CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Independent auditor's report to the shareholders of Arab Insurance Group B.S.C.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Arab Insurance Group B.S.C. (the Company) and its subsidiaries (the Group) as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matter

- Valuation of technical provisions
- Accuracy of ultimate premiums
- Recoverability of insurance receivables
- Valuation of investments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions At 31 December 2017, the technical provisions relating to insurance liabilities amounted to USD 680,451 thousand. We consider this as a key audit matter because the determination of technical provision includes significant judgement and estimates, in particular in respect of claims that have been incurred at the statement of financial position date but have not been reported to the Group. The ultimate amount of claims paid could vary materially from the amount estimated as of the reporting period date due to a number of factors including: • delays or insufficient information reported by the insured or ceding companies in relation to loss incurred at the reporting date • changes to the estimates received from loss adjusters • final outcome of claims subject to litigation Refer to notes 2, 3 and 14 of the financial statements for accounting policy, disclosures of judgements and estimates and other details relating to technical provisions.	In relation to the matters set out opposite, our audit response included the following: • We assessed and tested the operational effectiveness of a sample of key controls in the Group's claims handling and reserving process, including the review and approval of the reserves, controls over the completeness and accuracy of the claims estimates recorded and controls over the input, adjustment and extraction of data from the claims systems. • Substantive tests were performed on the amounts of claims recorded for a sample of claims notified, to assess whether claims are appropriately estimated and recorded. • We considered the results of the third-party actuarial review of the loss and loss adjustment reserves as at the reporting date. Supported by our actuarial specialists, we evaluated management's methodology against industry practice and challenged management's assumptions and their assessment of major sensitivities. The main areas of judgement include the loss development patterns selected and the initial expected loss ratios. • We also assessed the adequacy of disclosure in the financial statements.

Key audit matter	How our audit addressed the key audit matter
Accuracy of ultimate premiums We focused on this area because there is significant judgement and estimation involved in determining the ultimate premiums. Premium revenues are initially recognised based on estimates of ultimate premiums. This occurs for contracts where pricing is based on variables which are not known with certainty at the point of issuing the contract. Subsequent adjustments to those estimates, which arise as updated information relating to those pricing variables becomes available, are recorded in the period in which they are determined. Refer to note 2 and 3 of the financial statements for the accounting policy, disclosures of judgements and estimates and other details relating to ultimate premiums.	In relation to the matters set out opposite, our audit response included the following: • We evaluated and tested a sample of key controls over the premium estimation process, which include the periodic review by management of estimated premiums, taking into account any third-party information received from intermediaries or insureds. • For a sample of contracts we assessed the estimated premium income, including considering the basis of estimation and corroborating evidence such as information from brokers and cedants. • We analysed the historical development of a sample of ultimate premium amounts on an underwriting year basis and compared it with the estimates recognised in corresponding financial years to identify if there is any indication of management bias. • We also assessed the adequacy of disclosure in the financial statements.

INDEPENDENT AUDITORS' REPORT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of insurance receivables We focused on this area because estimation of the recoverable amount of insurance receivables and determination of the level of impairment allowance involves estimates and judgements. 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 recover all the amount due to financial difficulties of the counterparty. Refer to note 2 and 9 of the financial statements for the accounting policy and disclosures relating to insurance receivables and the related impairment provisions.	In relation to the matters set out opposite, our audit response included the following: • We evaluated and tested a sample of controls over establishment of level of impairment required for insurance receivables. These include an annual exercise performed by the management to assess the level of impairment required collectively and on a case by case basis. • We assessed the accuracy of the aging of insurance receivables and challenged management on the level of impairment on each 'bucket' of time proportionate aged balance. • Balance confirmations were circulated to a selection of parties and alternative procedures were performed where the response to the confirmation requests was not received. • We also assessed the adequacy of disclosure in the financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of investments The Group holds a significant investment portfolio which represents 61% of the total assets. Consequently the valuation of investments is a key area of audit focus. Refer to note 2 and 6 of the financial statements for the accounting policy and disclosures in relation to investments	In relation to the matters set out opposite, our audit response included the following: • We tested on a sample basis the valuation of quoted investments by matching the price with independent sources. • We assessed how the Group reviewed investments for possible impairment and whether the Group policy for impairment was applied appropriately and consistently. • We also assessed the adequacy of disclosure in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the Annual report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and 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 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.

PricewaterhouseCoopers

17 February 2018
Partner's registration number: 201
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(US$ ’000)

	Note	2017	2016
ASSETS			
Cash and bank balances	5	82,673	180,460
Investments	6	579,686	554,660
Accrued income	8	103,096	101,610
Insurance receivables	9	110,923	108,402
Insurance deposits	10	25,809	28,086
Deferred policy acquisition costs		22,660	17,800
Reinsurers’ share of technical provisions	11	112,391	83,818
Other assets	12	28,806	17,991
Property and equipment	13	20,085	21,588
		1,086,129	**1,114,415**
LIABILITIES			
Technical provisions	14	680,451	673,681
Insurance payables	17	53,337	61,571
Borrowings	18	34,000	41,000
Other liabilities	19	35,959	45,349
		803,747	821,601
EQUITY			
Attributable to shareholders of parent company	20		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		41,178	37,684
Retained earnings		10,549	13,743
		256,934	256,634
Non-controlling interests	21	25,448	36,180
		282,382	292,814
		1,086,129	**1,114,415**

These consolidated financial statements were approved by the Board of Directors on 13 February 2018 and signed on its behalf by:

Saeed Mohammed AlBahhar	**Ahmed Saeed AlMahri**	**Yassir Albaharna**
Chairman	Director	Chief Executive Officer

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(US$ '000)

	Note		2017	2016
Gross premiums written			225,632	245,431
Net earned premiums			179,938	180,503
Claims and related expenses			(124,603)	(119,412)
Policy acquisition costs			(49,803)	(46,370)
Investment income attributable to insurance funds	23		13,268	11,123
Operating expenses	24		(12,995)	(17,508)
Underwriting result	22		**5,805**	**8,336**
Investment income attributable to shareholders' funds	23		9,001	8,166
Operating expenses – non underwriting activities	24		(9,298)	(8,042)
Borrowing cost			(947)	(866)
Other income	25		5,595	5,299
Other expenses and provisions	26		(1,971)	(2,742)
Profit for the year			**8,185**	**10,151**
Attributable to:				
Non-controlling interests			963	989
Shareholders of parent company			7,222	9,162
			8,185	**10,151**
Earnings per share attributable to shareholders (basic and diluted):	27	(US Cents)	3.6	4.6

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMahri
Director

Yassir Albaharna
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

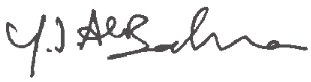
FOR THE YEAR ENDED 31 DECEMBER 2017

(US$ '000)

	2017	2016
Profit for the year	8,185	10,151
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Changes on remeasurement of available for sale investments	2,115	1,101
Transfers for recognition of losses on disposal of available for sale investments	1,523	2,262
Items that will not be reclassified subsequently to profit or loss:		
Revaluation of property	(853)	-
Other comprehensive income	2,785	3,363
Total comprehensive income	**10,970**	**13,514**
Attributable to:		
Non-controlling interests	768	1,128
Shareholders of parent company	10,202	12,386
	10,970	**13,514**

Saeed Mohammed AlBahhar
Chairman

Ahmed Saeed AlMahri
Director



Yassir Albaharna
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(US$ '000)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2016	**220,000**	**(14,793)**	**34,094**	**(1,971)**	**5,561**	**37,684**	**13,743**	**256,634**	**36,180**	**292,814**
Net profit for the year	-	-	-	-	-	-	7,222	7,222	963	8,185
Changes on remeasurement of available for sale investments	-	-	-	2,153	-	2,153	-	2,153	(38)	2,115
Transfers for recognition of losses (gains) on disposal of available for sale investments	-	-	-	1,680	-	1,680	-	1,680	(157)	1,523
Revaluation of property	-	-	-	-	(853)	(853)	-	(853)	-	(853)
Total comprehensive income for the year	-	-	-	3,833	(853)	2,980	7,222	10,202	768	10,970
Dividends paid	-	-	-	-	-	-	(9,902)	(9,902)	-	(9,902)
Transfer of net depreciation on revalued property	-	-	-	-	(208)	(208)	208	-	-	-
Transfer to non-distributable reserves	-	-	722	-	-	722	(722)	-	-	-
Subsidiary's capital reduction	-	-	-	-	-	-	-	-	(11,500)	(11,500)
Balances at 31 December 2017	**220,000**	**(14,793)**	**34,816**	**1,862**	**4,500**	**41,178**	**10,549**	**256,934**	**25,448**	**282,382**
Balances at 31 December 2015	220,000	(14,793)	33,200	(5,195)	5,745	33,750	5,291	244,248	34,732	278,980
Net profit for the year	-	-	-	-	-	-	9,162	9,162	989	10,151
Changes on remeasurement of available for sale investments	-	-	-	977	-	977	-	977	124	1,101
Transfers for recognition of losses on disposal of available for sale investments	-	-	-	2,247	-	2,247	-	2,247	15	2,262
Total comprehensive income for the year	-	-	-	3,224	-	3,224	9,162	12,386	1,128	13,514
Transfer of net depreciation on revalued property	-	-	-	-	(184)	(184)	184	-	-	-
Transfer to non-distributable reserves	-	-	894	-	-	894	(894)	-	-	-
Adjustment for minority's share of subsidiary	-	-	-	-	-	-	-	-	320	320
Balances at 31 December 2016	**220,000**	**(14,793)**	**34,094**	**(1,971)**	**5,561**	**37,684**	**13,743**	**256,634**	**36,180**	**292,814**
Parent company balances at (note 35)										
31 December 2017	220,000	(14,793)	34,679	1,933	4,500	41,112	10,615	256,934	-	256,934
31 December 2016	220,000	(14,793)	33,957	(2,131)	5,561	37,387	14,040	256,634	-	256,634

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

(US$ '000)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received		183,675	250,560
Reinsurance premiums paid		(25,581)	(38,955)
Claims and acquisition costs paid		(194,866)	(232,796)
Reinsurance receipts in respect of claims		5,249	24,650
Investment income		21	89
Interest received		2,790	2,281
Dividends received		842	761
Operating expenses paid		(30,330)	(30,174)
Other (expenses) income, net		(2,405)	(3,911)
Insurance deposits received, net		2,782	9,079
Purchase of trading investments		(19,670)	(26,364)
Sale of trading investments		13,026	44,003
Net cash used in operating activities	30	(64,467)	(777)
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity/sale of investments		258,971	293,215
Purchase of investments		(266,924)	(326,719)
Term deposits with bank		21,317	21,202
Interest received		8,652	9,738
Investment income		3,298	3,847
Collateralised cash deposits		(8,095)	6,858
Purchase of property and equipment		(233)	(328)
Purchase of intangible assets		(463)	(37)
Investment in associate		-	(63)
Net cash provided by investing activities		16,523	7,713
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings		(7,000)	(3,000)
Borrowing cost		(767)	(814)
Dividends paid		(9,255)	(62)
Subsidiary's capital reduction- minority interests		(11,500)	-
Net cash used in financing activities		(28,522)	(3,876)
Net (decrease) increase in cash and cash equivalents		(76,466)	3,060
Effect of exchange rate on cash and cash equivalents		(4)	(167)
Cash and cash equivalents, beginning of year		139,408	136,515
Cash and cash equivalents, end of year	5	**62,938**	**139,408**
Term deposits with bank		19,735	41,052
Cash and bank balances, end of year	5	**82,673**	**180,460**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017:

- IAS 7 Statement of Cash Flow
  Standard issued in January 2016

  The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
  To satisfy the new disclosure requirements, a reconciliation between the opening and closing balances of liabilities arising from financing activities has been included as note 31.

- Improvements to IFRSs (2016)

  Improvements to IFRSs in the 2014-2016 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2017 with early application permitted. The adoption of this amendment has no material impact on the financial statements.

  The following standards and interpretations have been issued but are applicable for periods subsequent to the year ended 31 December 2017:

- IFRS 4 Insurance Contracts
  Standard issued September 2016

  Amendments to the standard permit entities issuing contracts within the scope of IFRS 4 a temporary exemption. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if and only if

  (i) it has not previously applied any version of IFRS 9 before and
  (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

  The Group has determined that its activities are predominantly connected with insurance and has decided that it will apply the temporary exemption from IFRS 9. The temporary exemption from IFRS 9 is available from 1 January 2018.

- 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. However, the Group has decided to apply the temporary exemption available under IFRS 4 and will therefore apply this standard for annual periods beginning 1 January 2021.

- 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 2018, with early adoption permitted. The Group is not expecting a significant impact from the adoption of this standard.

- IFRS 16 Leases
  Standard issued in January 2016

  IFRS 16 introduces a single, accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Group is not expecting a significant impact from the adoption of this standard.

- IFRS 17 Insurance Contracts
  Standard issued in May 2017

  IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The standard is applicable for annual periods beginning on or after 1 January 2021. The Group is assessing the impact of IFRS 17 on its consolidated financial statements.

The Group did not early-adopt new or amended standards in 2017.

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 2017 except for Arig Capital Limited which is consolidated one quarter in arrears.

Subsidiaries are defined as entities that are controlled by the Group, on the basis of
i) power over the entity;
ii) the exposure to variable returns from the entity; and
iii) the ability to use its power to affect the amount of returns.

The purchase method is used to account for acquisitions.

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.

Cash and cash equivalents

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

Investments

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

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

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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, less any adjustment necessary for impairment. 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.

Insurance receivables

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

Insurance deposits

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

Intangible assets

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

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

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

Property and 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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's).

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.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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:

FOR THE YEAR ENDED 31 DECEMBER 2017

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Contd.)

i) Claims and related expenses

The estimate of ultimate losses arising from existing insurance contracts includes 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.

ii) 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

The Group's activities expose it to a variety of financial and other risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk, underwriting risk and liquidity risk.

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

i) Underwriting risks

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

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

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the Marketing, Underwriting and Actuarial functions.

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

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

ii) 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 2017

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

2017	Receivables	Share of claims outstanding	Total
Balance relating to reinsurers:			
- With investment grade rating	2,045	16,541	18,586
- Other	5,923	2,811	8,734
	7,968	**19,352**	**27,320**

2016			
Balance relating to reinsurers:			
- With investment grade rating	1,434	29,235	30,669
- Other	10,324	9,455	19,779
	11,758	**38,690**	**50,448**

iii) 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)

2017	Euro	Pound Sterling	Indian Rupee	Kuwaiti Dinar	Other
Reinsurance Assets (Liabilities), net	(651)	(1,328)	(8,510)	(17,915)	(27,329)
Hedged	584	1,056	-	-	-

2016					
Reinsurance Assets (Liabilities), net	(345)	1,296	(9,823)	(13,247)	(35,373)
Hedged	-	(1,244)	-	-	-

iv) 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.

v) Sensitivity analysis

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

(US$ '000)

	2017	2016
5% increase in loss ratio	(8,997)	(9,025)
5% decrease in loss ratio	8,997	9,025
10% increase in US Dollar exchange rate	9,149	10,615
10% decrease in US Dollar exchange rate	(11,183)	(12,974)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5. CASH AND BANK BALANCES

(US$ '000)

	2017	2016
Cash and bank balances	62,938	102,908
Deposits with maturity within 3 months	-	36,500
Cash and cash equivalents	62,938	139,408
Deposits with maturity over 3 months	19,735	41,052
	82,673	**180,460**

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

i) 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.

ii) Interest rate risk

	2017	2016
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.01 % - 2.78 %	0.01% - 2.25 %

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

iii) Currency risk

(US$ '000)

	2017	2016
U.S. Dollar	61,895	168,451
Bahraini Dinar	10,494	7,199
Pound Sterling	6,973	550
Omani Riyal	1,074	-
UAE Dirham	727	469
Other	1,510	3,791
	82,673	**180,460**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6. INVESTMENTS

(US$ '000)

	2017	2016
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	56,712	43,937
	56,712	43,937
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	66,364	65,417
- Other	19,420	28,706
	85,784	94,123
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	1,000	1,000
- Other investment grade	4,881	4,857
- Other	3,927	3,913
	9,808	9,770
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	30,776	57,284
- Other investment grade	269,177	218,255
- Other	91,484	96,537
Common stock of listed companies	13,071	10,312
Common stock of unlisted companies	4,165	6,381
Other equity type investment	18,389	17,978
	427,062	406,747
Investment in associates	320	83
	579,686	**554,660**

FOR THE YEAR ENDED 31 DECEMBER 2017

6. INVESTMENTS (Contd.)

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

(US$ '000)

	2017	2016
At 1 January	21,515	20,994
Impairment recognised during the year		
- Unlisted companies	1,366	33
- Others	1,241	675
Reversal on sale of investments	(2,111)	(187)
At 31 December	**22,011**	**21,515**

Debt securities amounting to US$ 183.6 million (2016: US$ 169.9 million) have been pledged as security for reinsurance trust agreements, letters of credit, guarantees and borrowings.

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

i) 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 budgeted equity portfolio at the time of purchase.

ii) Debt securities - interest rate risk

2017	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.750% - 1.875%	0.750% - 1.875%
Other investment grade debt securities	Monthly/Semi-annual/ Annual	0.130% - 8.500%	0.130% - 8.500%
Other debt securities	Monthly/Semi-annual/ Annual	2.383% - 5.500%	2.383% - 5.500%

2016			
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.750% - 1.625%	0.750%-1.625%
Other investment grade debt securities	Monthly/Semi-annual/ Annual	0.125% - 7.750%	0.125% - 7.750%
Other debt securities	Monthly/Semi-annual/ Annual	2.383% - 5.500%	2.383% - 5.500%

FOR THE YEAR ENDED 31 DECEMBER 2017

6. INVESTMENTS (Contd.)

iii) Debt securities – currency risk

(US$ '000)

2017	U.S. Dollar	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	31,776	-	-	31,776
Other investment grade debt securities	340,403	-	19	340,422
Other debt securities	108,248	6,583	-	114,831
	480,427	**6,583**	**19**	**487,029**
2016				
Supra-nationals and OECD country government securities	58,284	-	-	58,284
Other investment grade debt securities	273,963	-	72	274,035
Other debt securities	137,222	6,428	-	143,650
	469,469	**6,428**	**72**	**475,969**

iv) 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)

	2017		2016	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	11,000	10,962	18,500	18,511
- One to five years	21,000	20,814	40,000	39,773
	32,000	31,776	58,500	58,284
Debt securities of other investment grade issuers:				
- Due in one year or less	29,606	28,076	25,500	24,861
- One to five years	253,782	252,604	203,084	201,813
- More than five years	56,877	59,742	61,603	61,855
	340,265	340,422	290,187	288,529
Other debt securities:				
- Due in one year or less	7,998	7,053	2,444	1,614
- One to five years	69,451	68,950	83,024	82,537
- More than five years	39,678	38,828	46,544	45,005
	117,127	114,831	132,012	129,156
	489,392	**487,029**	**480,699**	**475,969**

FOR THE YEAR ENDED 31 DECEMBER 2017

6. INVESTMENTS (Contd.)

v) Common stock

Common stocks have no fixed maturity dates and are generally not exposed to interest rate risk. However, they are subject to price risk and its sensitivity is shown in note 7. 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)

	2017	2016
U.S. Dollar	44,601	36,086
Euro	3,993	7,722
Bahraini Dinar	628	433
Saudi Riyal	10,660	5,590
Pound Sterling	1,709	2,286
Japanese Yen	2,101	877
Other	10,256	7,636
	73,948	**60,630**

vi) Commitments

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 8.8 million (2016: US$ 7.3 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)

	2017		2016	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	(1,695)	(11,743)	(1,543)	(10,159)
– 100 basis points shift in yield curves- debt instruments	1,638	11,352	1,491	9,820
Currency risk				
10% increase in US Dollar exchange rate	(3,621)	-	(2,030)	(19)
10% decrease in US Dollar exchange rate	4,426	-	2,481	23
Equity price				
10% increase in equity prices	5,671	1,307	4,394	1,031
10% decrease in equity prices	(5,671)	(1,307)	(4,394)	(1,031)

FOR THE YEAR ENDED 31 DECEMBER 2017

8. ACCRUED INCOME

(US$ '000)

	2017	2016
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	73,499	76,483
- After 12 months	26,863	22,869
	100,362	99,352
Accrued interest		
- Expected to be received within 12 months	2,734	2,258
	103,096	**101,610**

9. INSURANCE RECEIVABLES

(US$ '000)

	2017	2016
Balances due :		
- Within 12 months	110,755	108,305
- After 12 months	168	97
	110,923	**108,402**

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

(US$ '000)

	2017	2016
At 1 January	14,230	14,752
Provision (write back) for impairment	652	(459)
Impaired receivables written off	-	(63)
31 December	**14,882**	**14,230**

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

(US$ '000)

	2017	2016
Over two years	4,238	4,936
	4,238	**4,936**

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

(US$ '000)

	2017	2016
Upto 6 months	6,610	4,536
6 to 12 months	4,839	12,731
	11,449	**17,267**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

10. INSURANCE DEPOSITS

(US$ '000)

	2017	2016
Balances due:		
- Within 12 months	18,928	22,000
- After 12 months	6,881	6,086
	25,809	**28,086**

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

(US$ '000)

	2017	2016
At 1 January	2,945	3,494
Provision for impairment	202	674
Impaired deposits written off	-	(1,223)
31 December	**3,147**	**2,945**

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

(US$ '000)

	2017	2016
Under ten years	149	144
Over ten years	19	18
	168	**162**

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

(US$ '000)

	2017	2016
Upto 1 year	6,946	6,233
1 to 3 years	14,973	16,684
	21,919	**22,917**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2017	2016
General insurance business		
- Claims outstanding	19,341	38,669
- Unreported claims	55,705	18,172
- Deferred retrocession premium reserve	37,263	26,858
	112,309	83,699
Life insurance business		
- Claims outstanding	11	21
- Unreported claims	71	98
	82	119
	112,391	**83,818**

12. OTHER ASSETS

(US$ '000)

	2017	2016
Intangible assets :		
- Computer software	10,011	9,593
	10,011	9,593
Less : Accumulated amortisation	(9,402)	(9,245)
Net intangible assets	609	348
Other assets due within 12 months:		
- Collateralised cash deposits	20,341	12,246
- Prepayments and other receivables	7,856	5,397
	28,197	17,643
	28,806	**17,991**

(US$ '000)

	2017	2016
Movement in intangible assets :		
Net book value at 1 January	348	511
- Additions	463	70
- Amortisation charge	(202)	(232)
- Disposal	-	(1)
Net book value at 31 December	**609**	**348**

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 2017

13. PROPERTY AND EQUIPMENT

(US$ '000)

	2017	2016
Land	2,080	2,469
Building	18,718	19,182
Information systems, furniture, equipment and other	10,660	10,592
	31,458	32,243
Less: Accumulated depreciation	(11,373)	(10,655)
	20,085	**21,588**
Movements in property and equipment		
Net book value at 1 January	21,588	22,236
- Revaluation of property	(853)	-
- Additions	233	365
- Disposals	-	(37)
- Depreciation charge	(883)	(976)
Net book value at 31 December	**20,085**	**21,588**

Land and Building comprises the head office property owned and occupied by the Company since 1984 and 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 properties and adjusted to reflect the characteristics of the property. Based on open market valuation, the fair value of land was determined at US$ 2,080,000 as against a carrying amount of US$ 2,469,000. The carrying amount of the land would have been US$ 1,972,000 had the asset been carried under the cost model. The decrease in fair value of US$ 389,000 has been adjusted from Property Revaluation Reserve. The fair value of the building has been determined at US$ 4,968,000 as against a carrying value of US$ 5,432,000. The decrease in fair value of US$ 464,000 has been adjusted from Property Revaluation Reserve.

14. TECHNICAL PROVISIONS

Technical provisions comprise:

(US$ '000)

	2017	2016
General insurance business		
Claims outstanding	223,388	279,957
Unreported losses	216,950	177,783
Unearned premiums	184,270	153,266
	624,608	**611,006**
Life insurance business		
Claims outstanding	13,529	14,638
Unreported losses	33,495	40,378
Unearned premiums	8,819	7,659
	55,843	62,675
	680,451	**673,681**

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 2017

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						
	2012	2013	2014	2015	2016	2017	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	113,735	112,367	106,448	101,570	74,463	127,688	
- One year later	178,609	190,431	182,358	175,247	136,341	-	
- Two years later	185,776	192,492	186,928	173,063	-	-	
- Three years later	179,510	190,167	180,654	-	-	-	
- Four years later	180,033	166,183	-	-	-	-	
- Five years later	178,626	-	-	-	-	-	
Current estimate of incurred claims	178,626	166,183	180,654	173,063	136,341	127,688	962,555
Cumulative payments to date	(156,265)	(130,824)	(141,140)	(130,228)	(71,377)	(19,641)	(649,475)
Liability recognised	22,361	35,359	39,514	42,835	64,964	108,047	313,080
Liability in respect of prior years							174,282
Total liability included in the statement of financial position							**487,362**

Net							
Estimate of incurred claims costs:							
- At end of underwriting year	108,594	110,213	102,592	98,169	66,195	106,954	
- One year later	166,667	182,910	174,824	165,317	124,902	-	
- Two years later	175,275	182,685	178,752	164,880	-	-	
- Three years later	169,531	179,862	169,900	-	-	-	
- Four years later	170,156	158,222	-	-	-	-	
- Five years later	166,540	-	-	-	-	-	
Current estimate of incurred claims	166,540	158,222	169,900	164,880	124,902	106,954	891,398
Cumulative payments to date	(144,368)	(123,175)	(130,822)	(128,227)	(50,262)	(22,433)	(599,287)
Liability recognised	22,172	35,047	39,078	36,653	74,640	84,521	292,111
Liability in respect of prior years							120,123
Total liability included in the statement of financial position							**412,234**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

16. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

	Gross	Reinsurance	Net
2017			
Claims			
Claims outstanding	294,595	38,689	255,906
Unreported losses	218,161	18,271	199,890
Total at beginning of year	512,756	56,960	455,796
Change in provision during the year	128,664	23,418	105,246
Claims settled during the year	(154,058)	(5,250)	(148,808)
Balance at end of year	**487,362**	**75,128**	**412,234**
Unearned premium			
At beginning of year	160,925	26,858	134,067
Change in provision during the year	32,164	10,405	21,759
Balance at end of year	**193,089**	**37,263**	**155,826**
Accrued insurance premium			
At beginning of year	112,854	13,502	99,352
Movement during the year	(19,842)	(20,852)	1,010
Balance at end of year	**93,012**	**(7,350)**	**100,362**
Deferred policy acquisitions costs			
At beginning of year	19,070	1,270	17,800
Movement during the year	5,112	252	4,860
Balance at end of year	**24,182**	**1,522**	**22,660**

	Gross	Reinsurance	Net
2016			
Claims			
Claims outstanding	316,961	37,758	279,203
Unreported losses	245,068	14,788	230,280
Total at beginning of year	562,029	52,546	509,483
Change in provision during the year	125,448	3,478	121,970
Claims settled during the year	(174,721)	936	(175,657)
Balance at end of year	**512,756**	**56,960**	**455,796**
Unearned premium			
At beginning of year	117,514	13,304	104,210
Change in provision during the year	43,411	13,554	29,857
Balance at end of year	**160,925**	**26,858**	**134,067**
Accrued insurance premium			
At beginning of year	75,916	6,941	68,975
Movement during the year	36,938	6,561	30,377
Balance at end of year	**112,854**	**13,502**	**99,352**
Deferred policy acquisitions costs			
At beginning of year	21,014	614	20,400
Movement during the year	(1,944)	656	(2,600)
Balance at end of year	**19,070**	**1,270**	**17,800**

FOR THE YEAR ENDED 31 DECEMBER 2017

17. INSURANCE PAYABLES

(US$ '000)

	2017	2016
Due within 12 months	53,337	61,571
	53,337	**61,571**

18. BORROWINGS

(US$ '000)

	2017	2016
Balances Due:		
- Within 12 months	34,000	41,000
	34,000	**41,000**

Borrowings amounting to US$ 34 million (2016: US$ 41 million) are secured by debt securities amounting to US$ 50.9 million (2016: US$ 51.6 million). The effective interest rate on the borrowings was 2.49% (2016: 2.27%)

19. OTHER LIABILITIES

(US$ '000)

	2017	2016
Post-employment benefits (note 28)	12,203	12,398
Accrued expense	3,508	5,984
Dividends payable	3,164	2,517
Reinsurance premiums accrued	1,235	5,906
Employee long-term incentives	1,460	2,977
Other	14,389	15,567
	35,959	**45,349**
Balances due:		
- Within 12 months	22,296	29,974
- After 12 months	13,663	15,375
	35,959	**45,349**

20. SHAREHOLDERS' EQUITY

i) Share capital

a) Composition

(US$ '000)

	2017	2016
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed and Fully Paid-up 220 million (2016: 220 million) ordinary shares of US$ 1 each	220,000	220,000

FOR THE YEAR ENDED 31 DECEMBER 2017

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	
		2017	2016	**2017**	2016	**2017**	2016
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	13.8	13.8
General Pension and 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
Ahmed Omar Salem Alkorbi	UAE	17.2	10.0	8.7	5.0	7.8	4.5
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	
	2017	2016	**2017**	2016	**2017**	2016
Less than 1%	47.2	49.0	4,491	4,540	23.9	24.7
1% to 5%	12.8	28.2	4	6	6.5	14.3
5% to 10%	28.2	11.0	2	1	14.2	5.6
10% and above	109.8	109.8	4	4	55.4	55.4

ii) Treasury stock

The Company held 21,967,818 of its own shares at 31 December 2017 (2016: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2016: US$ 14,793,000).

iii) 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.

iv) 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.

v) Property revaluation reserve

Property revaluation reserve represents the difference between the cost of land and 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 2017

20. SHAREHOLDERS' EQUITY (Contd.)

vi) Capital management

The Group's total capital comprises paid-up capital, legal reserve and retained earnings 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)

	2017	2016
At 1 January	36,180	34,732
Share of comprehensive income	768	1,128
Subsidiary's capital reduction - minority interests	(11,500)	-
Minority interests in subsidiary	-	320
At 31 December	**25,448**	**36,180**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

22. SEGMENT INFORMATION

i) 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		
2017	Property	Engineering	Marine	Accident	Whole account	Others *	Short term	Long term	Total
REVENUES									
Gross premiums written	43,219	18,370	9,347	8,704	91,221	33,573	20,711	487	225,632
Outward reinsurance premiums	(6,703)	(3,354)	(1,724)	(653)	(21,114)	5,074	(137)	55	(28,556)
Change in unearned premiums – gross	(4,175)	(3,944)	(297)	(845)	7,456	(7,956)	(1,136)	(15)	(10,912)
Change in unearned premiums – reinsurance	268	697	(67)	24	(7,185)	37	-	-	(6,226)
Net earned premiums	32,609	11,769	7,259	7,230	70,378	30,728	19,438	527	179,938
Investment income attributable to insurance funds	4,562	1,583	1,051	1,153	139	1,919	1,695	1,166	13,268
	37,171	13,352	8,310	8,383	70,517	32,647	21,133	1,693	193,206
COSTS AND EXPENSES									
Gross claims paid	(32,005)	(15,963)	(6,575)	(3,966)	(48,266)	(25,114)	(21,042)	(1,128)	(154,059)
Claims recovered from reinsurers	2,992	605	327	(135)	6,571	(5,177)	66	-	5,249
Change in provision for outstanding claims – gross	8,541	3,990	(249)	(505)	(2,428)	30,704	581	528	41,162
Change in provision for outstanding claims – reinsurance	(535)	(123)	490	332	(537)	(13,616)	(9)	-	(13,998)
Change in provision for unreported losses – gross	(50)	9,370	903	4,485	(55,361)	(3,847)	1,231	5,688	(37,581)
Change in provision for unreported losses – reinsurance	1,013	61	433	(4,374)	37,508	46	(63)	-	34,624
Claims and related expenses	(20,044)	(2,060)	(4,671)	(4,163)	(62,513)	(17,004)	(19,236)	5,088	(124,603)
Policy acquisition costs	(12,964)	(5,350)	(1,628)	(2,023)	(26,660)	(1,656)	(1,593)	(3,218)	(55,092)
Policy acquisition costs recovered from reinsurers	1,709	826	392	265	-	49	-	-	3,241
Change in deferred policy acquisition costs – gross	618	1,328	(282)	90	71	365	133	(23)	2,300
Change in deferred policy acquisition costs – reinsurance	(28)	(259)	39	6	-	(10)	-	-	(252)
Policy acquisition costs	(10,665)	(3,455)	(1,479)	(1,662)	(26,589)	(1,252)	(1,460)	(3,241)	(49,803)
Operating expenses	(4,184)	(1,780)	(1,184)	(837)	(248)	(2,196)	(2,192)	(374)	(12,995)
Underwriting result	**2,278**	**6,057**	**976**	**1,721**	**(18,833)**	**12,195**	**(1,755)**	**3,166**	**5,805**

* Others includes a one-off reduction of claims in aviation class of Business (under run–off).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

22. SEGMENT INFORMATION (Contd.)

i) Analysis of revenue by primary business segment

(US$ '000)

	Non-life						Life		
2016	Property	Engineering	Marine	Accident	Whole account	Others	Short term	Long term	Total
REVENUES									
Gross premiums written	40,754	20,947	9,768	9,041	113,593	30,937	19,954	437	245,431
Outward reinsurance premiums	(6,607)	(3,698)	(1,223)	(449)	(26,078)	1,296	(265)	-	(37,024)
Change in unearned premiums – gross	4,215	2,775	1,649	1,600	(32,542)	(8,493)	322	(68)	(30,542)
Change in unearned premiums – reinsurance	1,243	1,228	483	110	1,242	(1,437)	(231)	-	2,638
Net earned premiums	39,605	21,252	10,677	10,302	56,215	22,303	19,780	369	180,503
Investment income attributable to insurance funds	3,457	1,847	1,085	992	220	1,466	1,035	1,021	11,123
	43,062	23,099	11,762	11,294	56,435	23,769	20,815	1,390	191,626
COSTS AND EXPENSES									
Gross claims paid	(40,163)	(18,159)	(8,495)	(8,472)	(36,312)	(24,704)	(21,541)	(16,875)	(174,721)
Claims recovered from reinsurers	498	536	399	84	(3,793)	856	485	-	(935)
Change in provision for outstanding claims – gross	6,878	4,841	4,333	49	22,584	6,479	(332)	3,555	48,387
Change in provision for outstanding claims – reinsurance	1,298	(338)	(1,066)	(245)	(10)	(1,364)	-	-	(1,725)
Change in provision for unreported losses – gross	13,704	(448)	2,573	196	(21,623)	3,277	1,463	11,072	10,214
Change in provision for unreported losses – reinsurance	(356)	233	471	(14)	(279)	(755)	74	(6)	(632)
Claims and related expenses	(18,141)	(13,335)	(1,785)	(8,402)	(39,433)	(16,211)	(19,851)	(2,254)	(119,412)
Policy acquisition costs	(10,784)	(6,713)	(3,475)	(2,048)	(19,881)	(1,822)	(707)	295	(45,135)
Policy acquisition costs recovered from reinsurers	1,306	876	456	194	-	(666)	-	-	2,166
Change in deferred policy acquisition costs - gross	(1,838)	(385)	(469)	(923)	(365)	1,332	(105)	6	(2,747)
Change in deferred policy acquisition costs – reinsurance	(326)	(483)	(186)	(55)	-	396	-	-	(654)
Policy acquisition costs	(11,642)	(6,705)	(3,674)	(2,832)	(20,246)	(760)	(812)	301	(46,370)
Operating expenses	(6,371)	(2,238)	(1,539)	(1,640)	(445)	(2,546)	(2,326)	(403)	(17,508)
Underwriting result	**6,908**	**821**	**4,764**	**(1,580)**	**(3,689)**	**4,252**	**(2,174)**	**(966)**	**8,336**

FOR THE YEAR ENDED 31 DECEMBER 2017

22. SEGMENT INFORMATION (Contd.)

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

(US$ '000)

	2017		2016	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	87,590	36,343	85,742	33,471
- Africa	25,275	4,927	22,068	3,575
- Asia	24,211	4,717	26,713	4,327
- Others	88,556	7,766	110,908	9,615
	225,632	**53,753**	**245,431**	**50,988**

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

iii) Analysis of segment assets and liabilities

(US$ '000)

	Non-Life						Life			
2017	Property	Engineering	Marine	Accident	Whole	Others	Short term	Long term	Corporate	Total
Reinsurance assets	27,751	19,057	16,906	7,043	243,073	68,952	9,400	21	-	392,203
Cash	9,178	6,788	3,071	3,506	5,506	1,977	2,547	1,693	48,407	82,673
Investments	116,634	78,331	37,804	36,753	14,820	23,790	34,556	24,808	212,190	579,686
Others	-	-	-	-	-	-	-	-	31,567	31,567
	153,563	104,176	57,781	47,302	263,399	94,719	46,503	26,522	292,164	1,086,129
Reinsurance liabilities	127,584	89,569	49,797	41,905	289,635	89,899	38,024	19,817	-	746,230
Others	-	-	-	-	-	-	-	-	57,517	57,517
	127,584	**89,569**	**49,797**	**41,905**	**289,635**	**89,899**	**38,024**	**19,817**	**57,517**	**803,747**
2016										
Reinsurance assets	33,975	21,005	19,231	503	193,080	72,796	8,767	578	-	349,935
Cash	18,731	13,733	6,167	5,598	11,590	9,145	5,956	4,415	105,125	180,460
Investments	71,898	53,080	23,097	22,684	45,716	37,667	23,404	21,185	255,929	554,660
Others	-	-	-	-	-	-	-	-	29,360	29,360
	124,604	87,818	48,495	28,785	250,386	119,608	38,127	26,178	390,414	1,114,415
Reinsurance liabilities	134,393	94,621	52,438	31,030	237,949	127,322	40,720	26,175	-	744,648
Others	-	-	-	-	-	-	-	-	76,953	76,953
	134,393	**94,621**	**52,438**	**31,030**	**237,949**	**127,322**	**40,720**	**26,175**	**76,953**	**821,601**

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23. INVESTMENT INCOME

(US$ '000)

2017	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or loss	760	433	1,193
- Others	5,730	4,995	10,725
Dividends	537	305	842
Realised gains (loss)			
- Trading investments	1,888	1,075	2,963
- Investment designated at fair value through profit or loss	(184)	(104)	(288)
- Available for sale	921	(130)	791
Gains on remeasurement of investments at fair value through profit or loss			
- Trading investments	4,191	2,386	6,577
- Investments designated at fair value through profit or loss	409	232	641
Impairment loss (write back)-available for sale	(552)	56	(496)
Other	(432)	(247)	(679)
	13,268	**9,001**	**22,269**

2016			
Interest income			
- Investments designated at fair value through profit or loss	800	437	1,237
- Others	5,866	4,827	10,693
Dividends	472	289	761
Realised gains (loss)			
- Trading investments	1,512	1,644	3,156
- Investment designated at fair value through profit or loss	(183)	(100)	(283)
- Available for sale	1,672	1,701	3,373
Gains (loss) on remeasurement of investments at fair value through profit or loss			
- Trading investments	1,148	(45)	1,103
- Investments designated at fair value through profit or loss	442	242	684
Impairment loss-available for sale	(19)	(502)	(521)
Other	(587)	(327)	(914)
	11,123	**8,166**	**19,289**

FOR THE YEAR ENDED 31 DECEMBER 2017

24. OPERATING EXPENSES

(US$ '000)

	Underwriting	Non-Underwriting	Total
2017			
Salaries and benefits	7,551	5,847	13,398
General and administration	5,444	3,451	8,895
	12,995	**9,298**	**22,293**
2016			
Salaries and benefits	12,322	5,148	17,470
General and administration	5,186	2,894	8,080
	17,508	**8,042**	**25,550**

25. OTHER INCOME

(US$ '000)

	2017	2016
Third party administration services	2,686	4,587
Income (loss) from associates	237	(217)
Other	2,672	929
	5,595	**5,299**

26. OTHER EXPENSES AND PROVISIONS

(US$ '000)

	2017	2016
Foreign exchange loss	686	2,015
Provision for doubtful receivable & deposits	820	376
Other	465	351
	1,971	**2,742**

27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2017	2016
Weighted average number of shares outstanding	'000	198,032	198,032
Net profit	US$'000	7,222	9,162
Earnings per share	US cents	3.6	4.6

FOR THE YEAR ENDED 31 DECEMBER 2017

28. 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:

	2017	2016
Discount rate	2.8%	2.0%
Expected return on assets	2.8%	2.0%
Future salary increases	3.3%	3.3%

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

(US$ '000)

	2017	2016
Balance at 1 January	12,398	14,236
Accruals for the year	1,532	1,371
Payments during the year	(1,727)	(3,209)
Balance at 31 December	**12,203**	**12,398**

29. 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.

i) Forward foreign exchange contracts – by currency

(US$ '000)

	2017		2016	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	584	9,462	-	5,046
Pound Sterling	1,056	3,369	-	6,219
Japanese Yen	-	1,961	-	789
Others	-	756	-	900
	1,640	**15,548**	**-**	**12,954**

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.

ii) Forward foreign exchange contracts - remaining term to maturity

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

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29. FORWARD FOREIGN EXCHANGE CONTRACTS (Contd.)

iii) 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)

	2017		2016	
	Purchases	Sales	Purchases	Sales
Unrealised gains	42	-	-	285
Unrealised losses	-	(319)	-	(12)
	42	**(319)**	**-**	**273**

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

(US$ '000)

	2017	2016
Profit for the year	8,185	10,151
Decrease in insurance funds	(24,386)	(12,299)
Change in insurance receivable/payable, net	(10,755)	24,585
Change in accrued income	(1,486)	(30,288)
Change in other assets/liabilities, net	(36,025)	7,074
Net cash used in operating activities	**(64,467)**	**(777)**

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(US$ '000)

	Borrowings	Borrowings cost	Dividends	Non-controlling interest
Balances at 31 December 2015	44,000	399	2,579	34,732
Share of comprehensive income	-	-	-	1,128
Minority interest in subsidiary	-	-	-	320
Repayment of borrowings	(3,000)	-	-	-
Interest paid during the year	-	(814)	-	-
Interest for the year	-	866	-	-
Dividends paid during the year	-	-	(62)	-
Balances at 31 December 2016	41,000	451	2,517	36,180
Share of comprehensive income	-	-	-	768
Subsidiary's capital reduction	-	-	-	(11,500)
Repayment of borrowings	(10,000)	-	-	-
Additional borrowings	3,000	-	-	-
Interest paid during the year	-	(767)	-	-
Interest for the year	-	947	-	-
Dividends declared	-	-	9,902	-
Dividends paid during the year	-	-	(9,255)	-
Balances at 31 December 2017	**34,000**	**631**	**3,164**	**25,448**

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32. FAIR VALUE DISCLOSURE

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

(US$ '000)

	Book Value						Fair value
2017	At fair value through profit or loss	Loans and receivables	Held to maturity	Available for sale	Amortised cost	Total	
ASSETS							
Cash and bank balances	-	82,673	-	-	-	82,673	82,673
Investments	142,496	-	9,808	427,062	-	579,366	579,694
Accrued income	-	103,096	-	-	-	103,096	103,096
Insurance receivables	-	110,923	-	-	-	110,923	110,923
Insurance deposits	-	25,809	-	-	-	25,809	25,809
Other assets	-	28,197	-	-	-	28,197	28,197
LIABILITIES							
Insurance payables	-	-	-	-	53,337	53,337	53,337
Borrowings	-	-	-	-	34,000	34,000	34,000
Other liabilities	-	-	-	-	32,451	32,451	32,451

2016							
ASSETS							
Cash and bank balances	-	180,460	-	-	-	180,460	180,460
Investments	138,060	-	9,770	406,747	-	554,577	554,928
Accrued income	-	101,610	-	-	-	101,610	101,610
Insurance receivables	-	108,402	-	-	-	108,402	108,402
Insurance deposits	-	28,086	-	-	-	28,086	28,086
Other assets	-	17,643	-	-	-	17,643	17,643
LIABILITIES							
Insurance payables	-	-	-	-	61,571	61,571	61,571
Borrowings	-	-	-	-	41,000	41,000	41,000
Other liabilities	-	-	-	-	39,365	39,365	39,365

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.

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32. FAIR VALUE DISCLOSURE (Contd.)

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

i) 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.

ii) 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.
- 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 valuation techniques 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)

2017	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	56,712	-	-	56,712
Designated at fair value on initial recognition				
Debt securities	85,784	-	-	85,784
Available for sale				
Debt securities	391,437	-	-	391,437
Common stock of listed companies	13,071	-	-	13,071
Common stock of unlisted companies	-	-	4,165	4,165
Other	-	-	18,389	18,389
Forward foreign exchange contracts	(277)	-	-	(277)
	546,727	**-**	**22,554**	**569,281**

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32. FAIR VALUE DISCLOSURE (Contd.)

(US$ ’000)

2016	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	43,937	-	-	43,937
Designated at fair value on initial recognition				
Debts securities	94,123	-	-	94,123
Available for sale				
Debt securities	372,076	-	-	372,076
Common stock of listed companies	10,312	-	-	10,312
Common stock of unlisted companies	-	-	6,381	6,381
Other	-	878	17,100	17,978
Forward foreign exchange contracts	273	-	-	273
	520,721	**878**	**23,481**	**545,080**

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 2017	6,381	17,100	23,481
Gain (loss) recognised in			
- Income statement	(707)	(801)	(1,508)
- Other comprehensive income	(146)	1,924	1,778
Investments made during the year	112	4,229	4,341
Investments redeemed during the year	(1,475)	(4,063)	(5,538)
Balance at 31 December 2017	**4,165**	**18,389**	**22,554**

Balance at 1 January 2016	6,357	15,895	22,252
Gain (loss) recognised in			
- Income statement	299	(599)	(300)
- Other comprehensive income	(10)	(679)	(689)
Investments made during the year	187	4,801	4,988
Investments redeemed during the year	(452)	(2,318)	(2,770)
Balance at 31 December 2016	**6,381**	**17,100**	**23,481**

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, 2017, there were no transfers in and out of level 1, level 2 and level 3 (2016: 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.

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32. FAIR VALUE DISCLOSURE (Contd.)

iii) Forward foreign exchange contracts

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

iv) 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.

33. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

i) Subsidiaries and associates

At 31 December 2017, 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 (under run-off)	United Arab Emirates	54%	46%	Retakaful
Arig Insurance Management (DIFC) Ltd.	United Arab Emirates	100%	Nil	Insurance Manager

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2016 except for Takaful Re Limited where capital was reduced from US$ 125 million to US$ 100 million. The Company holds 49% and 25% of the equity shares in its associate companies Arima Insurance software W.L.L. and Globemed Bahrain W.L.L., Bahrain respectively.

ii) Interest in subsidiaries: Takaful Re Limited

(US$ '000)

	2017	2016
Non-controlling interest	46%	46%
Total assets	92,499	129,497
Total liabilities	37,684	51,535
Net Assets	**54,815**	**77,962**
Revenue	(1,462)	(1,180)
Profit for the year	2,279	2,150
Total comprehensive income	1,853	2,453
Comprehensive income attributable to non-controlling interests	852	1,128
Net cash (used in) provided by operating activities	(10,158)	748
Net cash provided by (used in) investing activities	9,448	(2,064)
Net cash used in financing activities	(25,000)	-
Net decrease in cash and cash equivalents	**(25,710)**	**(1,316)**

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.

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34. RELATED PARTY TRANSACTIONS

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

The following is the summary of transactions with related parties.

i) Associate companies

(US$ '000)

		2017	2016
a)	Service fees for administration services provided by Arig	89	98
b)	Service fees for administration services provided by associate	705	593
c)	Balances outstanding		
	- Receivables	-	205
	- Payables	100	-

ii) Compensation to directors and key management personnel

(US$ '000)

		2017	2016
a)	Directors		
-	Attendance fees	65	107
-	Travel expenses	160	153
b)	Key management compensation		
-	Salaries and other short-term employee benefits	1,607	1,755
-	Post-employment benefits	426	300
-	Employee long-term incentives	432	1,767
c)	Balances payable (net)		
	Key management		
-	Maximum balance	4,975	4,411
-	Closing balance	4,586	4,411

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 2017 and 2016 for any outstanding amounts due from related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. PARENT COMPANY

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

(US$ '000)

	2017	2016
ASSETS		
Cash and bank balances	35,159	99,630
Investments	515,282	478,031
Accrued income	98,568	95,193
Insurance receivables	26,645	32,699
Insurance deposits	25,950	27,286
Deferred policy acquisition costs	13,224	10,801
Reinsurers' share of technical provisions	20,507	30,661
Other assets	100,852	80,920
Investment in subsidiaries and associates	28,217	43,613
Property and equipment	7,126	8,202
	871,530	**907,036**
LIABILITIES		
Technical provisions	527,822	536,616
Insurance payables	31,393	43,373
Borrowings	34,000	41,000
Other liabilities	21,381	29,413
	614,596	650,402
SHAREHOLDERS' EQUITY (note 20)		
Share capital	220,000	220,000
Treasury stock	(14,793)	(14,793)
Reserves	41,112	37,387
Retained earnings	10,615	14,040
	256,934	256,634
	871,530	**907,036**