4,237)	3,891
Other expenses and provisions	(15,210)	4,616	(10,594)
Profit for the year	**12,385**	**4,246**	**16,631**
Attributable to:			
Non-controlling interests	(2,875)	1,953	(922)
Shareholders of Parent Company	15,260	2,293	17,553
	12,385	**4,246**	**16,631**

35. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

1. Subsidiaries

At 31 December 2013, the principal subsidiaries of the Company were:

	Country of incorporation	Ownership	Non-controlling Interests	Principal Activities
Arig Capital Limited	United Kingdom	100%	Nil	Reinsurance
Arima Insurance Software W.L.L.	Kingdom of Bahrain	100%	Nil	Software
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 2012. The Company also continues to hold 50% of the Joint Venture Hardy Arig Insurance Management W.L.L which is incorporated in the Kingdom of Bahrain. The Group also holds 25% of the equity shares in Globemed Bahrain W.L.L., Bahrain

FOR THE YEAR ENDED 31 DECEMBER 2013

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

2. Interest in Subsidiaries: Takaful Re

(US$ '000)

	2013	2012
Non-controlling interest	46%	46%
Other assets	167,227	179,234
Other liabilities	75,685	78,719
Net Assets	91,542	100,515
Revenue	23,637	40,174
Loss for the year	(8,099)	(2,005)
Total comprehensive income	(8,975)	(1,388)
Comprehensive income attributable to non-controlling interests	4,129	639
Net cash (used in) provided by operating activities	(2,584)	8,982
Net cash used in investing activities	(2,248)	(4,911)
Net (decrease) increase in cash and cash equivalents	(4,832)	4,071

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

3. Interests in joint arrangements and associates

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

(US$ '000)

	2013	2012
Carrying amount of interest in associates	19	279
Total comprehensive income	(260)	(96)

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

(US$ '000)

	2013	2012
Carrying amount of interest in joint ventures	119	127
Total comprehensive income	(8)	(39)

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36. 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)

	2013	2012
a) Gross premium retroceded by subsidiary to parent company	34,932	31,433
b) Service fees for administration services provided by parent company	4,889	6,014
c) Balances outstanding		
- Receivables	40,193	12,468
d) Software royalty fees	61	114
e) Sale/purchase of intangible assets between subsidiaries	-	250

2. Joint Venture

(US$ '000)

	2013	2012
a) Service fees for administration services provided	123	74
b) Balances receivable	315	64

3. Compensation to directors and key management personnel

US$ '000

	2013	2012
a) Directors		
- Remuneration (attendance fees)	96	108
- Travel Expenses	116	148
b) Key management compensation		
- Salaries and other short-term employee benefits	2,144	1,525
- Post-employment benefits	719	261
- Share-based compensation	463	404
c) Balances payable (net)		
Key management		
- Maximum balance	6,036	4,496
- Closing balance	6,036	4,496

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 2013 and 2012 for any outstanding amounts due from related parties.

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FOR THE YEAR ENDED 31 DECEMBER 2013

37. PARENT COMPANY

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

(US$ '000)

	2013	2012
ASSETS		
Cash and bank balances	185,199	260,336
Investments	315,657	279,525
Accrued income	71,767	103,205
Insurance receivables	64,908	63,780
Insurance deposits	43,107	42,225
Deferred policy acquisition costs	18,203	18,233
Reinsurers' share of technical provisions	36,801	40,004
Other assets	89,137	35,861
Investment in subsidiaries and associates	51,183	52,174
Property and equipment	8,084	8,566
	884,046	**903,909**
LIABILITIES		
Technical provisions	576,323	584,875
Insurance payables	20,653	24,430
Borrowings	-	20,000
Other liabilities	37,846	39,375
	634,822	668,680
SHAREHOLDERS' EQUITY (note 21)		
Share capital	220,000	220,000
Treasury stock	(14,793)	(14,793)
Reserves	38,702	41,360
Retained earnings (accumulated deficit)	5,315	(11,338)
	249,224	235,229
	884,046	**903,909**

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