CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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

Report on the consolidated financial statements

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

Responsibility of the board of directors for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on other regulatory requirements

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

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

KPMG

KPMG Fakhro
Partner Registration No. 83
12 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

(US$ '000)

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

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

Khalid J. Bin Kalban
Chairman

Khalid A. Al Bustani
Vice Chairman

Yassir Albaharna
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ '000)

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ '000)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ '000)

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

	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
Parent company balances at (note 35)										
31 December 2014	220,000	(14,793)	33,041	874	5,930	39,845	19,497	264,549	-	264,549
31 December 2013	220,000	(14,793)	31,480	769	6,453	38,702	5,315	249,224	-	249,224

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

(US$ ’000)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

- IAS 32 - Financial Instruments: Presentation

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

- IAS 36 Impairment of Assets

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

- IAS 39 – Financial Instruments: Recognition and Measurement

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

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

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

- IFRIC 21 – Levies

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

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

- IFRS 9 Financial Instruments
  Standard issued July 2014

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

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

- IFRS 11 Joint Arrangements

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

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

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

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

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

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

- IAS 19 Employee Benefits

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

- Improvements to IFRSs (2013)

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

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

The significant accounting policies of the Group are as follows:

Basis of consolidation

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

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

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

The purchase method is used to account for acquisitions.

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

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

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

Investments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

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

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

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

Provision for impairment of financial assets

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

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

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

Investment in associated companies

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

Investment in joint ventures

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

Insurance receivables

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

Insurance deposits

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

Intangible assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Property & equipment

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

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

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

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

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

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

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

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

Assets held for sale

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

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

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

Provisions

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

Post employment obligations

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

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

Employee share scheme

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

Treasury stock

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

Recognition of underwriting result

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

Premiums

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

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

Claims and related expenses

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

Policy acquisition costs

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

Reinsurance arrangements

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

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

Liability adequacy test

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

Investment income

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

FOR THE YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

Foreign currency translation

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

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

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

Derivative financial instruments and hedging

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Claims and related expenses

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

Ultimate premiums

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

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

4. MANAGEMENT OF INSURANCE RISKS

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

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

Underwriting risks

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

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

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

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Marketing, Underwriting and Actuarial functions.

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

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

Credit risks

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2014

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

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

Currency risks

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

(US$ '000)

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

Liquidity risks

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

Sensitivity analysis

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

(US$ '000)

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

5. CASH AND BANK BALANCES

(US$ '000)

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

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

Credit risk

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

Interest rate risk

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

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

Currency risk

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS (Contd.)

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

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

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

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

Credit risk

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

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

Debt securities - interest rate risk

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

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

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS (Contd.)

Debt securities – currency risk

(US$ '000)

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

Debt securities - remaining term to maturity

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

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6. INVESTMENTS (Contd.)

Common stock

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

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

(US$ '000)

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

Commitments

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

7. SENSITIVITY ANALYSIS

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

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

8. ACCRUED INCOME

(US$ '000)

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

9. INSURANCE RECEIVABLES

(US$ '000)

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

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

(US$ '000)

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

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

(US$ '000)

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

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

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

10. INSURANCE DEPOSITS

(US$ '000)

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

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

(US$ '000)

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

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

(US$ '000)

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

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

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

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

12. OTHER ASSETS

(US$ '000)

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

(US$ '000)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

13. PROPERTY AND EQUIPMENT

(US$ '000)

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

14. TECHNICAL PROVISIONS

Technical provisions comprise:

(US$ '000)

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

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

FOR THE YEAR ENDED 31 DECEMBER 2014

15. CLAIMS DEVELOPMENT

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

(US$ '000)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

16. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

17. INSURANCE PAYABLES

(US$ '000)

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

18. BORROWINGS

(US$ '000)

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

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

19. OTHER LIABILITIES

(US$ '000)

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

20. SHAREHOLDERS' EQUITY

Share capital

a) Composition

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

20. SHAREHOLDERS' EQUITY (Contd.)

b) Major shareholders

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

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

c) Shareholding pattern

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

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

Treasury stock

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

Legal reserve

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

Investment revaluation reserve

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

Property revaluation reserve

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

FOR THE YEAR ENDED 31 DECEMBER 2014

20. SHAREHOLDERS' EQUITY (Contd.)

Capital management

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

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

21. NON-CONTROLLING INTERESTS

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

22. SEGMENT INFORMATION

Analysis of revenue by primary business segment

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

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

22. SEGMENT INFORMATION (Contd.)

Analysis of revenue by primary business segment

(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

22. SEGMENT INFORMATION (Contd.)

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

(US$ '000)

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

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

Analysis of segment assets and liabilities

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

23. INVESTMENT INCOME

(US$ '000)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

24. OPERATING EXPENSES

(US$ '000)

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

25. OTHER INCOME

(US$ '000)

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

26. OTHER EXPENSES AND PROVISIONS

(US$ '000)

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

27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

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

FOR THE YEAR ENDED 31 DECEMBER 2014

28. EMPLOYEE SHARE SCHEME

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

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

(US$ '000)

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

29. POST EMPLOYMENT BENEFITS

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

The principal assumptions used for accounting purposes were:

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

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

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

30. FORWARD FOREIGN EXCHANGE CONTRACTS

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

Forward foreign exchange contracts – by currency

(US$ '000)

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

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

Forward foreign exchange contracts - remaining term to maturity

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

Forward foreign exchange contracts - unrealised gains and losses

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

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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

(US$ '000)

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

32. FAIR VALUE DISCLOSURE

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

(US$ '000)

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

FOR THE YEAR ENDED 31 DECEMBER 2014

32. FAIR VALUE DISCLOSURE (Contd.)

(US$ '000)

2013	Book Value: 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	-	273,231	-	-	-	273,231	273,231
Investments	95,877	-	55,510	215,182	-	366,569	367,631
Accrued income	-	421	82,908	1,153	-	84,482	84,482
Insurance receivables	-	114,332	-	-	-	114,332	114,332
Insurance deposits	-	46,538	-	-	-	46,538	46,538
Other assets	-	55,399	-	-	-	55,399	55,399
LIABILITIES							
Insurance payables	-	-	-	-	45,588	45,588	45,588
Other liabilities	-	-	-	-	33,828	33,828	33,828

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

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

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

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

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

General

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

Hence, the fair value measurement details are not disclosed.

Investments

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

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

FOR THE YEAR ENDED 31 DECEMBER 2014

32. FAIR VALUE DISCLOSURE (Contd.)

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

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

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

(US$ '000)

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

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

FOR THE YEAR ENDED 31 DECEMBER 2014

32. FAIR VALUE DISCLOSURE (Contd.)

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

(US$ '000)

	Unlisted equity	Others	Total
Balance at 1 January 2014	5,646	13,607	19,253
Gain (loss) recognised in:			
- Income statement	(10)	(674)	(684)
- Other comprehensive income	137	(366)	(229)
Investments made during the year	891	5,238	6,129
Investments redeemed during the year	(337)	(2,681)	(3,018)
Balance at 31 December 2014	**6,327**	**15,124**	**21,451**
Balance at 1 January 2013	5,087	15,536	20,623
Gain (loss) recognised in:			
- Income statement	(538)	(1,037)	(1,575)
- Other comprehensive income	(8)	(178)	(186)
Investments made during the year	1,231	1,274	2,505
Investments redeemed during the year	(126)	(1,988)	(2,114)
Balance at 31 December 2013	**5,646**	**13,607**	**19,253**

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

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

Forward foreign exchange contracts

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

Fair value less than carrying amounts

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

FOR THE YEAR ENDED 31 DECEMBER 2014

33. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

1. Subsidiaries, joint ventures and associates

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

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

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

2. Interest in subsidiaries: Takaful Re Limited

(US$ '000)

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

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

3. Interests in joint venture and associates

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

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

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

(US$ '000)

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

34. RELATED PARTY TRANSACTIONS

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

The following is the summary of transactions with related parties.

1. Subsidiary companies

(US$ '000)

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

2. Joint venture

(US$ '000)

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

3. Compensation to directors and key management personnel

(US$ '000)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

35. PARENT COMPANY

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

(US$ '000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

36. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

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

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