Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the nine months ended 30 September 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

11 November 2014

Introduction

We have reviewed the accompanying 30 September 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 September 2014;
- the condensed consolidated income statements for the three-month and nine-month periods ended 30 September 2014;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2014;
- the condensed consolidated statement of changes in equity for the nine month period ended 30 September 2014;
- the condensed consolidated statement of cash flows for the nine month period ended 30 September 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 September 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 (MOIC), 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 SEPTEMBER 2014

(In thousands of U.S. Dollars)

	Note	30 September 2014 (reviewed)	31 December 2013 (audited)	30 September 2013 (reviewed)
ASSETS				
Cash and bank balances		**285,903**	273,231	316,620
Investments	4	**435,661**	366,707	331,782
Accrued income	5	**114,457**	84,482	141,877
Insurance receivables		**138,595**	114,332	125,027
Insurance deposits		**44,226**	46,538	43,997
Deferred policy acquisition costs		**34,019**	28,230	38,596
Reinsurers' share of technical provisions	6	**81,711**	59,082	61,269
Other assets	7	**12,477**	56,568	40,766
Property and equipment	8	**27,208**	27,472	27,372
		1,174,257	1,056,642	1,127,306
LIABILITIES				
Technical provisions	9	**764,168**	678,648	744,381
Insurance payables		**51,818**	45,588	51,875
Borrowings		**10,000**	-	-
Other liabilities	10	**45,345**	41,073	44,257
		871,331	765,309	840,513
EQUITY				
Attributable to shareholders of Parent Company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(14,793)
Reserves		**42,396**	38,844	36,938
Retained earning		**14,960**	5,173	968
		262,563	249,224	243,113
Non-controlling interests		**40,363**	42,109	43,680
		302,926	291,333	286,793
		1,174,257	1,056,642	1,127,306

These consolidated interim condensed financial statements were approved by the Board of Directors on 11 November 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 21 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 NINE MONTHS ENDED 30 SEPTEMBER 2014

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 September 2014 (reviewed)	For the three months ended 30 September 2013 (reviewed)	For the financial year-to-date 30 September 2014 (reviewed)	For the financial year-to-date 30 September 2013 (reviewed)	For the year ended 31 December 2013 (audited)
Gross premiums written		61,208	34,634	298,023	258,887	261,988
Net earned premiums		59,753	48,443	193,938	166,608	237,712
Claims and related expenses		(43,348)	(32,115)	(134,189)	(108,704)	(150,103)
Policy acquisition costs		(13,522)	(11,933)	(51,943)	(43,220)	(66,854)
Investment income attributable to insurance funds	12	3,613	2,908	10,032	8,213	11,160
Operating expenses	13	(5,649)	(5,466)	(16,463)	(16,859)	(18,492)
Underwriting result	11	847	1,837	1,375	6,038	13,423
Investment income attributable to shareholders' funds	12	3,967	2,621	9,279	6,697	9,263
Operating expenses -non underwriting activities	13	(781)	(1,582)	(4,985)	(5,000)	(10,442)
Borrowing cost		(39)	-	(96)	(63)	(63)
Other income	14	1,159	859	3,398	3,044	5,444
Other expenses and provisions	15	(3)	1,577	(1,294)	(271)	(2,752)
Profit for the period		5,150	5,312	7,677	10,445	14,873
Attributable to:						
Non-controlling interests		300	(2,149)	(1,902)	(2,188)	(3,730)
Shareholders of Parent Company		4,850	7,461	9,579	12,633	18,603
		5,150	5,312	7,677	10,445	14,873
Earnings per share attributable to shareholders (basic and diluted)	16 US$	0.02	0.04	0.05	0.06	0.09

Khalid J. Bin Kalban
Chairman

Khalid A. Al Bustani
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 21 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 NINE MONTHS ENDED 30 SEPTEMBER 2014

(In thousands of U.S. Dollars)

	For the three months ended 30 September 2014 (reviewed)	For the three months ended 30 September 2013 (reviewed)	For the financial year-to-date 30 September 2014 (reviewed)	For the financial year-to-date 30 September 2013 (reviewed)	For the year ended 31 December 2013 (audited)
Profit for the period	**5,150**	5,312	**7,677**	10,445	14,873
Other comprehensive income					
Items that will be reclassified to profit or loss:					
Changes on remeasurement of available for sale investments	**(430)**	1,457	**3,741**	(5,022)	(4,275)
Transfers for recognition of losses (gains) on disposal of available for sale investments	**(295)**	343	**175**	(97)	(732)
Other comprehensive income for the period	**(725)**	1,800	**3,916**	(5,119)	(5,007)
Total comprehensive income for the period	**4,425**	7,112	**11,593**	5,326	9,866
Attributable to:					
Non-controlling interests	**495**	(2,071)	**(1,746)**	(2,558)	(4,129)
Shareholders of Parent Company	**3,930**	9,183	**13,339**	7,884	13,995
	4,425	7,112	**11,593**	5,326	9,866

The accompanying notes 1 to 21 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 NINE MONTHS ENDED 30 SEPTEMBER 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	-	-	-	-	-	-	9,579	9,579	(1,902)	7,677
Changes on remeasurement of available for sale investments	-	-	-	3,596	-	3,596	-	3,596	145	3,741
Transfers for recognition of losses on disposal of available for sale investments	-	-	-	164	-	164	-	164	11	175
Total comprehensive income for the period	-	-	-	3,760	-	3,760	9,579	13,339	(1,746)	11,593
Transfer of net depreciation on revalued property	-	-	-	-	(167)	(167)	167	-	-	-
Transfer to non-distributable reserves	-	-	(41)	-	-	(41)	41	-	-	-
Balances at 30 September 2014	220,000	(14,793)	31,580	4,530	6,286	42,396	14,960	262,563	40,363	302,926

The accompanying notes 1 to 21 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 21 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 NINE MONTHS ENDED 30 SEPTEMBER 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 (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	-	-	-	-	-	-	12,633	12,633	(2,188)	10,445
Changes on remeasurement of available for sale investments	-	-	-	(4,749)	-	(4,749)	-	(4,749)	(273)	(5,022)
Transfers for recognition of gains on disposal of available for sale investment	-	-	-	-	-	-	-	-	(97)	(97)
Total comprehensive income for the period	-	-	-	(4,749)	-	(4,749)	12,633	7,884	(2,558)	5,326
Transfer of net depreciation on revalued property	-	-	-		(290)	(290)	290	-	-	-
Balances at 30 September 2013	220,000	(14,793)	29,759	629	6,550	36,938	968	243,113	43,680	286,793

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 NINE MONTHS ENDED 30 SEPTEMBER 2014

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2014 (reviewed)	For the financial year-to-date 30 September 2013 (reviewed)	For the year ended 31 December 2013 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Premiums received		**216,280**	202,195	278,901
Reinsurance premiums paid		**(20,611)**	(14,064)	(9,662)
Claims and acquisition costs paid		**(189,941)**	(179,830)	(247,767)
Reinsurance receipts in respect of claims		**18,229**	15,848	15,278
Investment income		**953**	1,214	600
Interest received		**1,773**	2,747	4,352
Dividend received		**1,074**	811	1,188
Operating expenses paid		**(19,034)**	(20,322)	(25,288)
Other income/expenses, net		**(362)**	(2,099)	(636)
Insurance deposits received (paid), net		**2,425**	1,622	(919)
Purchase of trading investments		**(43,997)**	(39,701)	(43,099)
Sale of trading investments		**27,286**	37,144	44,088
Net cash (used in) provided by operating activities	17	(5,925)	5,565	17,036
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturity/sale of investments		**151,075**	94,803	112,928
Purchase of investments		**(194,650)**	(107,590)	(161,648)
Term deposit with bank		**32,284**	1,748	(32,988)
Interest received		**4,843**	3,300	5,779
Dividend received		**6**	-	-
Investment income		**6,211**	2,600	1,503
Collateralised cash deposits received (paid) ,net		**41,861**	(8,930)	(28,847)
Purchase of property and equipment		**(392)**	(532)	(928)
Purchase of intangible assets		**(6)**	(365)	(393)
Investment in associate		**100**	-	-
Net cash provided by (used in) investing activities		41,332	(14,966)	(104,594)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings		**10,000**	(20,000)	(20,000)
Interest on borrowings		**(96)**	(371)	(371)
Dividends paid		**(11)**	(31)	(43)
Net cash provided by (used in) financing activities		9,893	(20,402)	(20,414)
Net increase (decrease) in cash and cash equivalents		45,300	(29,803)	(107,972)
Effect of exchange rate on cash and cash equivalents		**(343)**	(183)	(19)
Effect of assets held for sale on cash & cash equivalents		**-**	-	(120)
Cash and cash equivalents, beginning of period		**124,085**	232,196	232,196
Cash and cash equivalents, end of period		169,042	202,210	124,085
Term deposit with bank		116,861	114,410	149,146
Cash and bank balances, end of period		285,903	316,620	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 NINE MONTHS ENDED 30 SEPTEMBER 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 September 2014	31 December 2013	30 September 2013
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**74,830**	53,934	54,910
	74,830	53,934	54,910
Designated at fair value on initial recognition			
Debt securities			
- Other investment grade	**24,392**	24,206	24,434
- Other	**29,792**	17,737	12,284
	54,184	41,943	36,718
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**12,990**	22,973	22,968
- Other investment grade	**13,010**	20,024	20,029
- Non OECD country government	**2,654**	2,663	2,655
- Other	**9,869**	9,850	8,843
	38,523	55,510	54,495
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**59,557**	32,694	26,910
- Other investment grade	**130,176**	118,796	91,916
- Non-OECD country governments	**-**	2,648	2,567
- Other	**52,291**	38,342	40,889
Common stock of listed companies	**651**	-	-
Common stock of unlisted companies	**6,735**	7,160	6,904
Other	**18,259**	15,542	16,332
	267,669	215,182	185,518
Investment in joint venture	**81**	119	122
Investment in associate	**374**	19	19
	435,661	366,707	331,782

Debt securities amounting to US$ 94.5 million (31 December 2013: US$ 73.7 million; 30 September 2013: US$ 65 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 September 2013: Nil)

5. ACCRUED INCOME

	US$ '000		
	30 September 2014	31 December 2013	30 September 2013
Accrued insurance premiums	**112,067**	82,182	139,780
Accrued interest	**2,390**	2,300	2,097
	114,457	84,482	141,877

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 September 2014	31 December 2013	30 September 2013
General insurance business			
- Claims outstanding	**54,026**	45,420	46,570
- Unreported claims	**12,586**	8,388	8,864
- Deferred retrocession premium reserve	**14,459**	5,079	5,238
	81,071	58,887	60,672
Life insurance business			
- Claims outstanding	**174**	195	587
- Unreported claims	**456**	-	-
- Deterred retrocession premium reserve	**10**	-	10
	640	195	597
	81,711	59,082	61,269

7. OTHER ASSETS

	US$ '000		
	30 September 2014	31 December 2013	30 September 2013
Intangible assets :			
- Computer software	**9,492**	11,336	11,309
	9,492	11,336	11,309
Less: Accumulated amortisation	**(8,612)**	(10,167)	(10,075)
Net intangible assets	**880**	1,169	1,234
Disposable group held for sale	**-**	543	-
Receivable on sale of subsidiary	**150**	-	-
Other assets:			
- Collateralised cash deposits	**3,492**	45,353	25,437
- Prepayments and other receivables	**7,955**	9,503	14,095
	11,597	55,399	39,532
	12,477	56,568	40,766

8. PROPERTY AND EQUIPMENT

	US$ '000		
	30 September 2014	31 December 2013	30 September 2013
Land	**1,340**	1,340	1,340
Building	**26,790**	26,741	26,396
Work in progress	**54**	50	185
Information systems, furniture, equipment and other	**10,173**	14,217	14,030
	38,357	42,348	41,951
Less: accumulated depreciation	**(11,149)**	(14,876)	(14,579)
	27,208	27,472	27,372

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$ 19.6 million.

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 September 2014	31 December 2013	30 September 2013
General insurance business			
Claims outstanding	**342,632**	323,420	319,364
Unreported losses	**169,184**	156,667	160,289
Unearned premiums	**168,750**	117,642	177,607
	680,566	597,729	657,260
Life insurance business			
Claims outstanding	**16,887**	15,271	17,176
Unreported losses	**56,151**	58,828	59,678
Unearned premiums	**10,564**	6,820	10,267
	83,602	80,919	87,121
	764,168	678,648	744,381

10. OTHER LIABILITIES

	US$ '000		
	30 September 2014	31 December 2013	30 September 2013
Post-employment benefits	**13,188**	14,058	14,056
Reinsurance premiums accrued	**8,619**	8,619	8,619
Dividends payable	**1,917**	1,928	2,118
Accrued expenses	**6,112**	7,245	4,665
Employee share scheme	**6,027**	3,440	2,998
Other	**9,482**	5,783	11,801
	45,345	41,073	44,257

11. 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 September 2014								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	63,973	32,771	19,338	19,831	119,582	20,685	20,217	1,626	298,023
Outward reinsurance premiums	(2,803)	(2,345)	(634)	(96)	(53,157)	31	(187)	1	(59,190)
Change in unearned premiums - gross	(10,038)	(3,239)	(1,997)	(3,024)	(48,718)	4,203	(3,361)	(404)	(66,578)
Change in unearned premiums - reinsurance	212	276	239	8	20,938	-	10	-	21,683
Net earned premiums	51,344	27,463	16,946	16,719	38,645	24,919	16,679	1,223	193,938
Investment income attributable to insurance funds	3,204	1,429	1,019	230	107	1,995	808	1,240	10,032
	54,548	28,892	17,965	16,949	38,752	26,914	17,487	2,463	203,970
COSTS AND EXPENSES :									
Gross claims paid	(43,843)	(15,829)	(8,264)	(6,358)	(30,234)	(17,502)	(10,639)	(2,964)	(135,633)
Claims recovered from reinsurers	2,361	349	169	178	14,613	(224)	153	-	17,599
Change in provision for outstanding claims - gross	(705)	(4,797)	2,514	(2,709)	(2,801)	(2,564)	(1,604)	(264)	(12,930)
Change in provision for outstanding claims reinsurance	120	(186)	(350)	(90)	511	(61)	(22)	-	(78)
Change in provision for unreported losses - gross	2,587	775	(1,691)	(2,415)	2,372	(3,510)	(24)	2,715	809
Change in provision for unreported losses - reinsurance	(583)	443	(133)	(151)	(3,912)	393	(12)	(1)	(3,956)
Claims and related expenses	(40,063)	(19,245)	(7,755)	(11,545)	(19,451)	(23,468)	(12,148)	(514)	(134,189)
Policy acquisition costs	(17,249)	(10,030)	(6,381)	(7,319)	(16,022)	(477)	(309)	(83)	(57,870)
Policy acquisition costs recovered from reinsurers	291	314	170	43	-	(15)	(1)	-	802
Change in deferred policy acquisition costs - gross	2,030	1,101	801	2,016	379	(1,209)	228	50	5,396
Change in deferred policy acquisition costs - reinsurance	(80)	(109)	(78)	(4)	-	-	-	-	(271)
Policy acquisition costs	(15,008)	(8,724)	(5,488)	(5,264)	(15,643)	(1,701)	(82)	(33)	(51,943)
Operating expenses	(5,745)	(2,152)	(1,615)	(1,451)	(423)	(2,582)	(2,103)	(392)	(16,463)
Underwriting result	(6,268)	(1,229)	3,107	(1,311)	3,235	(837)	3,154	1,524	1,375

11. 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

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

	US$ '000								
	Period ended 30 September 2013								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	71,002	31,702	18,771	18,550	64,170	33,842	20,301	549	258,887
Outward reinsurance premiums	(4,560)	(1,721)	217	(154)	(11,725)	(363)	(840)	6	(19,140)
Change in unearned premiums - gross	(9,747)	(4,566)	(3,241)	(4,613)	(35,446)	(15,980)	(3,772)	(523)	(77,888)
Change in unearned premiums - reinsurance	175	28	(59)	(4)	4,880	(262)	(9)	-	4,749
Net earned premiums	56,870	25,443	15,688	13,779	21,879	17,237	15,680	32	166,608
Investment income attributable to insurance funds	2,395	1,127	861	85	218	1,831	650	1,046	8,213
	59,265	26,570	16,549	13,864	22,097	19,068	16,330	1,078	174,821
COSTS AND EXPENSES :									
Gross claims paid	(46,344)	(14,946)	(12,686)	(6,466)	(12,312)	(19,596)	(10,972)	(3,983)	(127,305)
Claims recovered from reinsurers	8,511	754	172	588	2,984	472	155	-	13,636
Change in provision for outstanding claims - gross	(6,207)	(1,000)	(542)	(243)	(916)	141	(1,063)	(979)	(10,809)
Change in provision for outstanding claims - reinsurance	31	(532)	277	101	430	(198)	15	-	124
Change in provision for unreported losses - gross	55	3,529	4,814	(389)	1,108	6,399	466	5,090	21,072
Change in provision for unreported losses - reinsurance	(1,765)	658	(192)	(256)	(3,541)	(424)	101	(3)	(5,422)
Claims and related expenses	(45,719)	(11,537)	(8,157)	(6,665)	(12,247)	(13,206)	(11,298)	125	(108,704)
Policy acquisition costs	(22,083)	(10,498)	(5,544)	(6,079)	(8,716)	(1,188)	(1,383)	260	(55,231)
Policy acquisition costs recovered from reinsurers	407	264	(39)	609	-	65	310	-	1,616
Change in deferred policy acquisition costs - gross	5,061	1,730	922	1,528	913	271	85	(16)	10,494
Change in deferred policy acquisition costs - reinsurance	(118)	(25)	21	(5)	-	22	6	-	(99)
Policy acquisition costs	(16,733)	(8,529)	(4,640)	(3,947)	(7,803)	(830)	(982)	244	(43,220)
Operating expenses	(6,132)	(2,601)	(1,758)	(913)	(389)	(2,443)	(2,163)	(460)	(16,859)
Underwriting result	(9,319)	3,903	1,994	2,339	1,658	2,589	1,887	987	6,038

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 September 2014			Financial year-to-date 30 September 2013	Year ended 31 December 2013
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	389	227	616	779	909
- Others	3,264	3,026	6,290	7,130	9,222
Dividends	665	611	1,276	1,069	1,188
Realised gains (loss)					
- Trading investments	3,295	2,484	5,779	2,471	3,032
- Investment designated at fair value through profit or loss	116	73	189	71	(56)
- Available for sale	2,257	2,067	4,324	1,505	2,407
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	698	1,614	2,312	3,637	6,416
- Investments designated at fair value through profit or loss	(42)	(66)	(108)	(462)	(333)
Impairment loss - available for sale	(149)	(409)	(558)	(710)	(1,602)
Other	(461)	(348)	(809)	(580)	(760)
	10,032	9,279	19,311	14,910	20,423

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 September 2014			Financial year-to-date 30 September 2013	Year ended 31 December 2013
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	11,582	3,579	15,161	15,905	20,456
General and administration	4,881	1,406	6,287	5,954	8,478
	16,463	4,985	21,448	21,859	28,934

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 September 2014	Financial year-to-date 30 September 2013	Year ended 31 December 2013
Third party administration services	**2,383**	1,360	2,317
Software sales and related services	**778**	996	1,945
Other	**237**	688	1,182
	3,398	3,044	5,444

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 September 2014	Financial year-to-date 30 September 2013	Year ended 31 December 2013
Foreign exchange loss (gain)	**359**	(1,223)	941
Provision for doubtful receivable & deposits	**-**	-	30
Other	**935**	1,494	1,781
	1,294	271	2,752

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 September 2014	Financial year-to-date 30 September 2013	Year ended 31 December 2013
Weighted average number of shares outstanding	'000	**198,032**	198,032	198,032
Net profit	US$'000	**9,579**	12,633	18,603
Earnings per share	US$	**0.05**	0.06	0.09

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

	US$ '000		
	Financial year-to-date 30 September 2014	Financial year-to-date 30 September 2013	Year ended 31 December 2013
Profit for the period	**7,677**	10,445	14,873
Increase in insurance funds	**59,414**	61,941	6,220
Change in insurance receivable/ payable, net	**(18,033)**	(6,810)	(2,402)
Change in accrued insurance premiums	**(29,975)**	(40,317)	17,078
Change in other assets/liabilities, net	**(25,008)**	(19,694)	(18,733)
Net cash (used in) provided by operating activities	**(5,925)**	5,565	17,036

18. FAIR VALUE DISCLOSURE

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

	US$ '000						
	30 September 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	-	285,903	-	-	-	285,903	285,903
Investments	129,014	-	38,523	267,670	-	435,207	435,977
Accrued income	-	874	112,562	1,021	-	114,457	114,457
Insurance receivables	-	138,595	-	-	-	138,595	138,595
Insurance deposits	-	44,226	-	-	-	44,226	44,226
Other assets	-	11,596	-	-	-	11,596	11,596
LIABILITIES							
Insurance payables	-	-	-	-	51,818	51,818	51,818
Borrowings	-	-	-	-	10,000	10,000	10,000
Other liabilities	-	-	-	-	39,232	39,232	39,232

	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

18. FAIR VALUE DISCLOSURE (CONTD.)

	US$ '000						
	30 September 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	-	316,620	-	-	-	316,620	316,620
Investments	91,628	-	54,495	185,518	-	331,641	332,901
Accrued income	-	414	140,486	977	-	141,877	141,877
Insurance receivables	-	125,027	-	-	-	125,027	125,027
Insurance deposits	-	43,997	-	-	-	43,997	43,997
Other assets	-	39,532	-	-	-	39,532	39,532
LIABILITIES							
Insurance payables	-	-	-	-	51,875	51,875	51,875
Other liabilities	-	-	-	-	39,592	39,592	39,592

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.

18. 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 September 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**74,830**	**-**	**-**	**74,830**
Designated at fair value on initial recognition				
Debt Securities	**54,184**	**-**	**-**	**54,184**
Available for sale				
Debt securities	**242,024**	**-**	**-**	**242,024**
Common stock of listed companies	**651**	**-**	**-**	**651**
Common stock of unlisted companies	**-**	**159**	**6,576**	**6,735**
Other	**-**	**2,009**	**16,250**	**18,259**
	371,689	**2,168**	**22,826**	**396,683**

	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

18. FAIR VALUE DISCLOSURE (CONTD.)

30 September 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	54,910	-	-	54,910
Designated at fair value on initial recognition				
Debt Securities	36,718	-	-	36,718
Available for sale				
Debt securities	162,282	-	-	162,282
Common stock of unlisted companies	-	1,733	5,171	6,904
Other	-	2,399	13,933	16,332
	253,910	4,132	19,104	277,146

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

30 September 2014	**US$ '000**		
	Unlisted equity	**Others**	**Total**
Balance at 1 January 2014	**5,646**	**13,607**	**19,253**
Gain (loss) recognised in:			
- Income statement	**-**	**(214)**	**(214)**
- other comprehensive income	**179**	**(16)**	**163**
Investments made during the period	**774**	**3,664**	**4,438**
Investments redeemed during the period	**(23)**	**(791)**	**(814)**
Balance at 30 September 2014	**6,576**	**16,250**	**22,826**

18. 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

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

30 September 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 September 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 September 30, 2014, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2013: nil; 30 September 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.

19. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

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

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

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

20. 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 September 2014	For the Financial year-to-date 30 September 2013	For the Year ended 31 December 2013
a) Gross premium retroceded by subsidiary to parent company	**55,884**	40,330	34,932
b) Service fees for administration services provided by parent company	**731**	3,341	4,889
c) Balances outstanding - Receivables	**56,157**	15,097	40,193
d) Software royalty fees	**-**	-	61

ii) **Joint Venture:**

	US$ '000		
	For the Financial year-to-date 30 September 2014	For the Financial year-to-date 30 September 2013	For the Year ended 31 December 2013
a) Service fees for administration services provided	**54**	84	123
b) Balances receivable	**460**	239	315

20. RELATED PARTY TRANSACTIONS (Contd.)

iii) Compensation to directors and key management personnel:

	US$ '000		
	Financial year-to-date 30 September 2014	Financial year-to-date 30 September 2013	Year ended 31 December 2013
a) Directors			
- Remuneration (attendance fee)	**81**	71	96
- Travel expense	**111**	85	116
b) Key management compensation			
- Salaries and other short-term employee benefits	**2,158**	1,732	2,144
- Post employment benefits	**234**	575	719
- Share-based compensation	**885**	466	463
c) Balances payable (net)			
Key management			
- Maximum balance	**7,398**	5,737	6,036
- Closing balance	**7,398**	5,737	6,036

21. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 7.6 million (31 December 2013: US$ 8.0 million; 30 September 2013: US$ 7.0 million).

APPENDIX

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS AT 30 SEPTEMBER 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

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 30-September-2014		
	Investments in U.A.E.	Investments outside U.A.E.	Total
a. Cash & bank balances	42,281	243,622	**285,903**
Total cash & bank balances	**42,281**	**243,622**	**285,903**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	10,122	64,708	**74,830**
	10,122	**64,708**	**74,830**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	24,392	**24,392**
- Other	2,006	27,786	**29,792**
	2,006	**52,178**	**54,184**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	12,990	**12,990**
- Other Investment grade	1,000	12,010	**13,010**
- Non-OECD country government	-	2,654	**2,654**
- Other	-	9,869	**9,869**
	1,000	**37,523**	**38,523**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	59,557	**59,557**
- Other Investment grade	12,009	118,167	**130,176**
- Non-OECD country governments	-	-	**-**
- Other	7,411	44,880	**52,291**
Common stock of listed companies	-	651	**651**
Common stock of unlisted companies	-	6,735	**6,735**
Other (see note)	1,485	16,774	**18,259**
	20,905	**246,764**	**267,669**
Investment in joint venture	-	81	**81**
Investment in associates	-	374	**374**
	-	**455**	**455**
Total Investments	**34,033**	**401,628**	**435,661**

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$ 1,354,801 (in U.A.E.: US$ 3,000).