Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the six months ended 30 June 2014

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Independent auditors' report on review of condensed consolidated interim financial information

The Board of Directors
Arab Insurance Group (B.S.C.)
Manama
Kingdom of Bahrain

Date: 6 August 2014

Introduction

We have reviewed the accompanying 30 June 2014 condensed consolidated interim financial information of Arab Insurance Group (B.S.C.) ("the Company") and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2014;
- the condensed consolidated income statement for the three-month and six-month periods ended 30 June 2014;
- the condensed consolidated statement of comprehensive income for the three-month and six-month periods ended 30 June 2014;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2014;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2014; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Company is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2014 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG

KPMG Fakhro, a Bahrain partnership registered with Ministry of Industry and Commerce (MOC), Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

(In thousands of U.S. Dollars)

	Note	30 June 2014 (reviewed)	31 December 2013 (audited)	30 June 2013 (reviewed)
ASSETS				
Cash and bank balances		**273,379**	273,231	317,550
Investments	4	**406,773**	366,707	320,331
Accrued income	5	**150,459**	84,482	157,027
Insurance receivables		**105,678**	114,332	121,106
Insurance deposits		**44,351**	46,538	49,168
Deferred policy acquisition costs		**35,946**	28,230	42,092
Reinsurers' share of technical provisions	6	**71,824**	59,082	64,973
Other assets	7	**45,239**	56,568	39,724
Property and equipment	9	**27,267**	27,472	27,461
		1,160,916	1,056,642	1,139,432
LIABILITIES				
Technical provisions	10	**774,366**	678,648	757,677
Insurance payables		**35,851**	45,588	57,193
Borrowings		**10,000**	-	-
Other liabilities	11	**42,198**	41,073	44,881
		862,415	765,309	859,751
EQUITY				
Attributable to shareholders of Parent Company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(14,793)
Reserves		**43,410**	38,844	35,313
Retained earnings/(accumulated deficit)		**10,016**	5,173	(6,590)
		258,633	249,224	233,930
Non-controlling interests		**39,868**	42,109	45,751
		298,501	291,333	279,681
		1,160,916	1,056,642	1,139,432

These consolidated interim condensed financial statements were approved by the Board of Directors on 6 August 2014 and signed by:

Khalid J. Bin Kalban	Khalid A. Al Bustani	Yassir Albaharna
Chairman	Vice Chairman	Chief Executive Officer

The accompanying notes 1 to 22 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 June 2014 (reviewed)	For the three months ended 30 June 2013 (reviewed)	For the financial year-to-date 30 June 2014 (reviewed)	For the financial year-to-date 30 June 2013 (reviewed)	For the year ended 31 December 2013 (audited)
Gross premiums written		**29,451**	44,239	**236,815**	224,253	261,988
Net earned premiums		**69,977**	65,093	**134,185**	118,165	237,712
Claims and related expenses		**(45,621)**	(38,464)	**(90,841)**	(76,589)	(150,103)
Policy acquisition costs		**(21,449)**	(18,556)	**(38,421)**	(31,287)	(66,854)
Investment income attributable to insurance funds	13	**2,646**	1,653	**6,419**	5,305	11,160
Operating expenses	14	**(5,530)**	(6,217)	**(10,814)**	(11,393)	(18,492)
Underwriting result	12	**23**	3,509	**528**	4,201	13,423
Investment income attributable to shareholders' funds	13	**2,267**	1,268	**5,312**	4,076	9,263
Operating expenses - non underwriting activities	14	**(1,812)**	(1,753)	**(4,204)**	(3,418)	(10,442)
Borrowing cost		**(39)**	-	**(57)**	(63)	(63)
Other income	15	**620**	790	**2,239**	2,185	4,887
Other expenses and provisions	16	**(653)**	(638)	**(1,291)**	(1,848)	(2,195)
Profit for the period		**406**	3,176	**2,527**	5,133	14,873
Attributable to:						
Non-controlling interests		**(1,525)**	175	**(2,202)**	(39)	(3,730)
Shareholders of Parent Company		**1,931**	3,001	**4,729**	5,172	18,603
		406	3,176	**2,527**	5,133	14,873
Earnings per share attributable to shareholders (basic and diluted)	17 US$	**0.01**	0.02	**0.02**	0.03	0.09

Khalid J. Bin Kalban
Chairman

Khalid A. Al Bustani
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 22 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

(In thousands of U.S. Dollars)

	For the three months ended 30 June 2014 (reviewed)	For the three months ended 30 June 2013 (reviewed)	For the financial year-to-date 30 June 2014 (reviewed)	For the financial year-to-date 30 June 2013 (reviewed)	For the year ended 31 December 2013 (audited)
Profit for the period	**406**	3,176	**2,527**	5,133	14,873
Other comprehensive income					
Items that will be reclassified to profit or loss:					
Changes on remeasurement of available for sale investments	**1,674**	(6,366)	**4,171**	(6,479)	(4,275)
Transfers for recognition of losses (gains) on disposal of available for sale investments	**633**	(73)	**470**	(440)	(732)
Other comprehensive income for the period	**2,307**	(6,439)	**4,641**	(6,919)	(5,007)
Total comprehensive income for the period	**2,713**	(3,263)	**7,168**	(1,786)	9,866
Attributable to:					
Non-controlling interests	**(1,504)**	(157)	**(2,241)**	(487)	(4,129)
Shareholders of Parent Company	**4,217**	(3,106)	**9,409**	(1,299)	13,995
	2,713	(3,263)	**7,168**	(1,786)	9,866

The accompanying notes 1 to 22 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2013	220,000	(14,793)	31,621	770	6,453	38,844	5,173	249,224	42,109	291,333
Net profit (loss) for the period	-	-	-	-	-	-	4,729	4,729	(2,202)	2,527
Changes on remeasurement of available for sale investments	-	-	-	4,211	-	4,211	-	4,211	(40)	4,171
Transfers for recognition of losses on disposal of available for sale investments	-	-	-	469	-	469	-	469	1	470
Total comprehensive income for the period	-	-	-	4,680	-	4,680	4,729	9,409	(2,241)	7,168
Transfer of net depreciation on revalued property	-	-	-	-	(114)	(114)	114	-	-	-
Balances at 30 June 2014	220,000	(14,793)	31,621	5,450	6,339	43,410	10,016	258,633	39,868	298,501

The accompanying notes 1 to 22 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

(In thousands of U.S. Dollars)

	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 2012	220,000	(14,793)	29,759	5,378	6,840	41,977	(11,955)	235,229	46,238	281,467
Net profit (loss) for the year	-	-	-	-	-	-	18,603	18,603	(3,730)	14,873
Changes on remeasurement of available for sale investments	-		-	(4,060)	-	(4,060)	-	(4,060)	(215)	(4,275)
Transfers for recognition of gains on disposal of available for sale investments	-	-	-	(548)	-	(548)	-	(548)	(184)	(732)
Total comprehensive income for the year	-	-	-	(4,608)	-	(4,608)	18,603	13,995	(4,129)	9,866
Transfer of net depreciation on revalued property	-	-	-	-	(387)	(387)	387	-	-	-
Transfer to non-distributable reserves	-	-	1,862	-	-	1,862	(1,862)	-	-	-
Balances at 31 December 2013	220,000	(14,793)	31,621	770	6,453	38,844	5,173	249,224	42,109	291,333
Parent Company balances at 31 December 2013	220,000	(14,793)	31,480	769	6,453	38,702	5,315	249,224	-	249,224

The accompanying notes 1 to 22 are an integral part of these consolidated financial statements..

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2013

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earning	Attributable to shareholders of parent company	Non-controlling interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2012	220,000	(14,793)	29,759	5,378	6,840	41,977	(11,955)	235,229	46,238	281,467
Net profit (loss) for the period	-	-	-	-	-	-	5,172	5,172	(39)	5,133
Changes on remeasurement of available for sale investments	-	-	-	(6,130)	-	(6,130)	-	(6,130)	(349)	(6,479)
Transfers for recognition of gain on disposal of available for sale investments	-	-	-	(341)	-	(341)	-	(341)	(99)	(440)
Total comprehensive income for the period	-	-	-	(6,471)	-	(6,471)	5,172	(1,299)	(487)	(1,786)
Transfer of net depreciation on revalued property	-	-	-	-	(193)	(193)	193	-	-	-
Balances at 30 June 2013	220,000	(14,793)	29,759	(1,093)	6,647	35,313	(6,590)	233,930	45,751	279,681

The accompanying notes 1 to 22 are an integral part of these consolidated interim condensed financial statements..

ARAB INSURANCE GROUP (B.S.C.)
CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 June 2014

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 June 2014 (reviewed)	For the financial year-to-date 30 June 2013 (reviewed)	For the year ended 31 December 2013 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums received		**143,787**	146,236	278,901
Reinsurance premiums paid		**(7,581)**	(5,151)	(9,662)
Claims and acquisition costs paid		**(132,918)**	(127,307)	(247,767)
Reinsurance receipts in respect of claims		**9,205**	10,195	15,278
Investment income		**350**	112	600
Interest received		**1,225**	2,747	4,352
Dividend received		**977**	811	1,188
Operating expenses paid		**(14,869)**	(15,808)	(25,288)
Other income/expenses, net		**2,899**	(4,610)	(636)
Insurance deposits received (paid), net		**2,320**	(3,549)	(919)
Purchase of trading investments		**(34,558)**	(29,659)	(43,099)
Sale of trading investments		**22,090**	23,246	44,088
Net cash (used in) provided by operating activities	18	(7,073)	(2,737)	17,036
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturity/sale of investments		**81,140**	69,966	112,928
Purchase of investments		**(98,305)**	(72,108)	(161,648)
Term deposit with bank		**(3,475)**	5,629	(32,988)
Interest received		**3,182**	3,300	5,779
Investment income		**162**	908	1,503
Collateralised cash deposits received (paid) ,net		**11,749**	(9,075)	(28,847)
Purchase of property and equipment		**(333)**	(197)	(928)
Purchase of intangible assets		**-**	(276)	(393)
Net cash used in investing activities		(5,880)	(1,853)	(104,594)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings		**10,000**	(20,000)	(20,000)
Interest on borrowings		**(57)**	(371)	(371)
Dividends paid		**(9)**	(31)	(43)
Net cash provided by (used in) financing activities		9,934	(20,402)	(20,414)
Net decrease in cash and cash equivalents		**(3,019)**	(24,992)	(107,972)
Effect of exchange rate on cash and cash equivalents		**(307)**	(183)	(19)
Effect of assets held for sale on cash and cash equivalents		**-**	-	(120)
Cash and cash equivalents, beginning of period		**124,085**	234,856	232,196
Cash and cash equivalents, end of period		120,759	209,681	124,085
Term deposit with bank		**152,620**	107,869	149,146
Cash and bank balances, end of period		**273,379**	317,550	273,231

The accompanying notes 1 to 22 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial information to be prepared in condensed form. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

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 accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2013 that were prepared in accordance with International Financial Reporting Standards (IFRS) except as described below. Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2014, including IAS 19 Employee benefits; IAS 32 – Financial Instruments: Presentation; IAS 36 – Impairment of Assets; IFRS 10 Consolidated Financial Statement; IFRS 12 Disclosure of Interests in Other Entities.

3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group registers approximately 67% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

4. INVESTMENTS

	US$ '000		
	30 June 2014	31 December 2013	30 June 2013
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**70,234**	53,934	54,584
	70,234	53,934	54,584
Designated at fair value on initial recognition			
Debt securities			
- Other investment grade	**24,771**	24,206	23,975
- Other	**25,066**	17,737	11,847
	49,837	41,943	35,822
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**22,984**	22,973	29,967
- Other investment grade	**13,014**	20,024	20,027
- Non OECD country government	**2,654**	2,663	2,655
- Other	**9,863**	9,850	2,469
	48,515	55,510	55,118
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**41,903**	32,694	22,990
- Other investment grade	**134,588**	118,796	81,332
- Non-OECD country governments	**-**	2,648	2,553
- Other	**37,465**	38,342	44,902
Common stock of unlisted companies	**7,858**	7,160	6,701
Other	**16,265**	15,542	16,198
	238,079	215,182	174,676
Investment in joint venture	**108**	119	112
Investment in associate	**-**	19	19
	406,773	366,707	320,331

Debt securities amounting to US$ 74.9 million (31 December 2013: US$ 73.7 million; 30 June 2013: US$ 70.2 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 15 million for borrowings (31 December 2013: Nil; 30 June 2013: Nil)

5. ACCRUED INCOME

	US$ '000		
	30 June 2014	31 December 2013	30 June 2013
Accrued insurance premiums	**148,037**	82,182	154,530
Accrued interest	**2,422**	2,300	2,497
	150,459	84,482	157,027

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 June 2014	31 December 2013	30 June 2013
General insurance business			
- Claims outstanding	**45,605**	45,420	46,876
- Unreported claims	**5,870**	8,388	9,885
- Deferred retrocession premium reserve	**20,170**	5,079	7,630
	71,645	58,887	64,391
Life insurance business			
- Claims outstanding	**178**	195	582
- Unreported claims	**1**	-	-
	179	195	582
	71,824	59,082	64,973

7. OTHER ASSETS

	US$ '000		
	30 June 2014	31 December 2013	30 June 2013
Intangible assets :			
- Computer software	**9,464**	11,336	11,221
	9,464	11,336	11,221
Less: Accumulated amortisation	**(8,502)**	(10,167)	(9,985)
Net intangible assets	**962**	1,169	1,236
Disposable group held for sale (Note 8)	**493**	543	-
Other assets:			
- Collateralised cash deposits	**33,604**	45,353	25,581
- Prepayments and other receivables	**10,180**	9,503	12,907
	44,277	55,399	38,488
	45,239	56,568	39,724

8. DISPOSAL GROUP HELD FOR SALE

In December 2013, management committed to a plan to sell 51% of its equity stake in ARIMA Insurance Solutions W.L.L. Accordingly, ARIMA is presented as a disposal group held for sale. Sale is expected to be completed during 2014. The arrangement was approved by the board of directors at the meeting held on 8 December 2013.

At 30 June 2014, the disposal group include:

	US$ '000	
	30 June 2014	31 December 2013
Assets of disposal group held for sale:		
- Cash	**177**	20
- Accounts receivables	**1,158**	757
- Fixed Assets	**3**	-
	1,338	777
Liabilities of disposal group held for sale:		
- Accrued expenses and other payables	**845**	234
	845	234

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

	US$ '000	
	30 June 2014	31 December 2013
Income	**953**	1,945
Expenses	**(1,003)**	(1,918)
	(50)	27

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

	US$ '000	
	30 June 2014	31 December 2013
Net cash provided by (used in) operating activities	**-**	(100)
	-	(100)

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

9. PROPERTY AND EQUIPMENT

	US$ '000		
	30 June 2014	31 December 2013	30 June 2013
Land	**1,340**	1,340	1,340
Building	**26,790**	26,741	26,279
Work in progress	**111**	50	-
Information systems, furniture, equipment and other	**10,063**	14,217	14,035
	38,304	42,348	41,654
Less: accumulated depreciation	**(11,037)**	(14,876)	(14,193)
	27,267	27,472	27,461

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in March 2012 by independent external valuers and classified as level 2 in the fair value measurement hierarchy as it has been valued using indicative transaction prices for similar payments and adjusted to reflect the characteristics of the property. Building also includes office premises of the subsidiary Takaful Re Limited in Dubai, U.A.E; US$ 19.1 million.

10. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 June 2014	31 December 2013	30 June 2013
General insurance business			
Claims outstanding	**336,622**	323,420	316,789
Unreported losses	**153,454**	156,667	162,669
Unearned premiums	**197,799**	117,642	186,588
	687,875	597,729	666,046
Life insurance business			
Claims outstanding	**17,817**	15,271	17,825
Unreported losses	**56,192**	58,828	63,085
Unearned premiums	**12,482**	6,820	10,721
	86,491	80,919	91,631
	774,366	678,648	757,677

11. OTHER LIABILITIES

	US$ '000		
	30 June 2014	31 December 2013	30 June 2013
Post employment benefits	**13,376**	14,058	13,306
Reinsurance premiums accrued	**8,619**	8,619	8,619
Dividends payable	**1,919**	1,928	2,106
Accrued expenses	**5,744**	7,245	4,212
Employee share scheme	**5,474**	3,440	2,761
Other	**7,066**	5,783	13,877
	42,198	41,073	44,881

12. SEGMENT INFORMATION - ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT

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

	US$ '000								
	Period ended 30 June 2014								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	50,504	24,817	15,160	17,575	93,336	17,806	15,907	1,710	236,815
Outward reinsurance premiums	(2,727)	(1,886)	(321)	(102)	(18,660)	(14)	(241)	-	(23,951)
Change in unearned premiums - gross	(13,623)	(3,347)	(3,272)	(7,528)	(66,036)	5,124	(4,763)	(907)	(94,352)
Change in unearned premiums - reinsurance	239	158	57	47	15,171	-	1	-	15,673
Net earned premiums	34,393	19,742	11,624	9,992	23,811	22,916	10,904	803	134,185
Investment income attributable to insurance funds	2,046	913	653	147	72	1,278	516	794	6,419
	36,439	20,655	12,277	10,139	23,883	24,194	11,420	1,597	140,604
COSTS AND EXPENSES :									
Gross claims paid	(31,467)	(11,210)	(6,203)	(3,369)	(14,496)	(13,737)	(6,726)	(1,836)	(89,044)
Claims recovered from reinsurers	2,090	189	146	56	4,201	119	153	-	6,954
Change in provision for outstanding claims - gross	1,476	(6,863)	1,806	(1,960)	595	(2,298)	(1,975)	(659)	(9,878)
Change in provision for outstanding claims - reinsurance	(162)	(87)	(251)	(99)	(1,620)	(48)	(22)	-	(2,289)
Change in provision for unreported losses - gross	3,159	3,170	308	(952)	2,843	(5,669)	614	2,036	5,509
Change in provision for unreported losses - reinsurance	(618)	469	(103)	(104)	(1,851)	127	(11)	(2)	(2,093)
Claims and related expenses	(25,522)	(14,332)	(4,297)	(6,428)	(10,328)	(21,506)	(7,967)	(461)	(90,841)
Policy acquisition costs	(14,668)	(7,568)	(5,111)	(5,665)	(10,168)	(3,016)	(166)	(74)	(46,436)
Policy acquisition costs recovered from reinsurers	277	195	99	44	-	(14)	(1)	-	600
Change in deferred policy acquisition costs - gross	3,061	937	1,248	2,335	840	(1,095)	196	66	7,588
Change in deferred policy acquisition costs - reinsurance	(72)	(58)	(23)	(20)	-	-	-	-	(173)
Policy acquisition costs	(11,402)	(6,494)	(3,787)	(3,306)	(9,328)	(4,125)	29	(8)	(38,421)
Operating expenses	(3,895)	(1,334)	(1,048)	(984)	(261)	(1,665)	(1,377)	(250)	(10,814)
Underwriting result	(4,380)	(1,505)	3,145	(579)	3,966	(3,102)	2,105	878	528

12. SEGMENT INFORMATION - ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT (CONTD.)

	US$ '000								
	Year ended 31 December 2013								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	77,319	34,351	19,075	19,846	54,867	31,510	24,616	404	261,988
Outward reinsurance premiums	(4,895)	(6,683)	4,937	778	(8,336)	(827)	(286)	(424)	(15,736)
Change in unearned premiums - gross	5,174	2,329	1,586	(153)	(13,476)	(4,182)	(1,071)	223	(9,570)
Change in unearned premiums - reinsurance	(18)	(111)	(86)	(33)	1,567	(270)	(19)	-	1,030
Net earned premiums	77,580	29,886	25,512	20,438	34,622	26,231	23,240	203	237,712
Investment income attributable to insurance funds	2,449	1,145	553	1,588	1,403	1,853	873	1,296	11,160
	80,029	31,031	26,065	22,026	36,025	28,084	24,113	1,499	248,872
COSTS AND EXPENSES :									
Gross claims paid	(61,567)	(19,204)	(16,657)	(9,442)	(4,839)	(29,583)	(15,368)	(6,865)	(163,525)
Claims recovered from reinsurers	11,084	1,198	(750)	710	(1,441)	2,234	191	-	13,226
Change in provision for outstanding claims - gross	(9,190)	(5,230)	699	(549)	(13,567)	3,853	466	(539)	(24,057)
Change in provision for outstanding claims - reinsurance	151	(500)	(230)	143	5,355	(375)	(378)	-	4,166
Change in provision for unreported losses - gross	2,188	5,595	5,398	(38)	(958)	7,875	(904)	7,380	26,536
Change in provision for unreported losses - reinsurance	(2,045)	688	(103)	(305)	(3,764)	(948)	32	(4)	(6,449)
Claims and related expenses	(59,379)	(17,453)	(11,643)	(9,481)	(19,214)	(16,944)	(15,961)	(28)	(150,103)
Policy acquisition costs	(21,940)	(11,628)	(5,184)	(6,252)	(12,479)	(3,897)	(2,270)	412	(63,238)
Policy acquisition costs recovered from reinsurers	(1,434)	(320)	(1,959)	575	4	(54)	307	-	(2,881)
Change in deferred policy acquisition costs - gross	(929)	(578)	(768)	147	354	1,002	(11)	(61)	(844)
Change in deferred policy acquisition costs - reinsurance	(1)	39	30	9	-	26	6	-	109
Policy acquisition costs	(24,304)	(12,487)	(7,881)	(5,521)	(12,121)	(2,923)	(1,968)	351	(66,854)
Operating expenses	(6,963)	(2,826)	(1,900)	(1,042)	(463)	(2,469)	(2,264)	(565)	(18,492)
Underwriting result	(10,617)	(1,735)	4,641	5,982	4,227	5,748	3,920	1,257	13,423

12. SEGMENT INFORMATION - ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT (CONTD.)

	US$ '000								
	Period ended 30 June 2013								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	60,932	26,703	17,154	15,634	54,082	33,007	14,935	1,806	224,253
Outward reinsurance premiums	(3,043)	(1,210)	177	(110)	(18,064)	(271)	(610)	6	(23,125)
Change in unearned premiums - gross	(16,942)	(4,863)	(5,194)	(6,384)	(39,644)	(20,613)	(3,640)	(1,113)	(98,393)
Change in unearned premiums - reinsurance	449	169	(9)	49	14,986	(195)	(19)	-	15,430
Net earned premiums	41,396	20,799	12,128	9,189	11,360	11,928	10,666	699	118,165
Investment income attributable to insurance funds	1,031	529	280	692	849	931	398	595	5,305
	42,427	21,328	12,408	9,881	12,209	12,859	11,064	1,294	123,470
COSTS AND EXPENSES :									
Gross claims paid	(36,553)	(12,383)	(9,978)	(4,812)	(5,074)	(12,502)	(5,113)	(2,920)	(89,335)
Claims recovered from reinsurers	5,054	598	26	417	1,337	395	154	-	7,981
Change in provision for outstanding claims - gross	(1,763)	1,753	(1,711)	351	(3,068)	345	(1,208)	(1,469)	(6,770)
Change in provision for outstanding claims - reinsurance	2	(564)	353	95	886	(152)	10	-	630
Change in provision for unreported losses - gross	2,544	(318)	4,302	116	2,511	4,598	(1,766)	3,810	15,797
Change in provision for unreported losses - reinsurance	(1,487)	152	(20)	(181)	(2,870)	(688)	203	(1)	(4,892)
Claims and related expenses	(32,203)	(10,762)	(7,028)	(4,014)	(6,278)	(8,004)	(7,720)	(580)	(76,589)
Policy acquisition costs	(18,964)	(9,867)	(5,131)	(5,009)	(5,408)	(1,145)	(879)	236	(46,167)
Policy acquisition costs recovered from reinsurers	455	317	(32)	76	-	(1)	156	-	971
Change in deferred policy acquisition costs – gross	6,543	2,282	1,612	1,943	1,129	620	151	(3)	14,277
Change in deferred policy acquisition costs - reinsurance	(256)	(105)	2	(32)	-	17	6	-	(368)
Policy acquisition costs	(12,222)	(7,373)	(3,549)	(3,022)	(4,279)	(509)	(566)	233	(31,287)
Operating expenses	(4,040)	(1,675)	(1,150)	(701)	(323)	(1,735)	(1,523)	(246)	(11,393)
Underwriting result	(6,038)	1,518	681	2,144	1,329	2,611	1,255	701	4,201

13. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 June 2014			Financial year-to-date 30 June 2013	Year ended 31 December 2013
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	285	160	445	621	909
- Others	2,177	2,026	4,203	4,928	9,222
Dividends	515	462	977	811	1,188
Realised gains (loss)					
- Trading investments	2,423	1,824	4,247	1,045	3,032
- Investment designated at fair value through profit or loss	(53)	(32)	(85)	46	(56)
- Available for sale	883	806	1,689	1,480	2,407
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	262	162	424	1,606	6,416
- Investments designated at fair value through profit or loss	267	161	428	(584)	(333)
Impairment loss - available for sale	-	-	-	(83)	(1,602)
Other	(340)	(257)	(597)	(489)	(760)
	6,419	5,312	11,731	9,381	20,423

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 June 2014			Financial year-to-date 30 June 2013	Year ended 31 December 2013
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	7,419	3,090	10,509	10,639	20,456
General and administration	3,395	1,114	4,509	4,172	8,478
	10,814	4,204	15,018	14,811	28,934

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 June 2014	Financial year-to-date 30 June 2013	Year ended 31 December 2013
Software sales and related services	**778**	564	1,945
Third party administration services	**1,618**	737	2,317
Other	**(157)**	884	625
	2,239	2,185	4,887

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 June 2014	Financial year-to-date 30 June 2013	Year ended 31 December 2013
Foreign exchange loss	**972**	626	941
Provision for doubtful receivable & deposits	**-**	-	30
Other	**319**	1,222	1,224
	1,291	1,848	2,195

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 June 2014	Financial year-to-date 30 June 2013	Year ended 31 December 2013
Weighted average number of shares outstanding	'000	**198,032**	198,032	198,032
Net profit	US$'000	**4,729**	5,172	18,603
Earnings per share	US$	**0.02**	0.03	0.09

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

	US$ '000		
	Financial year-to-date 30 June 2014	Financial year-to-date 30 June 2013	Year ended 31 December 2013
Profit for the period	**2,527**	5,133	14,873
Increase (Decrease) in insurance funds	**77,447**	(17,155)	6,220
Change in insurance receivable/ payable, net	**(1,083)**	1,667	(2,402)
Change in accrued insurance premiums	**(65,977)**	20,313	17,078
Change in other assets/liabilities, net	**(19,987)**	(12,695)	(18,733)
Net cash (used in) provided by operating activities	**(7,073)**	(2,737)	17,036

19. FAIR VALUE DISCLOSURE

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

	US$ '000						
	30 June 2014						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	273,379	-	-	-	273,379	273,379
Investments	120,071	-	48,515	238,079	-	406,665	407,339
Accrued income	-	748	148,671	1,040		150,459	150,459
Insurance receivables	-	105,678	-	-	-	105,678	105,678
Insurance deposits	-	44,351	-	-	-	44,351	44,351
Other assets	-	44,277	-	-	-	44,277	44,277
LIABILITIES							
Insurance payables	-	-	-	-	35,851	35,851	35,851
Borrowings	-	-	-	-	10,000	10,000	10,000
Other liabilities	-	-	-	-	36,454	36,454	36,454

	US$ '000						
	31 December 2013						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	273,231	-	-	-	273,231	273,231
Investments	95,877	-	55,510	215,182	-	366,569	367,631
Accrued income	-	421	82,908	1,153	-	84,482	84,482
Insurance receivables	-	114,332	-	-	-	114,332	114,332
Insurance deposits	-	46,538	-	-	-	46,538	46,538
Other assets	-	55,399	-	-	-	55,399	55,399
LIABILITIES							
Insurance payables	-	-	-	-	45,588	45,588	45,588
Other liabilities	-	-	-	-	33,828	33,828	33,828

19. FAIR VALUE DISCLOSURE (CONTD.)

	US$ '000						
	30 June 2013						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	317,550	-	-	-	317,550	317,550
Investments	90,407	-	55,118	174,675	-	320,200	321,596
Accrued income	-	430	155,482	1,115	-	157,027	157,027
Insurance receivables	-	121,106	-	-	-	121,106	121,106
Insurance deposits	-	49,168	-	-	-	49,168	49,168
Other assets	-	38,492	-	-	-	38,492	38,492
LIABILITIES							
Insurance payables	-	-	-	-	57,193	57,193	57,193
Other liabilities	-	-	-	-	40,669	40,669	40,669

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

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

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

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

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

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.

ii. Investments:

The Group 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.

19. FAIR VALUE DISCLOSURE (CONTD.)

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

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

	US$'000			
30 June 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**70,234**	**-**	**-**	**70,234**
Designated at fair value on initial recognition				
Debt Securities	**49,837**	**-**	**-**	**49,837**
Available for sale				
Debt securities	**213,956**	**-**	**-**	**213,956**
Common stock of unlisted companies	**-**	**1,515**	**6,343**	**7,858**
Other	**-**	**2,071**	**14,194**	**16,265**
	334,027	**3,586**	**20,537**	**358,150**

	US$'000			
31 December 2013	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	53,934	-	-	53,934
Designated at fair value on initial recognition				
Debt Securities	41,943	-	-	41,943
Available for sale				
Debt securities	192,480	-	-	192,480
Common stock of unlisted companies	-	1,514	5,646	7,160
Other	-	1,935	13,607	15,542
	288,357	3,449	19,253	311,059

19. FAIR VALUE DISCLOSURE (CONTD.)

30 June 2013	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	54,584	-	-	54,584
Designated at fair value on initial recognition				
Debt Securities	35,822	-	-	35,822
Available for sale				
Debt securities	151,777	-	-	151,777
Common stock of unlisted companies	-	1,530	5,171	6,701
Other	-	2,265	13,933	16,198
	242,183	3,795	19,104	265,082

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

30 June 2014	**US$ '000**		
	Unlisted equity	**Others**	**Total**
Balance at 1 January 2014	**5,646**	**13,607**	**19,253**
Gain (loss) recognised in:			
- Income statement	**-**	**3**	**3**
- other comprehensive income	**193**	**(424)**	**(231)**
Investments made during the period	**527**	**1,564**	**2,091**
Investments redeemed during the period	**(23)**	**(556)**	**(579)**
Balance at 30 June 2014	**6,343**	**14,194**	**20,537**

19. FAIR VALUE DISCLOSURE (CONTD.)

31 December 2013	US$ '000		
	Unlisted equity	Others	Total
Balance at 1 January 2013	5,087	15,536	20,623
Loss recognised in:			
- Income statement	(538)	(1,037)	(1,575)
- Other comprehensive income	(8)	(178)	(186)
Investments made during the year	1,231	1,274	2,505
Investments redeemed during the year	(126)	(1,988)	(2,114)
Balance at 31 December 2013	5,646	13,607	19,253

30 June 2013	US$ '000		
	Unlisted equity	Others	Total
Balance at 1 January 2013	5,087	15,536	20,623
Loss recognised in:			
- Income statement	-	(155)	(155)
- other comprehensive income	(416)	(672)	(1,088)
Investments made during the period	610	385	995
Investments redeemed during the period	(110)	(1,161)	(1,271)
Balance at 30 June 2013	5,171	13,933	19,104

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 unobservable 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 period ended June 30, 2014, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2013: nil; 30 June 2013: nil). 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.

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.

20. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

At 30 June 2014, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2013. The Company continues to hold 50% of the joint venture Hardy Arig Insurance Management W.L.L. which is incorporated in the Kingdom of Bahrain.The Group also holds 25% of the equity shares in Globemed Bahrain W.L.L., Bahrain.

21. RELATED PARTY TRANSACTIONS

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

The following is the summary of transactions with related parties:

i) **Subsidiary companies:**

	US$ '000		
	For the Financial year-to-date 30 June 2014	For the Financial year-to-date 30 June 2013	For the Year ended 31 December 2013
a) Gross premium retroceded by subsidiary to parent company	**63,638**	26,920	34,932
b) Service fees for administration services provided by parent company	**486**	2,482	4,889
c) Balances outstanding - Receivables	**37,133**	14,433	40,193
d) Software royalty fees	**-**	-	61

ii) **Joint Venture:**

	US$ '000		
	For the Financial year-to-date 30 June 2014	For the Financial year-to-date 30 June 2013	For the Year ended 31 December 2013
a) Service fees for administration services provided	**50**	59	123
b) Balances receivable	**436**	191	315

21. RELATED PARTY TRANSACTIONS (Contd.)

iii) Compensation to directors and key management personnel:

	US$ '000		
	Financial year-to-date 30 June 2014	Financial year-to-date 30 June 2013	Year ended 31 December 2013
a) Directors			
- Remuneration (attendance fee)	**64**	59	96
- Travel expense	**103**	55	116
b) Key management compensation			
- Salaries and other short-term employee benefits	**1,745**	1,324	2,144
- Post employment benefits	**155**	408	719
- Share-based compensation	**655**	224	463
c) Balances payable (net)			
Key management			
- Maximum balance	**7,090**	4,808	6,036
- Closing balance	**7,090**	4,808	6,036

22. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 8.9 million (31 December 2013: US$ 8.0 million; 30 June 2013: US$ 6.4 million).

APPENDIX

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS AT 30 JUNE 2014

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.

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 issues. Impairment recognised is not reversed subsequently except in case of debt instruments.

INVESTMENT IN JOINT VENTURES

Investments in joint ventures are accounted for using the equity method. Joint ventures are defined as interests in joint arrangements where the Group has a residual interest in the net assets of the joint arrangement.

INVESTMENT IN ASSOCIATED COMPANIES

Investments in associated companies are accounted for using the equity method. Associated companies are defined as those companies over which the Group is able to exercise significant influence, being the power to participate in the financial and operating policy decisions of the company, but not the power to control such policy decisions. Generally, these are companies in which the Group owns 20% to 50% of the voting shares.

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.

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 30-June-2014		
	Investments in U.A.E.	Investments outside U.A.E.	Total
a. Cash & bank balances	31,844	241,535	**273,379**
Total cash & bank balances	**31,844**	**241,535**	**273,379**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	6,735	63,499	**70,234**
	6,735	**63,499**	**70,234**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	24,771	**24,771**
- Other	2,004	23,062	**25,066**
	2,004	**47,833**	**49,837**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	22,984	**22,984**
- Other Investment grade	1,000	12,014	**13,014**
- Non-OECD country government	-	2,654	**2,654**
- Other	-	9,863	**9,863**
	1,000	**47,515**	**48,515**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	41,903	**41,903**
- Other Investment grade	28,324	106,263	**134,587**
- Non-OECD country governments	-	-	-
- Other	4,975	32,490	**37,465**
Common stock of listed companies	-	-	-
Common stock of unlisted companies	-	7,859	**7,859**
Other (see note)	1,428	14,837	**16,265**
	34,727	**203,352**	**238,079**
Investment in joint venture		108	**108**
Investment in associate	-	-	-
	-	**108**	**108**
Total Investments	**44,466**	**362,307**	**406,773**

Note: The Group does not have any direct investments in land or real estate. However, 'Other' includes investments in Real Estate funds amounting to US$ 1,419,000 (in U.A.E.: US$ 3,000).