# Arab Insurance Group (B.S.C.)

## Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2015

# Arab Insurance Group (B.S.C.)

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## REPORT OF THE BOARD OF DIRECTORS

**Dear Shareholders,**

The Directors of the Arab insurance Group (B.S.C.) (Arig) are pleased to present the Company's 35th Annual Report and Consolidated Financial Statements for the 2015 Financial Year.

### Group Performance

Market conditions for reinsurers remained challenging over the reporting period as surplus capital continued to keep rates and conditions under pressure. In addition, lower investment returns contributed to a decline in the overall result for the financial year 2015, as Arig sustained a net loss of US$ 4.4 million (2014: a profit of US$ 15.6 million).

The Group generated a profit of US$ 0.8 million from its underwriting activities (2014: US$ 6.0 million). Arig and its Corporate Member at Lloyd's contributed gains of US$ 2.1 million whereas Takaful Re produced a loss of US$ 1.3 million for Arig's share. Investment returns were down 30% compared with the previous year at US$ 14.3 million (2014: US$ 20.5 million) as the world economy continued to slow down, particularly in Arig's Emerging Markets.

Arig's Gross written premiums decreased to US$ 220.4 million over the year (2014: US$ 315.3 million), caused by shifts in Arig's Lloyd's portfolio, voluntary cutbacks and the influence of exchange rate developments. At the same time, a series of mid-size losses and the reduced premium pool resulted in pushing the Group's combined ratio up to 106.6% (2014: 101.7%).

### The Market

The 2015 calendar year went out with a bang and in many ways this was symptomatic of the state of our markets, perhaps even the global economy at large. While millions of spectators around the globe watched 9 tons of fireworks being turned into a dazzling display of pyrotechnics, next door the house was on fire - literally. The blaze at the nearby luxury hotel was serious, but not serious enough to stop the big show. It will leave reinsurers with a sizeable dent in their results and yet not change the market by one iota. Not even the massive explosion at the port of Tianjin has prompted a noticeable reaction though it left local insurers and their reinsurers with a bill of anywhere between US$ 1.6 to US$ 3.3 billion in its wake. It is safe to assume that the market hardly reacts to bad news any longer. Awash with capital, cycles that once used to reflect the volatile balance between supply and demand seem to have disappeared altogether.

Cycles used to offer underwriters the chance to recover in hard markets what they may have lost when competition made them accept risks below cost. This option is no longer there. Prices are at a permanent low and the industry needs to adjust. Gone are the days of double-digit returns. According to the Willis Reinsurance Index for the first half of 2015, underlying ROEs of reinsurers within the index were at 5.1% only after adjusting for reserve releases and abnormally low catastrophe losses. And while capital continues to flow into an already satiated market, operators are in limbo over how they can satisfy investors without exposing them to greater financial risk, which is equally common to the sector.

Meanwhile, it is all about efficiencies: capital, operations, risk management and even distribution are under the microscope. It is therefore not surprising that economic scale is seen as one possible response. 2015 has seen the highest number of mergers & acquisitions (M&A) in recent years. According to Capital IQ, the global insurance sector M&A deal volume in 2015 totalled US$ 89 billion with 770 deals, compared to just US$ 31 billion in 2014. What is driving shareholders to such big investments in a market that is viewed as 'negative' by all of the big four rating agencies? Is it really worth-while to create large entities when the whole sector is struggling with achieving satisfactory returns? As so often, it all depends. Simply buying volume is usually not a good idea. But if, through an acquisition or merger, the new entity would increase its global reach, diversification, product depth and expertise, it could all start to come together. Add to it increased operational efficiencies and better use of capital, and it all starts coming together.

Typically these newer entities are multi-disciplinary and multi-regional, if not global. Increasingly, the lines between insurance and reinsurance are becoming blurred. We are witnessing regional powerhouses investing into Lloyd's and global players pushing into areas they previously considered uneconomical. Not all may be based on Dollars and sense and often seems to display the desperate search for premiums lost. That helps explain the success of insurance and reinsurance hubs in Dubai, Singapore or Shanghai, even if many continue to struggle with turning their regional investments into profit earning operations. Efficiencies need scale, and scale requires volume so the hunt for premiums continues as long as capital is cheap and large catastrophe losses remain absent.

That was the situation in 2015. Global insured losses were down by an estimated 48% from their 10-year average[1] - the fourth year of decline after record-breaking catastrophe losses in 2011. The downward trend generated more interest from alternative capital providers who are estimated to have funded US$ 68 billion of convergence capital in the form of catastrophe bonds, ILWs, sidecars or collateralised reinsurance[2] - 13% more than in the previous year. Most of the alternative capital has come from Pension Funds that take a long-term view on sectors uncorrelated to equity, interest rates or credit risk. On the receiving end, this new capital needs to be engaged, which is one of the reasons why pricing has continued to remain under pressure throughout the year.

According to global broker Willis, Property rates have declined from anywhere between -3% to -15% over the past twelve months[3]. Only loss hit areas managed to stem the tide for a limited period. Much like in the global economy at large, versatile, enterprising and customer focused companies vie to lead ahead. "As reinsurance providers continue to evaluate how to compete in a market flush with capacity, an environment of innovation, responsiveness and customisation has become the norm", as a senior executive at global broking firm Guy Carpenter puts it. But this strategy requires shareholders commitment to fund changes at the company level while the market is not helping. This could well develop into a watershed, especially for smaller operators.

Meanwhile, Emerging Markets are finding themselves in the midst of an economic crisis, especially if they have been reliant on a monoculture of natural resources. Efforts to raise demand through cheap money have run out of steam, yet are difficult to roll back as governments are trying to manage rising debt. The price of oil has plummeted to its lowest level since 13 years just before Iran, one of the largest oil producers in the world, is about to re-enter into the market. Producing countries look unprepared and unable to replace their previous income streams with alternative revenues. Past surplus has mainly gone into infrastructure investments, a few artificially nurtured industries and private consumption. Yet it has largely failed to create industries that are sustainable without the subsidies from oil revenues. The GCC in particular is expected to witness a sea change of budget cuts, the onset of a tax regime and lower spending in general. While the public sector is likely to remain the largest employer and unemployment among the youth may increase, not all is bad, especially as we are seeing a gradual shift of government services into the private sector. The creation of a fully funded social network along with the development of publically traded fixed income instruments is ushering in a new era that may eventually create more jobs, offer new choices for investors and possibly even replace the public sector as the employer of choice. This would offer a huge opportunity not only to our industry sector, but to the regional economies and populations at large.

**Arig's Position**

Two large earthquakes in Nepal, the fire at the Address Hotel in Dubai on New Year's Eve and mid-size losses from the Far East completely consumed our 2015 treaty returns. The facultative book fared better and so did our business at Lloyd's while Life reinsurance continued with its previous year's strong performance. In total the Group generated US$ 13.2 million of technical returns (2014: US$ 16.1 million), down 18% year-on-year.

Gross written premiums were down by 30% for the year 2015, which marked the end of a sizeable fronting agreement with a Lloyd's syndicate, generally lower premiums from the Lloyd's market and other clients, and the softening of a number of key market currencies against the US Dollar.

1 Source: Aon Analytics
2 Source: Aon Analytics
3 Willis 1st View, January 2016

Our company largely follows the regional markets in terms of product scope, coverage and terms. Equally, Arig is subject to the market conditions our clients and competitors are faced with. We have been managing our fortunes in a buyers' market over the last ten years and it seems there is no end in sight. In fact, if we follow the premonition that market cycles may be a thing of the past, we need to find alternative ways to manage our company profitably in this challenging environment.

For the most part, Arig has done just that but as operating conditions keep changing, we need to keep pace and adapt. Internal cost is usually a good place to start. When margins are under pressure, wasting resources is not an option. In 2011, the company started streamlining operations and today we are happy to say that our expense level is now back to where it was back in 2007. Headcount has since been reduced by 40%. Today, Arig is a lean organisation yet we are mindful that the most valuable resource we hold is our human capital. It is the most difficult to replace in a knowledge based industry such as reinsurance.

In addition, we are addressing Group efficiencies by withdrawing from activities that are no longer adding value to shareholders. In 2015, we took stock of our overseas network and that has led to a number of actions. Ten years after the Group's pioneering start into Islamic reinsurance, we recognised that the Re-Takaful market has failed to deliver on its promise. While premiums grew, profits did not follow. Only a small number of operators are able to pay back surplus to their participants. In order to protect our capital from further loss, Takaful Re, in which Arig has a 54% shareholding, has since stopped accepting new business. Equally, though for different reasons, we are closing our Branch Offices in Singapore and Labuan. Low returns, increasing protectionism in the region and the high operational expenses were negatively affecting our bottom line. Judging from past experience, we are confident that the above measures have the potential of lifting our ROE.

**Outlook**

There is no hiding of the fact that low oil prices, rising interest rates, a strong Dollar and concerns over Emerging Market economies have precipitated global economic outlook. For oil exporting countries, the hit has been particularly hard when governments saw previous surplus replaced by gaping budget holes. For their societies, the shock may even prove to be greater as free benefits are superseded by the outlook of new taxes and rising unemployment while investments are stalling. More economic and socio-political reforms may be expected in regions that are already struggling with stability.

In the GCC, the impact will be moderated by considerable cash reserves. Yet even the largest sovereign funds will quickly deplete, if spending is not adjusted. Already we are noticing that projects are deferred, subsidies cut and consumption is affected. As the new reality sets in, economic fortunes will increasingly favour those capable of employing creativity and innovation to run a sustainable business in a difficult environment.

This is equally true for the insurance industry in the region, which has largely been relying on ceding commissions and returns from risky asset classes. But when regulators in Saudi Arabia, for example, took a greater interest asking for late reserving, profits started to decline. We expect this trend to continue as the UAE looks poised to place local insurers under a tighter regulatory regime, particularly in the critical Medical and Motor lines. Whether this would eventually put some companies out of business remains to be seen. But there is hope that the insurance sector would eventually progress from trading risk to actively underwriting it – which should equally benefit reinsurers.

Premium outlook for the Middle East insurance industry in the short term is forecasted at 'modest growth or stagnation[4]' while we continue to develop alternative income streams. Automatic treaty facilities with our clients have shown diminishing returns; hence, we have increased our appetite for individually underwritten accounts. Arig plans to have a physical presence in the Dubai International Financial Center (DIFC) in 2016. At the same time, the company has renewed its interest of bringing selected Lloyd's products into our home markets and beyond. Through coverholder agreements with individual Lloyd's syndicates in the London market, we intend to deliver leading market know how and Lloyd's 'A'- rated security to our customers' doorstep. Moreover, we have signed new agreements that will increase our involvement in the Lloyd's market while adding global reach, new products and further diversification to our portfolio.

[4] Finance Forward Middle East Insurance Outlook Report 2016

Arig views Personal Lines as a major area of future development. We believe that the private sector will need to become increasingly engaged when governments find they can no longer afford the giveaways their people have been enjoying. Medical, old age, disability, education and changing consumer behaviour are just few of the future areas where insurers need to start building in-house expertise. Arig is ready to assist them with its formidable team of underwriters that is already working on customised solutions. Rather than relying on commonplace products becoming subject to ruinous competition, we believe our sector should offer more to customers. We are convinced that the key to a successful future will not simply be tied to premium volume, but the ability to develop our markets' potential that has yet to be fully explored.

2016 may look like a very challenging year, but it also gives rise to many new opportunities.

**Acknowledgements**

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

On behalf of the Board of Directors



Khalid Jassim Bin Kalban
Chairman
10 February 2016

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**
**Arab Insurance Group (B.S.C.)**
Kingdom of Bahrain

**Report on the consolidated financial statements**
We have audited the accompanying consolidated financial statements of Arab Insurance Group B.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

*Auditors' responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

KPMG

KPMG Fakhro
Partner Registration No. 187
10 February 2016



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 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

(In thousands of U.S. Dollars)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balances | 5 | 198,769 | 187,144 |
| Investments | 6 | 545,459 | 525,998 |
| Accrued income | 8 | 71,322 | 88,023 |
| Insurance receivables | 9 | 116,022 | 119,012 |
| Insurance deposits | 10 | 37,017 | 42,578 |
| Deferred policy acquisition costs | | 20,400 | 24,452 |
| Reinsurers' share of technical provisions | 11 | 65,850 | 72,048 |
| Other assets | 12 | 21,987 | 17,596 |
| Property and equipment | 13 | 22,236 | 27,462 |
| | | 1,099,062 | 1,104,313 |
| **LIABILITIES** | | | |
| Technical provisions | 14 | 679,543 | 707,631 |
| Insurance payables | 17 | 44,606 | 41,768 |
| Borrowings | 18 | 44,000 | 10,000 |
| Other liabilities | 19 | 51,933 | 42,503 |
| | | 820,082 | 801,902 |
| **EQUITY** | | | |
| **Attributable to shareholders of parent company** | 20 | | |
| Share capital | | 220,000 | 220,000 |
| Treasury stock | | (14,793) | (14,793) |
| Reserves | | 33,750 | 39,857 |
| Retained earnings | | 5,291 | 19,485 |
| | | 244,248 | 264,549 |
| **Non-controlling interests** | 21 | 34,732 | 37,862 |
| | | 278,980 | 302,411 |
| | | 1,099,062 | 1,104,313 |

These consolidated financial statements were approved by the Board of Directors on 10 February 2016 and signed on its behalf by:

Khalid J. Bin Kalban
Chairman

Dr. Fouad A A Alfalah
Director

Yassir Albaharna
Chief Executive Officer

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

# ARAB INSURANCE GROUP (B.S.C.)

## CONSOLIDATED STATEMENT OF INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2015

(In thousands of U.S. Dollars)

| | Note | | 2015 | 2014 |
|---|---|---|---|---|
| Gross premiums written | | | **220,442** | 315,300 |
| Net earned premiums | | | **219,924** | 256,433 |
| Claims and related expenses | | | **(148,259)** | (171,399) |
| Policy acquisition costs | | | **(58,422)** | (68,956) |
| Investment income attributable to insurance funds | 23 | | **8,542** | 11,745 |
| Operating expenses | 24 | | **(21,012)** | (21,823) |
| **Underwriting result** | 22 | | **773** | 6,000 |
| Investment income attributable to shareholders' funds | 23 | | **5,752** | 8,754 |
| Operating expenses – non underwriting activities | 24 | | **(7,544)** | (6,866) |
| Borrowing cost | | | **(416)** | (135) |
| Other income | 25 | | **5,945** | 5,376 |
| Other expenses and provisions | 26 | | **(12,134)** | (1,683) |
| **(Loss) profit for the year** | | | **(7,624)** | 11,446 |
| **Attributable to:** | | | | |
| Non-controlling interests | | | **(3,203)** | (4,169) |
| Shareholders of parent company | | | **(4,421)** | 15,615 |
| | | | **(7,624)** | 11,446 |
| **Earnings per share attributable to shareholders (basic and diluted):** | 27 | US$ | **(0.02)** | 0.08 |

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

## ARAB INSURANCE GROUP (B.S.C.)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(In thousands of U.S. Dollars)

| | 2015 | 2014 |
|---|---|---|
| (Loss) profit for the year | **(7,624)** | 11,446 |
| **Other comprehensive income** | | |
| **Items that will be reclassified to profit or loss:** | | |
| Changes on remeasurement of available for sale investments | **(6,382)** | (451) |
| Transfers for recognition of losses on disposal of available for sale investments | **477** | 386 |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Revaluation of property | **-** | (303) |
| **Other comprehensive income** | **(5,905)** | (368) |
| **Total comprehensive income** | **(13,529)** | 11,078 |
| **Attributable to:** | | |
| Non-controlling interests | **(3,130)** | (4,247) |
| Shareholders of parent company | **(10,399)** | 15,325 |
| | **(13,529)** | 11,078 |

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

# ARAB INSURANCE GROUP (B.S.C.)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015

(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 2014** | 220,000 | (14,793) | 33,144 | 783 | 5,930 | 39,857 | 19,485 | 264,549 | 37,862 | 302,411 |
| Net loss for the year | - | - | - | - | - | - | (4,421) | (4,421) | (3,203) | (7,624) |
| Changes on remeasurement of available for sale investments | - | - | - | (6,311) | - | (6,311) | - | (6,311) | (71) | (6,382) |
| Transfers for recognition of losses on disposal of available for sale investments | - | - | - | 333 | - | 333 | - | 333 | 144 | 477 |
| **Total comprehensive income for the year** | - | - | - | (5,978) | - | (5,978) | (4,421) | (10,399) | (3,130) | (13,529) |
| Dividend paid | - | - | - | - | - | - | (9,902) | (9,902) | - | (9,902) |
| Transfer of net depreciation on revalued property | - | - | - | - | (185) | (185) | 185 | - | - | - |
| Transfer to (from) non-distributable reserves | - | - | 56 | - | - | 56 | (56) | - | - | - |
| **Balances at 31 December 2015** | 220,000 | (14,793) | 33,200 | (5,195) | 5,745 | 33,750 | 5,291 | 244,248 | 34,732 | 278,980 |
| **Parent company balances at 31 December 2015** | 220,000 | (14,793) | 33,041 | (5,190) | 5,745 | 33,596 | 5,445 | 244,248 | - | 244,248 |

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

# ARAB INSURANCE GROUP (B.S.C.)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 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 year | - | - | - | - | - | - | 15,615 | 15,615 | (4,169) | 11,446 |
| Changes on remeasurement of available for sale investments | - | - | - | (393) | - | (393) | - | (393) | (58) | (451) |
| Transfers for recognition of losses (gains) on disposal of available for sale investments | - | - | - | 406 | - | 406 | - | 406 | (20) | 386 |
| Revaluation of property | - | - | - | - | (303) | (303) | - | (303) | - | (303) |
| Total comprehensive income for the year | - | - | - | 13 | (303) | (290) | 15,615 | 15,325 | (4,247) | 11,078 |
| Transfer of net depreciation on revalued property | - | - | - | - | (220) | (220) | 220 | - | - | - |
| Transfer to (from) non-distributable reserves | - | - | 1,523 | - | - | 1,523 | (1,523) | - | - | - |
| Balances at 31 December 2014 | 220,000 | (14,793) | 33,144 | 783 | 5,930 | 39,857 | 19,485 | 264,549 | 37,862 | 302,411 |
| Parent company balances at 31 December 2014 | 220,000 | (14,793) | 33,041 | 874 | 5,930 | 39,845 | 19,497 | 264,549 | - | 264,549 |

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

# ARAB INSURANCE GROUP (B.S.C.)

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2015

(In thousands of U.S. Dollars)

| | Note | 2015 | 2014 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Premiums received | | **308,434** | 286,157 |
| Reinsurance premiums paid | | **(58,869)** | (30,501) |
| Claims and acquisition costs paid | | **(250,677)** | (260,058) |
| Reinsurance receipts in respect of claims | | **31,190** | 30,324 |
| Investment income | | **1,986** | 3,313 |
| Interest received | | **2,211** | 2,750 |
| Dividends received | | **1,878** | 1,473 |
| Operating expenses paid | | **(22,700)** | (24,995) |
| Other income/expenses, net | | **(3,332)** | 3,025 |
| Insurance deposits received ,net | | **5,444** | 3,261 |
| Purchase of trading investments | | **(46,990)** | (74,305) |
| Sale of trading investments | | **31,340** | 48,584 |
| Directors' remunerations paid | | **(305)** | - |
| **Net cash used in operating activities** | 31 | **(390)** | (10,972) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Maturity/sale of investments | | **329,987** | 267,889 |
| Purchase of investments | | **(348,512)** | (402,386) |
| Term deposit with bank | | **29,845** | 57,047 |
| Interest received | | **9,347** | 6,353 |
| Dividend received | | **10** | 44 |
| Investment income | | **7,492** | 7,606 |
| Collateralised cash deposits (paid) received , net | | **(10,137)** | 36,386 |
| Purchase of property and equipment | | **(574)** | (565) |
| Purchase of intangible assets | | **(38)** | (56) |
| Disposal group held for sale | | **-** | 100 |
| Investment in associate | | **-** | (25) |
| **Net cash provided by (used in) investing activities** | | **17,420** | (27,607) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Borrowings | | **34,000** | 10,000 |
| Interest on borrowings | | **(328)** | (135) |
| Dividends paid | | **(9,245)** | (6) |
| **Net cash provided by financing activities** | | **24,427** | 9,859 |
| **Net increase (decrease) in cash and cash equivalents** | | **41,457** | (28,720) |
| Effect of exchange rate on cash and cash equivalents | | **13** | (320) |
| Cash and cash equivalents, beginning of year | | **95,045** | 124,085 |
| **Cash and cash equivalents, end of year** | 5 | **136,515** | 95,045 |
| Term deposit with bank | | **62,254** | 92,099 |
| **Cash and bank balances, end of year** | 5 | **198,769** | 187,144 |

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

# ARAB INSURANCE GROUP (B.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. INCORPORATION AND PRINCIPAL ACTIVITY

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

- IAS 19 Employee Benefits

  Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments clarify accounting for contributions that are dependent or independent of the number of years of employee service. The adoption of this amendment has no material impact on the financial statements.

- Improvements to IFRSs (2013)

  Improvements to IFRS issued in December 2013 include a number of amendments to various IFRSs. The amendments have been applied retrospectively. The adoption of these amendment had no material impact on the financial statements

The following standards and interpretations have been issued but not yet effective for the year ended 31 December 2015:

- IFRS 9 Financial Instruments
  *Standard issued July 2014*

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- IFRS 11 Joint Arrangements

  Amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. The amendments to IFRS 11 apply prospectively for annual reporting periods beginning on or after 1 January 2016. The Group is not expecting a significant impact from the adoption of this amendment.

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

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

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

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

- IAS 27 Separate Financial Statements

  Amendments have been made to IAS 27 Separate Financial Statements, which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

  IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates).

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early application is permitted. The Group is not expecting a significant impact from the adoption of this amendment.

- IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures

  Amendments to standard clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

  Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's investments in the associate or joint venture.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- IAS 1 Presentation of Financial Statements

  Amendments provide clarifications on a number of issues, including:

  Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

  Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance.

  Notes – confirmation that the notes do not need to be presented in a particular order.

  OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss.

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

- Improvements to IFRSs (2014)

  Improvements to IFRSs in the 2012-2014 cycles include a number of amendments include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016 with early application permitted. The Group is not expecting a significant impact from the adoption of this amendment.

The Group did not early-adopt new or amended standards in 2015.

The significant accounting policies of the Group are as follows:

### BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries made up to 31 December 2015.

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

i) power over the entity;
ii) exposure to variable returns from the entity; and
iii) the ability to use its power to affect the amount of returns.

The purchase method is used to account for acquisitions.

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

### CASH AND CASH EQUIVALENTS

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

### INVESTMENTS

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

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

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

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

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

### PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

### INVESTMENT IN ASSOCIATED COMPANIES

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

### INVESTMENT IN JOINT VENTURES

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

### INSURANCE RECEIVABLES

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

### INSURANCE DEPOSITS

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

### INTANGIBLE ASSETS

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

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

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

### PROPERTY & EQUIPMENT

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

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

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

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

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

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

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

### ASSETS HELD FOR SALE

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

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

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

### PROVISIONS

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

### POST EMPLOYMENT OBLIGATIONS

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

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

### EMPLOYEE SHARE SCHEME

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

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

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

### TREASURY STOCK

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

### RECOGNITION OF UNDERWRITING RESULT

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

### PREMIUMS

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

### CLAIMS AND RELATED EXPENSES

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

### POLICY ACQUISITION COSTS

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

### REINSURANCE ARRANGEMENTS

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

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

### LIABILITY ADEQUACY TEST

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

### INVESTMENT INCOME

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

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

### DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

**i) Claims and related expenses**

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

**ii) Ultimate premiums**

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

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

## 4. MANAGEMENT OF INSURANCE RISKS

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

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

### i) Underwriting risks

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

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

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

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

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

## 4. MANAGEMENT OF INSURANCE RISKS (Contd.)

### ii) Credit risks

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

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

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

Credit risks relating to reinsurance arrangements are analysed as follows:

| | US$ '000 | | |
|---|---|---|---|
| | 2015 | | |
| | **Receivables** | **Share of technical provisions** | **Total** |
| Balance relating to reinsurers: | | | |
| - With investment grade rating | **702** | **25,839** | **26,541** |
| - Other | **11,079** | **11,919** | **22,998** |
| | **11,781** | **37,758** | **49,539** |

| | US$ '000 | | |
|---|---|---|---|
| | 2014 | | |
| | Receivables | Share of technical provisions | Total |
| Balance relating to reinsurers: | | | |
| - With investment grade rating | 3,392 | 35,159 | 38,551 |
| - Other | 19,392 | 11,701 | 31,093 |
| | 22,784 | 46,860 | 69,644 |

### iii) Currency risks

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

| | US$ '000 | | | | |
|---|---|---|---|---|---|
| | **Euro** | **Pound Sterling** | **Indian Rupee** | **Canadian Dollar** | **Other** |
| **2015** | | | | | |
| Reinsurance Assets (Liabilities), net | **(1,285)** | **291** | **(12,250)** | **(56)** | **(118,130)** |
| Hedged | **1,079** | **1,814** | **-** | **-** | **-** |

| | US$ '000 | | | | |
|---|---|---|---|---|---|
| | Euro | Pound Sterling | Indian Rupee | Canadian Dollar | Other |
| 2014 | | | | | |
| Reinsurance Assets (Liabilities), net | (1,032) | (1,061) | (16,317) | (509) | (116,620) |
| Hedged | 2,126 | - | - | - | - |

## 4. MANAGEMENT OF INSURANCE RISKS (Contd.)

### iv) Liquidity risks

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

### v) Sensitivity analysis

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| 5% increase in loss ratio | **(10,996)** | (12,822) |
| 5% decrease in loss ratio | **10,996** | 12,822 |
| 10% increase in US Dollar exchange rate | **11,454** | 12,030 |
| 10% decrease in US Dollar exchange rate | **(11,454)** | (12,030) |

## 5. CASH AND BANK BALANCES

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Cash and bank balances | **92,503** | 80,173 |
| Deposits with maturity within 3 months | **44,012** | 14,872 |
| Cash and cash equivalents | **136,515** | 95,045 |
| Deposits with maturity over 3 months | **62,254** | 92,099 |
| | **198,769** | 187,144 |

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

### i) Credit risk:

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

### ii) Interest rate risk:

| | **2015** | 2014 |
|---|---|---|
| Interest receivable basis: | | |
| - Bank balances | Daily/Monthly | Daily/Monthly |
| - Deposits with short term maturities | On maturity | On maturity |
| Effective rates | 0.01% to 2.20 % | 0.01% to 3.10 % |

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

### iii) Currency risk:

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| U.S. Dollar | **172,751** | 110,964 |
| Bahraini Dinar | **17,307** | 59,353 |
| UAE Dirham | **336** | 4,860 |
| Singapore Dollars | **3,852** | 3,656 |
| Qatari riyals | **11** | 11 |
| Other | **4,512** | 8,300 |
| | **198,769** | 187,144 |

## 6. INVESTMENTS

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| **At fair value through profit or loss** | | |
| **Held for trading** | | |
| Common stock of listed companies | **44,825** | 66,281 |
| | **44,825** | 66,281 |
| **Designated at fair value on initial recognition** | | |
| Debt Securities | | |
| - Other investment grade | **49,490** | 24,782 |
| - Other | **40,696** | 29,808 |
| | **90,186** | 54,590 |
| **Held to maturity** | | |
| Debt securities | | |
| - Supra-nationals and OECD country governments | **1,000** | 12,993 |
| - Other investment grade | **4,000** | 13,007 |
| - Non OECD country government | **-** | 2,653 |
| - Other | **9,902** | 9,876 |
| | **14,902** | 38,529 |
| **Available for sale** | | |
| Debt securities | | |
| - Supra-nationals and OECD country governments | **77,147** | 87,653 |
| - Other investment grade | **199,147** | 160,975 |
| - Other | **83,177** | 89,856 |
| Common stock of listed companies | **12,214** | 4,484 |
| Common stock of unlisted companies | **6,422** | 6,448 |
| Other equity type investment | **17,202** | 16,866 |
| | **395,309** | 366,282 |
| **Investment in joint venture** | **-** | 21 |
| **Investment in associates** | **237** | 295 |
| | **545,459** | 525,998 |

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

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| At 1 January | **19,805** | 19,945 |
| Impairment recognised during the year | | |
| - Unlisted companies | **619** | 21 |
| - Others | **1,771** | 1,021 |
| Reversal on sale of investments | **(1,200)** | (1,182) |
| At 31 December | **20,995** | 19,805 |

## 6. INVESTMENTS (Contd.)

Debt securities amounting to US$ 151.8 million (2014: US$ 107.7 million) have been pledged as security for reinsurance trust agreements, letters of credit, guarantees and borrowings.

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

### i) Credit risk:

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

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

### ii) Debt securities - interest rate risk:

| | 2015 | | |
|---|---|---|---|
| | **Interest receivable basis** | **Effective rates** | **Coupon rates** |
| Supra-nationals and OECD country government securities | Monthly/Semi-annual/Annual | 0.125% - 1.625% | 0.125% - 1.625% |
| Other investment grade debt securities | Monthly/Semi-annual/Annual | 0.709% - 8.625% | 0.709% - 8.625% |
| Other securities | Monthly/Semi-annual/Annual | 2.383% - 5.500% | 2.383% - 5.5% |

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

### iii) Debt securities – currency risk :

| | US$ '000 | | | | |
|---|---|---|---|---|---|
| | 2015 | | | | |
| | **U.S. Dollar** | **Euro** | **Bahraini Dinar** | **Other** | **Total** |
| Supra-nationals and OECD country government securities | **78,147** | **-** | **-** | **-** | **78,147** |
| Other investment grade debt Securities | **246,036** | **3,610** | **-** | **2,991** | **252,637** |
| Other debt securities | **127,512** | **-** | **6,263** | **-** | **133,775** |
| | **451,695** | **3,610** | **6,263** | **2,991** | **464,559** |

## 6. INVESTMENTS (Contd.)

| | US$ '000 | | | | |
|---|---|---|---|---|---|
| | 2014 | | | | |
| | U.S. Dollar | Euro | Bahraini Dinar | Other | Total |
| Supra-nationals and OECD country government securities | 100,646 | - | - | - | 100,646 |
| Other investment grade debt securities | 191,116 | 4,865 | - | 2,783 | 198,764 |
| Non-OECD country governments | - | - | 2,653 | - | 2,653 |
| Other debt securities | 129,540 | - | - | - | 129,540 |
| | 421,302 | 4,865 | 2,653 | 2,783 | 431,603 |

### iv) Debt securities - remaining term to maturity:

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

| | US$ '000 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | **Principal amount** | **Book value** | Principal amount | Book value |
| Supra-nationals and OECD country government securities: | | | | |
| - Due in one year or less | **6,000** | **6,025** | 25,000 | 24,990 |
| - One to five years | **65,500** | **65,198** | 58,000 | 58,026 |
| - More than five years | **7,000** | **6,924** | 18,000 | 17,631 |
| | **78,500** | **78,147** | 101,000 | 100,647 |
| Debt securities of other investment grade issuers: | | | | |
| - Due in one year or less | **18,017** | **17,897** | 12,642 | 12,938 |
| - One to five years | **178,967** | **177,131** | 101,024 | 102,424 |
| - More than five years | **58,768** | **57,609** | 83,857 | 83,401 |
| | **255,752** | **252,637** | 197,523 | 198,763 |
| Non-OECD country government securities: | | | | |
| - Due in one year or less | - | - | 2,658 | 2,653 |
| - One to five years | - | - | - | - |
| - More than five years | - | - | - | - |
| | - | - | 2,658 | 2,653 |
| Other debt securities : | | | | |
| - Due in one year or less | **47** | **46** | - | - |
| - One to five years | **71,307** | **70,065** | 45,558 | 44,691 |
| - More than five years | **67,929** | **63,664** | 85,296 | 84,849 |
| | **139,283** | **133,775** | 130,854 | 129,540 |
| | **473,535** | **464,559** | 432,035 | 431,603 |

## 6. INVESTMENTS (Contd.)

### v) Common stock:

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

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| U.S. Dollar | **49,883** | 42,450 |
| Euro | **3,467** | 4,958 |
| Bahraini Dinar | **433** | 487 |
| Saudi Riyal | **2,151** | 9,407 |
| Pound Sterling | **1,814** | 3,353 |
| Japanese Yen | **1,364** | 2,197 |
| Other | **4,349** | 14,361 |
| | **63,461** | 77,213 |

### vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 5.2 million (2014: US$ 6.4 million).

## 7. SENSITIVITY ANALYSIS

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

| | US$ '000 | | | |
|---|---|---|---|---|
| | **2015** | | 2014 | |
| | **Income** | **Equity** | Income | Equity |
| Interest rate | | | | |
| + 100 basis points shift in yield curves- debt instruments | **(1,562)** | **(9,958)** | (931) | (9,469) |
| – 100 basis points shift in yield curves- debt instruments | **1,616** | **10,302** | 963 | 9,797 |
| Currency risk | | | | |
| 10% increase in US Dollar exchange rate | **(3,388)** | **(48)** | (7,673) | (364) |
| 10% decrease in US Dollar exchange rate | **4,141** | **54** | 9,710 | 101 |
| Equity price | | | | |
| 10% increase in equity prices | **4,483** | **1,221** | 6,628 | 449 |
| 10% decrease in equity prices | **(4,483)** | **(1,221)** | (6,628) | (449) |

## 8. ACCRUED INCOME

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Accrued insurance premiums | | |
| Expected to be received : | | |
| - Within 12 months | 59,068 | 71,084 |
| - After 12 months | 9,907 | 14,641 |
| | 68,975 | 85,725 |
| Accrued interest | | |
| - Expected to be received within 12 months | 2,347 | 2,298 |
| | 71,322 | 88,023 |

## 9. INSURANCE RECEIVABLES

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Balances due : | | |
| - Within 12 months | 115,763 | 118,843 |
| - After 12 months | 259 | 169 |
| | 116,022 | 119,012 |

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

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| At 1 January | 14,651 | 21,176 |
| (Write back)/provision for impairment | 208 | (138) |
| Impaired receivables written-off | (107) | (6,387) |
| 31 December | 14,752 | 14,651 |

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

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Over two years | 5,103 | 4,630 |
| | 5,103 | 4,630 |

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

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Upto 6 months | 3,304 | 7,153 |
| 6 to 12 months | 14,668 | 13,125 |
| | 17,972 | 20,278 |

## 10. INSURANCE DEPOSITS

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Balances due : | | |
| - Within 12 months | **28,521** | 33,174 |
| - After 12 months | **8,496** | 9,404 |
| | **37,017** | 42,578 |

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| At 1 January | **3,666** | 4,208 |
| (Write back)/provision for impairment | **(172)** | 21 |
| Impaired deposits written-off | **-** | (563) |
| 31 December | **3,494** | 3,666 |

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Under ten years | **2,564** | 1,018 |
| Over ten years | **8,855** | 5,698 |
| | **11,419** | 6,716 |

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Up to 1 year | **8,970** | 9,120 |
| 1 to 3 years | **22,589** | 28,013 |
| | **31,559** | 37,133 |

## 11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| **General insurance business** | | |
| - Claims outstanding | **37,738** | 46,792 |
| - Unreported claims | **14,674** | 11,676 |
| - Deferred retrocession premium reserve | **13,304** | 12,960 |
| | **65,716** | 71,428 |
| **Life insurance business** | | |
| - Claims outstanding | **20** | 68 |
| - Unreported claims | **114** | 546 |
| - Deferred retrocession premium reserve | **-** | 6 |
| | **134** | 620 |
| | **65,850** | 72,048 |

## 12. OTHER ASSETS

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Intangible assets : | | |
| - Computer software | **9,530** | 9,492 |
| | **9,530** | 9,492 |
| Less : Accumulated amortisation | **(9,019)** | (8,711) |
| Net intangible assets | **511** | 781 |
| Other assets due within 12 months: | | |
| - Collateralised cash deposits | **19,104** | 8,967 |
| - Prepayments and other receivables | **2,372** | 7,848 |
| | **21,476** | 16,815 |
| | **21,987** | 17,596 |

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Movement in intangible assets : | | |
| Net book value at 1 January | **781** | 1,169 |
| - Additions | **39** | 56 |
| - Amortisation charge | **(309)** | (392) |
| - Disposal | **-** | (52) |
| Net book value at 31 December | **511** | 781 |

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

## 13. PROPERTY AND EQUIPMENT

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Land | **2,469** | 2,469 |
| Building | **19,182** | 25,001 |
| Work in progress | **19** | 64 |
| Information systems, furniture, equipment and other | **10,679** | 10,203 |
| | **32,349** | 37,737 |
| Less: Accumulated depreciation | **(10,113)** | (10,275) |
| | **22,236** | 27,462 |
| Movements in property and equipment | | |
| Net book value at 1 January | **27,462** | 27,472 |
| - Revaluation of land | **-** | 1,129 |
| - Revaluation of property | **(4,850)** | (800) |
| - Additions | **532** | 565 |
| - Disposals | **(19)** | (2) |
| - Depreciation charge | **(889)** | (902) |
| Net book value at 31 December | **22,236** | 27,462 |

Land and Building comprises the head office property owned and occupied by the Company since 1984.

Building also includes office premises of the subsidiary Takaful Re Limited in Dubai, U.A.E., which was revalued by independent external valuers and classified as level 2 in the fair value measurement hierarchy as it has been valued using indicative transaction prices for similar payments and adjusted to reflect the characteristics of the property. Based on open market valuation as of March 2015, the fair value of the premises was determined at US$ 13,750,000 as against a carrying amount of US$ 18,600,000. The decrease in fair value of US$ 4,850,000 has been taken to income statement.

## 14. TECHNICAL PROVISIONS

**Technical provisions comprise:**

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| **General insurance business** | | |
| Claims outstanding | **298,985** | 331,979 |
| Unreported losses | **192,072** | 159,602 |
| Unearned premiums | **109,828** | 138,106 |
| | **600,885** | 629,687 |
| **Life insurance business** | | |
| Claims outstanding | **17,976** | 16,283 |
| Unreported losses | **52,996** | 55,345 |
| Unearned premiums | **7,686** | 6,316 |
| | **78,658** | 77,944 |
| | **679,543** | 707,631 |

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

## 15. CLAIMS DEVELOPMENT

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

| | US$ '000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Underwriting year | | | | | | |
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | **Total** |
| **Gross** | | | | | | | |
| Estimate of incurred claims costs: | | | | | | | |
| - At end of underwriting year | 119,232 | 128,402 | 113,735 | 112,367 | 106,448 | 101,570 | |
| - One year later | 210,700 | 205,558 | 178,609 | 190,431 | 182,358 | - | |
| - Two years later | 227,383 | 210,058 | 185,776 | 192,492 | - | - | |
| - Three years later | 229,046 | 218,371 | 179,510 | - | - | - | |
| - Four years later | 228,451 | 218,009 | - | - | - | - | |
| - Five years later | 226,635 | - | - | - | - | - | |
| Current estimate of incurred claims | 226,635 | 218,009 | 179,510 | 192,492 | 182,358 | 101,570 | **1,100,574** |
| Cumulative payments to date | (199,568) | (180,323) | (135,822) | (121,535) | (81,182) | (5,009) | **(723,439)** |
| Liability recognised | 27,067 | 37,686 | 43,688 | 70,957 | 101,176 | 96,561 | **377,135** |
| Liability in respect of prior years | | | | | | | **184,894** |
| Total liability included in the statement of financial position | | | | | | | **562,029** |

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | **Total** |
|---|---|---|---|---|---|---|---|
| **Net** | | | | | | | |
| Estimate of incurred claims costs: | | | | | | | |
| - At end of underwriting year | 103,286 | 112,047 | 108,594 | 110,213 | 102,592 | 98,169 | |
| - One year later | 189,981 | 175,123 | 166,667 | 182,910 | 174,824 | | |
| - Two years later | 187,265 | 181,617 | 175,275 | 182,685 | - | | |
| - Three years later | 186,509 | 186,925 | 169,531 | - | - | | |
| - Four years later | 185,478 | 186,389 | - | - | - | | |
| - Five years later | 183,618 | - | - | - | - | | |
| Current estimate of incurred claims | 183,618 | 186,389 | 169,531 | 182,685 | 174,824 | 98,169 | **995,216** |
| Cumulative payments to date | (156,653) | (148,898) | (126,725) | (112,897) | (42,586) | (4,454) | **(592,213)** |
| Liability recognised | 26,965 | 37,491 | 42,806 | 69,788 | 132,238 | 93,715 | **403,003** |
| Liability in respect of prior years | | | | | | | **106,480** |
| Total liability included in the statement of financial position | | | | | | | **509,483** |

## 16. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

| | US$ '000 | | |
|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** |
| **2015** | | | |
| **Claims** | | | |
| Claims outstanding | **348,262** | **46,860** | **301,402** |
| Unreported losses | **214,947** | **12,222** | **202,725** |
| Total at beginning of year | **563,209** | **59,082** | **504,127** |
| Change in provision during the year | **183,273** | **2,707** | **180,566** |
| Claims settled during the year | **(184,453)** | **(9,243)** | **(175,210)** |
| Balance at end of year | **562,029** | **52,546** | **509,483** |
| **Unearned premium** | | | |
| At beginning of year | **144,422** | **12,966** | **131,456** |
| Change in provision during the year | **(26,908)** | **338** | **(27,246)** |
| Balance at end of year | **117,514** | **13,304** | **104,210** |
| **Accrued insurance premium** | | | |
| At beginning of year | **94,223** | **8,498** | **85,725** |
| Movement during the year | **(18,307)** | **(1,557)** | **(16,750)** |
| Balance at end of year | **75,916** | **6,941** | **68,975** |
| **Deferred policy acquisitions costs** | | | |
| At beginning of year | **24,659** | **207** | **24,452** |
| Movement during the year | **(3,645)** | **407** | **(4,052)** |
| Balance at end of year | **21,014** | **614** | **20,400** |

| | US$ '000 | | |
|---|---|---|---|
| | Gross | Reinsurance | Net |
| 2014 | | | |
| Claims | | | |
| Claims outstanding | 338,691 | 45,615 | 293,076 |
| Unreported losses | 215,495 | 8,388 | 207,107 |
| Total at beginning of year | 554,186 | 54,003 | 500,183 |
| Change in provision during the year | 194,077 | 26,692 | 167,385 |
| Claims settled during the year | (185,054) | (21,613) | (163,441) |
| Balance at end of year | 563,209 | 59,082 | 504,127 |
| Unearned premium | | | |
| At beginning of year | 124,462 | 5,079 | 119,383 |
| Change in provision during the year | 19,960 | 7,887 | 12,073 |
| Balance at end of year | 144,422 | 12,966 | 131,456 |
| Accrued insurance premium | | | |
| At beginning of year | 86,207 | 4,025 | 82,182 |
| Movement during the year | 8,016 | 4,473 | 3,543 |
| Balance at end of year | 94,223 | 8,498 | 85,725 |
| Deferred policy acquisitions costs | | | |
| At beginning of year | 28,352 | 122 | 28,230 |
| Movement during the year | (3,693) | 85 | (3,778) |
| Balance at end of year | 24,659 | 207 | 24,452 |

## 17. INSURANCE PAYABLES

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Due Within 12 months | 44,606 | 41,768 |
| | 44,606 | 41,768 |

## 18. BORROWINGS

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Balances Due: | | |
| - Within 12 months | 44,000 | 10,000 |
| | 44,000 | 10,000 |

Borrowings amounting to US$ 44 million (2014: US$ 10 million) are secured by debt securities amounting to US$ 56.1 million (2014: US$ 14.8 million). The effective interest rate on the borrowings was 1.7% (2014: 1.55%).

## 19. OTHER LIABILITIES

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| Post-employment benefits (note 29) | 14,236 | 13,302 |
| Reinsurance premiums accrued | 8,619 | 8,619 |
| Employee share scheme (note 28) | 4,902 | 6,478 |
| Accrued expense | 7,978 | 7,185 |
| Dividends payable | 2,579 | 1,922 |
| Other | 13,619 | 4,997 |
| | 51,933 | 42,503 |
| Balances due: | | |
| - Within 12 months | 32,795 | 22,723 |
| - After 12 months | 19,138 | 19,780 |
| | 51,933 | 42,503 |

## 20. SHAREHOLDERS' EQUITY

### i) Share capital:

#### a) Composition:

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| **Authorised** | | |
| 500 million ordinary shares of US$ 1 each | 500,000 | 500,000 |
| **Issued, Subscribed & Fully Paid-up** | | |
| 220 million (2014: 220 million) ordinary shares of US$ 1 each | 220,000 | 220,000 |

## 20. SHAREHOLDERS' EQUITY (Contd.)

### b) Major Shareholders

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

| Name | Nationality | No. of shares (in millions) | | % of total outstanding shares | | % of total issued shares | |
|---|---|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Central Bank of Libya | **Libya** | **31.8** | 31.8 | **16.1** | 16.1 | **14.4** | 14.4 |
| Emirates Investment Authority | **UAE** | **30.5** | 30.5 | **15.4** | 15.4 | **13.9** | 13.9 |
| General Pension & Social Security Authority | **UAE** | **27.5** | 27.5 | **13.9** | 13.9 | **12.5** | 12.5 |
| Kuwait Investment Authority | **Kuwait** | **20.0** | 20.0 | **10.1** | 10.1 | **9.1** | 9.1 |
| Emirates Development Bank | **UAE** | **11.0** | 11.0 | **5.6** | 5.6 | **5.0** | 5.0 |

### c) Shareholding pattern

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

| Shares | No. of shares (in millions) | | No. of shareholders | | % of total outstanding shares | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Less than 1% | **40.1** | 44.9 | **4,600** | 4,624 | **20.3** | 22.7 |
| 1% to 5% | **37.1** | 32.3 | **4** | 5 | **18.7** | 16.3 |
| 5% to 10% | **11.0** | 11.0 | **1** | 1 | **5.6** | 5.6 |
| 10% and above | **109.8** | 109.8 | **4** | 4 | **55.4** | 55.4 |

### ii) Treasury stock:

The company held 21,967,818 of its own shares at 31 December 2015 (2014: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2014: US$ 14,793,000).

### iii) Legal reserve:

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

### iv) Investment revaluation reserve:

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

### v) Property revaluation reserve:

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

## 20. SHAREHOLDERS' EQUITY (Contd.)

### vi) Capital management:

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

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

## 21. NON-CONTROLLING INTERESTS

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| At 1 January | **37,862** | 42,109 |
| Share of comprehensive income | **(3,130)** | (4,247) |
| At 31 December | **34,732** | 37,862 |

## 22. SEGMENT INFORMATION

### i) ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

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

| | US$ '000 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year ended 31 December 2015 | | | | | | | | |
| | Non-life | | | | | | Life | | Total |
| | Property | Engineering | Marine | Accident | Whole Account | Others | Short term | Long term | |
| **REVENUES :** | | | | | | | | | |
| Gross premiums written | 52,557 | 27,384 | 14,876 | 14,765 | 50,186 | 32,459 | 27,676 | 539 | 220,442 |
| Outward reinsurance premiums | (4,995) | (3,039) | (297) | (143) | (6,252) | (2,269) | (554) | (3) | (17,552) |
| Change in unearned premiums - gross | 2,412 | 2,530 | 1,202 | 1,727 | 18,953 | (3,022) | (1,629) | 36 | 22,209 |
| Change in unearned premiums - reinsurance | 57 | (68) | 30 | 7 | (6,885) | 1,459 | 225 | - | (5,175) |
| **Net earned premiums** | 50,031 | 26,807 | 15,811 | 16,356 | 56,002 | 28,627 | 25,718 | 572 | 219,924 |
| Investment income attributable to insurance funds | 2,531 | 1,255 | 854 | 375 | 185 | 1,562 | 726 | 1,054 | 8,542 |
| | 52,562 | 28,062 | 16,665 | 16,731 | 56,187 | 30,189 | 26,444 | 1,626 | 228,466 |
| **COSTS AND EXPENSES :** | | | | | | | | | |
| Gross claims paid | (55,936) | (18,078) | (10,922) | (12,249) | (38,860) | (27,786) | (17,625) | (2,997) | (184,453) |
| Claims recovered from reinsurers | 1,772 | 351 | (2,788) | 92 | 9,652 | 143 | 21 | - | 9,243 |
| Change in provision for outstanding claims - gross | 28,562 | 5,306 | 6,483 | 2,294 | (6,188) | 8,166 | (194) | (777) | 43,652 |
| Change in provision for outstanding claims - reinsurance | (2,341) | (367) | (1,537) | (76) | 2 | (1,843) | (45) | (1) | (6,208) |
| Change in provision for unreported losses - gross | (8,496) | (3,412) | 620 | 483 | (563) | (3,104) | (724) | 2,495 | (12,701) |
| Change in provision for unreported losses - reinsurance | 273 | 282 | 64 | (31) | (279) | 1,973 | (73) | (1) | 2,208 |
| **Claims and related expenses** | (36,166) | (15,918) | (8,080) | (9,487) | (36,236) | (22,451) | (18,640) | (1,281) | (148,259) |
| Policy acquisition costs | (15,334) | (8,514) | (5,682) | (4,323) | (20,292) | (1,244) | (1,588) | (30) | (57,007) |
| Policy acquisition costs recovered from reinsurers | 393 | 289 | 117 | 33 | - | 638 | - | - | 1,470 |
| Change in deferred policy acquisition costs - gross | (636) | (725) | (81) | (830) | (220) | (51) | 70 | (5) | (2,478) |
| Change in deferred policy acquisition costs – reinsurance | (16) | 33 | (21) | (2) | - | (401) | - | - | (407) |
| **Policy acquisition costs** | (15,593) | (8,917) | (5,667) | (5,122) | (20,512) | (1,058) | (1,518) | (35) | (58,422) |
| Operating expenses | (7,342) | (2,751) | (1,919) | (1,856) | (499) | (3,574) | (2,603) | (468) | (21,012) |
| **Underwriting result** | (6,539) | 476 | 999 | 266 | (1,060) | 3,106 | 3,683 | (158) | 773 |

## 22. SEGMENT INFORMATION (Contd.)

### i) ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

| | US$ '000 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year ended 31 December 2014 | | | | | | | | |
| | Non-life | | | | | | Life | | Total |
| | Property | Engineering | Marine | Accident | Whole Account | Others | Short term | Long term | |
| REVENUES : | | | | | | | | | |
| Gross premiums written | 68,301 | 36,736 | 21,007 | 21,031 | 119,589 | 25,367 | 22,376 | 893 | 315,300 |
| Outward reinsurance premiums | (5,010) | (3,110) | (552) | (91) | (45,884) | 97 | (362) | 1 | (54,911) |
| Change in unearned premiums - gross | 2,307 | 3,005 | 1,459 | 599 | (22,896) | 1,501 | 354 | 132 | (13,539) |
| Change in unearned premiums - reinsurance | 47 | 101 | 191 | (2) | 9,240 | - | 6 | - | 9,583 |
| Net earned premiums | 65,645 | 36,732 | 22,105 | 21,537 | 60,049 | 26,965 | 22,374 | 1,026 | 256,433 |
| Investment income attributable to insurance funds | 3,752 | 1,674 | 1,193 | 268 | 127 | 2,325 | 952 | 1,454 | 11,745 |
| | 69,397 | 38,406 | 23,298 | 21,805 | 60,176 | 29,290 | 23,326 | 2,480 | 268,178 |
| COSTS AND EXPENSES : | | | | | | | | | |
| Gross claims paid | (57,114) | (19,946) | (10,600) | (9,605) | (41,255) | (27,732) | (15,083) | (3,714) | (185,049) |
| Claims recovered from reinsurers | 3,044 | 475 | 261 | 229 | 17,574 | (147) | 176 | - | 21,612 |
| Change in provision for outstanding claims - gross | (2,570) | (5,624) | 2,287 | (2,903) | (4,530) | 4,469 | (1,037) | (243) | (10,151) |
| Change in provision for outstanding claims - reinsurance | 20 | (936) | (358) | (120) | (13,521) | (777) | (129) | (1) | (15,822) |
| Change in provision for unreported losses - gross | 4,427 | 2,908 | 154 | (883) | 1,335 | 2,039 | (1,115) | 5,127 | 13,992 |
| Change in provision for unreported losses - reinsurance | (427) | 314 | (165) | (183) | 4,460 | 2 | 21 | (3) | 4,019 |
| Claims and related expenses | (52,620) | (22,809) | (8,421) | (13,465) | (35,937) | (22,146) | (17,167) | 1,166 | (171,399) |
| Policy acquisition costs | (17,706) | (10,409) | (6,639) | (7,422) | (21,470) | (1,364) | (497) | 50 | (65,457) |
| Policy acquisition costs recovered from reinsurers | 236 | 332 | 178 | 39 | - | (20) | (2) | (1) | 762 |
| Change in deferred policy acquisition costs - gross | (1,864) | (1,125) | (489) | 616 | (1,290) | (94) | 74 | 34 | (4,138) |
| Change in deferred policy acquisition costs - reinsurance | (28) | (36) | (60) | 1 | - | - | - | - | (123) |
| Policy acquisition costs | (19,362) | (11,238) | (7,010) | (6,766) | (22,760) | (1,478) | (425) | 83 | (68,956) |
| Operating expenses | (7,841) | (2,945) | (2,193) | (1,985) | (577) | (3,513) | (2,316) | (453) | (21,823) |
| Underwriting result | (10,426) | 1,414 | 5,674 | (411) | 902 | 2,153 | 3,418 | 3,276 | 6,000 |

## 22. SEGMENT INFORMATION (Contd.)

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

| | US$ '000 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | **Premium** | **Non-current assets** | Premium | Non-current assets |
| from: | | | | |
| - Middle East | **107,595** | **20,212** | 111,051 | 39,767 |
| - Africa | **21,885** | **4,111** | 29,032 | 3,013 |
| - Asia | **45,034** | **8,459** | 59,681 | 6,193 |
| - Others | **45,928** | **8,627** | 115,536 | 11,989 |
| | **220,442** | **41,409** | 315,300 | 60,962 |

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

### iii) Analysis of segment assets and liabilities:

| | US$ '000 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | | | | | | |
| | Non-Life | | | | | | Life | | Corporate | Total |
| | Property | Engineering | Marine | Accident | Whole | Others | Short Term | Long term | | |
| Reinsurance assets | **46,355** | **32,083** | **22,948** | **11,590** | **138,563** | **56,487** | **12,895** | **258** | **-** | **321,179** |
| Cash | **24,161** | **15,926** | **7,386** | **7,349** | **13,057** | **11,727** | **6,077** | **8,776** | **104,310** | **198,769** |
| Investments | **78,538** | **48,212** | **24,113** | **19,637** | **43,979** | **40,093** | **20,317** | **32,316** | **238,255** | **545,460** |
| Others | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **33,654** | **33,654** |
| | **149,054** | **96,221** | **54,447** | **38,576** | **195,599** | **108,307** | **39,289** | **41,350** | **376,219** | **1,099,062** |
| Reinsurance liabilities | **153,567** | **102,342** | **56,777** | **43,799** | **178,071** | **117,743** | **40,161** | **41,039** | **-** | **733,499** |
| Others | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **86,583** | **86,583** |
| | **153,567** | **102,342** | **56,777** | **43,799** | **178,071** | **117,743** | **40,161** | **41,039** | **86,583** | **820,082** |

## 22. SEGMENT INFORMATION (Contd.)

### iii) Analysis of segment assets and liabilities:

| | US$ '000 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | | | | | | |
| | Non-Life | | | | | | Life | | Corporate | Total |
| | Property | Engineering | Marine | Accident | Whole | Others | Short Term | Long term | | |
| Reinsurance assets | 60,261 | 39,852 | 33,219 | 17,256 | 130,340 | 59,525 | 10,644 | 634 | - | 351,731 |
| Cash | 26,877 | 15,443 | 7,490 | 5,373 | 7,684 | 14,468 | 3,020 | 12,252 | 100,096 | 192,703 |
| Investments | 80,736 | 43,966 | 22,810 | 16,573 | 29,893 | 38,130 | 8,662 | 43,174 | 242,054 | 525,998 |
| Others | - | - | - | - | - | - | - | - | 33,881 | 33,881 |
| | 167,874 | 99,261 | 63,519 | 39,202 | 167,917 | 112,123 | 22,326 | 56,060 | 376,031 | 1,104,313 |
| Reinsurance liabilities | 179,505 | 107,963 | 66,504 | 41,168 | 165,632 | 122,823 | 23,976 | 56,060 | - | 763,631 |
| Others | - | - | - | - | - | - | - | - | 38,271 | 38,271 |
| | 179,505 | 107,963 | 66,504 | 41,168 | 165,632 | 122,823 | 23,976 | 56,060 | 38,271 | 801,902 |

## 23. INVESTMENT INCOME

| | US$ '000 | | |
|---|---|---|---|
| | 2015 | | |
| | Insurance funds | Shareholders' funds | Total |
| Interest income | | | |
| - Investments designated at fair value through profit or Loss | 500 | 268 | 768 |
| - Others | 6,150 | 4,689 | 10,839 |
| Dividends | 1,079 | 809 | 1,888 |
| Realised gains | | | |
| - Trading investments | 2,856 | 488 | 3,344 |
| - Investment designated at fair value through profit or loss | 347 | 142 | 489 |
| - Available for sale | 2,283 | 1,672 | 3,955 |
| Loss on remeasurement of investments at fair value through profit & loss | | | |
| - Trading investments | (2,573) | (532) | (3,105) |
| - Investments designated at fair value through profit or loss | (1,069) | (520) | (1,589) |
| Impairment loss-available for sale | (326) | (863) | (1,189) |
| Other | (705) | (401) | (1,106) |
| | 8,542 | 5,752 | 14,294 |

| | US$ '000 | | |
|---|---|---|---|
| | 2014 | | |
| | Insurance funds | Shareholders' funds | Total |
| Interest income | | | |
| - Investments designated at fair value through profit or loss | 510 | 276 | 786 |
| - Others | 4,634 | 4,040 | 8,674 |
| Dividends | 840 | 677 | 1,517 |
| Realised gains | | | |
| - Trading investments | 4,062 | 3,186 | 7,248 |
| - Investment designated at fair value through profit or loss | 469 | 265 | 734 |
| - Available for sale | 4,774 | 3,689 | 8,463 |
| Loss on remeasurement of investments at fair value through profit & loss | | | |
| - Trading investments | (1,861) | (1,985) | (3,846) |
| - Investments designated at fair value through profit or loss | (415) | (277) | (692) |
| Impairment loss-available for sale | (465) | (577) | (1,042) |
| Other | (803) | (540) | (1,343) |
| | 11,745 | 8,754 | 20,499 |

## 24. OPERATING EXPENSES

| | US$ '000 | | |
|---|---|---|---|
| | 2015 | | |
| | **Underwriting** | **Non-Underwriting** | **Total** |
| Salaries and benefits | **14,352** | **5,457** | **19,809** |
| General and administration | **6,660** | **2,087** | **8,747** |
| | **21,012** | **7,544** | **28,556** |

| | US$ '000 | | |
|---|---|---|---|
| | 2014 | | |
| | Underwriting | Non-Underwriting | Total |
| Salaries and benefits | 15,014 | 4,472 | 19,486 |
| General and administration | 6,809 | 2,394 | 9,203 |
| | 21,823 | 6,866 | 28,689 |

## 25. OTHER INCOME

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Third party administration services | **4,490** | 3,158 |
| Royalty on software | **-** | 938 |
| Profit on revaluation of land | **-** | 632 |
| Other | **1,455** | 648 |
| | **5,945** | 5,376 |

## 26. OTHER EXPENSES AND PROVISIONS

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Loss on revaluation of building (Note 13) | **4,850** | - |
| Foreign exchange loss | **3,509** | 1,050 |
| Provision for doubtful receivable & deposits | **71** | (813) |
| Other | **3,704** | 1,446 |
| | **12,134** | 1,683 |

## 27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

| | | **2015** | 2014 |
|---|---|---|---|
| Weighted average number of shares outstanding | '000 | **198,032** | 198,032 |
| Net (loss) profit | US$'000 | **(4,421)** | 15,615 |
| Earnings per share | US$ | **(0.02)** | 0.08 |

## 28. EMPLOYEE SHARE SCHEME

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

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Liability | **4,902** | 6,478 |
| Expense | **1,907** | 2,599 |

## 29. POST EMPLOYMENT BENEFITS

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

The principal assumptions used for accounting purposes were:

| | **2015** | 2014 |
|---|---|---|
| Discount rate | **2.0%** | 2.2% |
| Expected return on assets | **2.0%** | 2.2% |
| Future salary increases | **3.3%** | 3.3% |

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Balance at 1 January | **13,302** | 14,058 |
| Accruals for the year | **1,649** | 1,426 |
| Payments during the year | **(715)** | (2,182) |
| Balance at 31 December | **14,236** | 13,302 |

## 30. FORWARD FOREIGN EXCHANGE CONTRACTS

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

**i. Forward foreign exchange contracts – by currency:**

| | US$ '000 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | **Notional amount purchases** | **Notional amount sales** | Notional amount purchases | Notional amount sales |
| Euro | **1,079** | **500** | 2,125 | 10,472 |
| Pound Sterling | **1,814** | **1,292** | - | 5,916 |
| Japanese yen | **-** | **1,190** | - | 2,105 |
| Others | **-** | **1,054** | - | 3,560 |
| | **2,893** | **4,036** | 2,125 | 22,053 |

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

**ii. Forward foreign exchange contracts - remaining term to maturity:**

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

**iii. Forward foreign exchange contracts – unrealised gains and losses:**

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

| | US$ '000 | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | **Purchases** | **Sales** | Purchases | Sales |
| Unrealised gains | **7** | **161** | - | 624 |
| Unrealised losses | **(45)** | **(56)** | (69) | (3) |
| | **(38)** | **105** | (69) | 621 |

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| (Loss) profit for the year | **(7,624)** | 11,446 |
| (Decrease) increase in insurance funds | **(12,277)** | 23,755 |
| Change in insurance receivable/payable, net | **5,828** | (8,500) |
| Change in accrued insurance premiums | **16,701** | (3,541) |
| Change in other assets/liabilities, net | **(3,018)** | (34,132) |
| Net cash used in operating activities | **(390)** | (10,972) |

## 32. FAIR VALUE DISCLOSURE

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

| | US$ '000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2015 | | | | | | |
| | 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 bank | - | 215,049 | - | - | - | 215,049 | 215,049 |
| Investments | 135,011 | - | 14,902 | 395,309 | - | 545,222 | 545,496 |
| Accrued income | - | 309 | 69,729 | 1,284 | - | 71,322 | 71,322 |
| Insurance receivables | - | 116,022 | - | - | - | 116,022 | 116,022 |
| Insurance deposits | - | 37,017 | - | - | - | 37,017 | 37,017 |
| Other assets | - | 21,479 | - | - | - | 21,479 | 21,479 |
| **LIABILITIES** | | | | | | | |
| Insurance payables | - | - | - | - | 44,606 | 44,606 | 44,606 |
| Borrowings | - | - | - | - | 44,000 | 44,000 | 44,000 |
| Other liabilities | - | - | - | - | 43,954 | 43,954 | 43,954 |

| | US$ '000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 balances | - | 187,144 | - | - | - | 187,144 | 187,144 |
| Investments | 120,871 | - | 38,529 | 366,282 | - | 525,682 | 526,316 |
| Accrued income | - | 435 | 86,402 | 1,186 | - | 88,023 | 88,023 |
| Insurance receivables | - | 119,012 | - | - | - | 119,012 | 119,012 |
| Insurance deposits | - | 42,578 | - | - | - | 42,578 | 42,578 |
| Other assets | - | 16,815 | - | - | - | 16,815 | 16,815 |
| **LIABILITIES** | | | | | | | |
| Insurance payables | - | - | - | - | 41,768 | 41,768 | 41,768 |
| Borrowings | - | - | - | - | 10,000 | 10,000 | 10,000 |
| Other liabilities | - | - | - | - | 35,318 | 35,318 | 35,318 |

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

## 32. FAIR VALUE DISCLOSURE (Contd.)

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.

Hence, the fair value measurement details are not disclosed.

**ii. Investments:**

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

## 32. FAIR VALUE DISCLOSURE (Contd.)

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

| 2015 | US$'000 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Held to maturity** | | | | |
| Debt Securities | **15,175** | **-** | **-** | **15,175** |
| **At fair value through profit or loss** | | | | |
| **Held for trading** | | | | |
| Common stock of listed companies | **44,825** | **-** | **-** | **44,825** |
| **Designated at fair value on initial recognition** | | | | |
| Debt Securities | **90,186** | **-** | **-** | **90,186** |
| **Available for sale** | | | | |
| Debt securities | **359,471** | **-** | **-** | **359,471** |
| Common stock of listed companies | **12,214** | **-** | **-** | **12,214** |
| Common stock of unlisted companies | **-** | **65** | **6,357** | **6,422** |
| Other | **-** | **1,307** | **15,895** | **17,202** |
| **Forward foreign exchange contracts** | **67** | **-** | **-** | **67** |
| | **521,938** | **1,372** | **22,252** | **545,562** |

| 2014 | US$'000 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Held to maturity | | | | |
| Debt Securities | 39,163 | - | - | 39,163 |
| At fair value through profit or loss | | | | |
| Held for trading | | | | |
| Common stock of listed companies | 66,281 | - | - | 66,281 |
| Designated at fair value on initial recognition | | | | |
| Debt Securities | 54,590 | - | - | 54,590 |
| Available for sale | | | | |
| Debt securities | 338,484 | - | - | 338,484 |
| Common stock of listed companies | 4,484 | - | - | 4,484 |
| Common stock of unlisted companies | - | 121 | 6,327 | 6,448 |
| Other | - | 1,742 | 15,124 | 16,866 |
| Forward foreign exchange contracts | 552 | - | - | 552 |
| | 503,554 | 1,863 | 21,451 | 526,868 |

## 32. FAIR VALUE DISCLOSURE (Contd.)

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

| | US$'000 | | |
|---|---|---|---|
| **31 December 2015** | **Unlisted equity** | **Others** | **Total** |
| **Balance at 1 January 2015** | **6,327** | **15,124** | **21,451** |
| Gain (loss) recognised in: | | | |
| - Income statement | **(568)** | **(1,507)** | **(2,075)** |
| - Other comprehensive income | **315** | **(175)** | **140** |
| Investments made during the year | **291** | **5,073** | **5,364** |
| Investments redeemed during the year | **(8)** | **(2,620)** | **(2,628)** |
| **Balance at 31 December 2015** | **6,357** | **15,895** | **22,252** |

| | US$'000 | | |
|---|---|---|---|
| 31 December 2014 | Unlisted equity | Others | Total |
| Balance at 1 January 2014 | 5,646 | 13,607 | 19,253 |
| Gain (loss) recognised in: | | | |
| - Income statement | (10) | (674) | (684) |
| - Other comprehensive income | 137 | (366) | (229) |
| Investments made during the year | 891 | 5,238 | 6,129 |
| Investments redeemed during the year | (337) | (2,681) | (3,018) |
| Balance at 31 December 2014 | 6,327 | 15,124 | 21,451 |

The carrying values of the investment held in level 3 are based on unobservable inputs and reflects proportional share of the fair values of the respective companies and their underlying net assets. The Group does not expect the fair value of assets under level 2 & level 3 to change significantly on changing one or more of the unassumable inputs. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. For the year ended December 31, 2015, there were no transfers in and out of level 1, level 2 and level 3 (2014: none). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

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

**iii. Forward foreign exchange contracts:**

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

**vi. Fair value less than carrying amounts:**

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

## 33. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

### i) Subsidiaries, Joint Ventures and Associates:

At 31 December 2015, 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 2014. 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 and currently under voluntary liquidation. 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.

### ii) Interest in Subsidiaries: Takaful Re Limited

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Non-controlling interest | **46%** | 46% |
| Other assets | **140,700** | 155,646 |
| Other liabilities | **65,192** | 71,937 |
| **Net Assets** | **75,508** | 83,709 |
| Revenue | **16,795** | 18,429 |
| Loss for the year | **(6,963)** | (9,062) |
| Total comprehensive income | **(6,803)** | (9,233) |
| Comprehensive income attributable to non-controlling interests | **(3,129)** | (4,248) |
| Net cash used in operating activities | **(51)** | (13,840) |
| Net cash provided by investing activities | **30,892** | 13,648 |
| Net increase (decrease) in cash and cash equivalents | **33,988** | (192) |

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

The subsidiary's general assembly met in December 2015 and resolved to cease writing business with immediate effect.

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

iii) **Interests in Joint Venture and Associates**

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Carrying amount of interest in associates | **237** | 295 |
| Total comprehensive income | **(58)** | (389) |

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

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| Carrying amount of interest in joint ventures | **-** | 21 |
| Total comprehensive income | **(21)** | (98) |

## 34. RELATED PARTY TRANSACTIONS

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

The following is the summary of transactions with related parties.

i) **Subsidiary companies:**

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| a) Gross premium retroceded by subsidiary to parent company | **30,365** | 74,787 |
| b) Service fees for administration services provided by parent company | **860** | 919 |
| c) Balances outstanding<br>- Receivables | **62,636** | 60,663 |

ii) **Joint Venture:**

| | US$ '000 | |
|---|---|---|
| | **2015** | 2014 |
| a) Service fees for administration services provided | **-** | 66 |
| b) Balances outstanding | | |
| - Receivables | **-** | 460 |
| - Payables | **-** | - |

## 34. RELATED PARTY TRANSACTIONS (Contd.)

### iii) Compensation to directors and key management personnel:

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| a) Directors | | |
| - Remuneration | - | 305 |
| - Attendance fees | 145 | 123 |
| - Travel expenses | 148 | 168 |
| b) Key management compensation | | |
| - Salaries and other short-term employee benefits | 2,102 | 2,571 |
| - Post-employment benefits | 302 | 313 |
| - Share-based compensation | 1,607 | 1,114 |
| c) Balances payable (net) | | |
| Key management | | |
| - Maximum balance | 7,096 | 7,707 |
| - Closing balance | 7,096 | 7,707 |

All transactions with related parties are conducted on an arm's length basis. All outstanding balances from related parties are expected to be settled within 12 months. No provisions have been required in 2015 and 2014 for any outstanding amounts due from related parties.

## 35. PARENT COMPANY

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

| | US$ '000 | |
|---|---|---|
| | 2015 | 2014 |
| **ASSETS** | | |
| Cash and bank balances | 124,318 | 126,529 |
| Investments | 457,767 | 445,875 |
| Accrued income | 65,004 | 76,935 |
| Insurance receivables | 47,844 | 62,234 |
| Insurance deposits | 35,347 | 40,151 |
| Deferred policy acquisition costs | 12,963 | 14,930 |
| Reinsurers' share of technical provisions | 29,383 | 34,579 |
| Other assets | 83,976 | 67,974 |
| Investment in subsidiaries and associates | 42,602 | 46,062 |
| Property and equipment | 8,492 | 8,482 |
| | 907,696 | 923,751 |
| **LIABILITIES** | | |
| Technical provisions | 549,271 | 588,280 |
| Insurance payables | 32,287 | 24,392 |
| Borrowings | 44,000 | 10,000 |
| Other liabilities | 37,890 | 36,530 |
| | 663,448 | 659,202 |
| **SHAREHOLDERS' EQUITY** (note 20) | | |
| Share capital | 220,000 | 220,000 |
| Treasury stock | (14,793) | (14,793) |
| Reserves | 33,596 | 39,845 |
| Retained earnings | 5,445 | 19,497 |
| | 244,248 | 264,549 |
| | 907,696 | 923,751 |

# ARAB INSURANCE GROUP (B.S.C.)

**APPENDIX**

**ADDITIONAL DISCLOSURE ON INVESTMENTS**

| | US$ '000<br>31-December-2015 | | |
|---|---|---|---|
| | Investments in U.A.E. | Investments outside U.A.E. | Total |
| **a. Cash & bank balances** | 34,969 | 163,800 | 198,769 |
| **Total cash & bank balances** | **34,969** | **163,800** | **198,769** |
| **b. Investments** | | | |
| **At fair value through profit or loss** | | | |
| **Held for trading** | | | |
| Common stock of listed companies | 1,771 | 43,054 | 44,825 |
| | **1,771** | **43,054** | **44,825** |
| **Designated at fair value on initial recognition** | | | |
| Debt Securities | | | |
| - Other Investment grade | - | 49,490 | 49,490 |
| - Other | - | 40,696 | 40,696 |
| | **-** | **90,186** | **90,186** |
| **Held to maturity** | | | |
| Debt securities | | | |
| - Supra-nationals and OECD country governments | - | 1,000 | 1,000 |
| - Other Investment grade | 1,000 | 3,000 | 4,000 |
| - Non-OECD country government | - | - | - |
| - Other | 6,433 | 3,469 | 9,902 |
| | **7,433** | **7,469** | **14,902** |
| **Available for sale** | | | |
| Debt securities | | | |
| - Supra-nationals and OECD country governments | - | 77,147 | 77,147 |
| - Other Investment grade | 27,440 | 171,707 | 199,147 |
| - Other | 13,772 | 69,404 | 83,176 |
| Common stock of listed companies | - | 12,214 | 12,214 |
| Common stock of unlisted companies | - | 6,422 | 6,422 |
| Other (see note) | 1,180 | 16,023 | 17,203 |
| | **42,392** | **352,917** | **395,309** |
| **Investment in associate** | - | 237 | 237 |
| | **-** | **237** | **237** |
| **Total Investments** | **51,596** | **493,863** | **545,459** |

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$ 1,384,944 (in U.A.E.: US$ 3,000).