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

## Condensed consolidated interim financial statements for the nine months ended 30 September 2016

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

# Independent auditors' report on review of condensed consolidated interim financial statements

13 November 2016

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

## Introduction

We have reviewed the accompanying 30 September 2016 condensed consolidated interim financial statements of Arab Insurance Group (B.S.C.) ("the Company") and its subsidiaries (together "the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2016;
- the condensed consolidated statement of income for the three-month and nine-month periods ended 30 September 2016;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2016;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2016;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2016; and
- notes to the condensed consolidated interim financial statements.

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

## Scope of Review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2016 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG



KPMG Fakhro, a Bahrain partnership registered with Ministry of Industry and Commerce, MC/CC Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated to KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

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

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016

(In thousands of U.S. Dollars)

| | Note | 30 September 2016 (reviewed) | 31 December 2015 (audited) | 30 September 2015 (reviewed) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and bank balances | | **227,809** | 198,769 | 186,702 |
| Investments | 4 | **509,995** | 545,459 | 551,426 |
| Accrued income | 5 | **125,006** | 71,322 | 106,803 |
| Insurance receivables | | **106,705** | 116,022 | 116,883 |
| Insurance deposits | | **33,268** | 37,017 | 37,020 |
| Deferred policy acquisition costs | | **21,014** | 20,400 | 27,468 |
| Reinsurers' share of technical provisions | 6 | **88,288** | 65,850 | 74,717 |
| Other assets | 7 | **17,854** | 21,987 | 27,689 |
| Property and equipment | 8 | **21,768** | 22,236 | 22,334 |
| | | **1,151,707** | 1,099,062 | 1,151,042 |
| **LIABILITIES** | | | | |
| Technical provisions | 9 | **733,743** | 679,543 | 733,380 |
| Insurance payables | | **39,155** | 44,606 | 44,641 |
| Borrowings | | **41,000** | 44,000 | 44,000 |
| Other liabilities | 10 | **47,490** | 51,933 | 41,294 |
| | | **861,388** | 820,082 | 863,315 |
| **EQUITY** | | | | |
| **Attributable to shareholders of parent company** | | | | |
| Share capital | | **220,000** | 220,000 | 220,000 |
| Treasury stock | | **(14,793)** | (14,793) | (14,793) |
| Reserves | | **40,491** | 33,750 | 36,686 |
| Retained earnings | | **8,903** | 5,291 | 11,113 |
| | | **254,601** | 244,248 | 253,006 |
| **Non-controlling interests** | | **35,718** | 34,732 | 34,721 |
| | | **290,319** | 278,980 | 287,727 |
| | | **1,151,707** | 1,099,062 | 1,151,042 |

These condensed consolidated interim financial statements were approved by the Board of Directors on 13 November 2016 and signed on its behalf by:

| | | |
|---|---|---|
| Khalid J. Bin Kalban<br>Chairman | Dr. Fouad A A Alfalah<br>Vice Chairman | Yassir Albaharna<br>Chief Executive Officer |

The accompanying notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF INCOME
### FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

(In thousands of U.S. Dollars)

| | Note | For the three months ended 30 September 2016 (reviewed) | For the three months ended 30 September 2015 (reviewed) | For the financial year-to-date 30 September 2016 (reviewed) | For the financial year-to-date 30 September 2015 (reviewed) | For the year ended 31 December 2015 (audited) |
|---|---|---|---|---|---|---|
| Gross premiums written | | **21,307** | 26,525 | **227,481** | 212,634 | 220,442 |
| Net earned premiums | | **41,821** | 50,668 | **131,828** | 167,515 | 219,924 |
| Claims and related expenses | | **(27,557)** | (32,734) | **(89,670)** | (111,198) | (148,259) |
| Policy acquisition costs | | **(11,322)** | (14,327) | **(35,178)** | (42,927) | (58,422) |
| Investment income attributable to insurance funds | 12 | **3,372** | (1,466) | **8,765** | 6,189 | 8,542 |
| Operating expenses | 13 | **(3,768)** | (5,801) | **(12,077)** | (17,003) | (21,012) |
| **Underwriting result** | 11 | **2,546** | (3,660) | **3,668** | 2,576 | 773 |
| Investment income attributable to shareholders' funds | 12 | **2,183** | (1,777) | **6,683** | 3,899 | 5,752 |
| Operating expenses -non underwriting activities | 13 | **(2,028)** | (1,662) | **(5,555)** | (5,348) | (7,544) |
| Borrowing cost | | **(125)** | (154) | **(513)** | (238) | (416) |
| Other income | 14 | **1,029** | 890 | **3,283** | 3,363 | 5,945 |
| Other expenses and provisions | 15 | **(1,445)** | 538 | **(3,416)** | (6,144) | (12,134) |
| **Profit (loss) for the period** | | **2,160** | (5,825) | **4,150** | (1,892) | (7,624) |
| **Attributable to:** | | | | | | |
| Non-controlling interests | | **484** | (983) | **706** | (3,284) | (3,203) |
| Shareholders of parent company | | **1,676** | (4,842) | **3,444** | 1,392 | (4,421) |
| | | **2,160** | (5,825) | **4,150** | (1,892) | (7,624) |
| **Earnings per share attributable to shareholders (basic and diluted)** | 16 US$ | **0.01** | (0.02) | **0.02** | 0.01 | (0.02) |

The accompanying notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

(In thousands of U.S. Dollars)

| | For the three months ended 30 September 2016 (reviewed) | For the three months ended 30 September 2015 (reviewed) | For the financial year-to-date 30 September 2016 (reviewed) | For the financial year-to-date 30 September 2015 (reviewed) | For the year ended 31 December 2015 (audited) |
|---|---|---|---|---|---|
| Profit (loss) for the period | **2,160** | (5,825) | **4,150** | (1,892) | (7,624) |
| **Other comprehensive income** | | | | | |
| **Items that will be reclassified to profit or loss:** | | | | | |
| Changes on remeasurement of available for sale investments | **224** | (4,396) | **5,272** | (3,130) | (6,382) |
| Transfers for recognition of losses on disposal of available for sale investments | **947** | 88 | **1,917** | 240 | 477 |
| **Other comprehensive income** | **1,171** | (4,308) | **7,189** | (2,890) | (5,905) |
| **Total comprehensive income** | **3,331** | (10,133) | **11,339** | (4,782) | (13,529) |
| **Attributable to:** | | | | | |
| Non-controlling interests | **456** | (1,049) | **986** | (3,141) | (3,130) |
| Shareholders of parent company | **2,875** | (9,084) | **10,353** | (1,641) | (10,399) |
| | **3,331** | (10,133) | **11,339** | (4,782) | (13,529) |

The accompanying notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016
(In thousands of U.S. Dollars)

| | Share capital | Treasury stock | Reserves | | | | Retained earnings | Attributable to shareholders of parent company | Non-controlling interests | Total equity (reviewed) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Legal | Investment revaluation | Property revaluation | Total | | | | |
| **Balances at 31 December 2015** | 220,000 | (14,793) | 33,200 | (5,195) | 5,745 | 33,750 | 5,291 | 244,248 | 34,732 | 278,980 |
| Net profit for the period | - | - | - | - | - | - | 3,444 | 3,444 | 706 | 4,150 |
| Changes on remeasurement of available for sale investments | - | - | - | 5,010 | - | 5,010 | - | 5,010 | 262 | 5,272 |
| Transfers for recognition of losses on disposal of available for sale investments | - | - | - | 1,899 | - | 1,899 | - | 1,899 | 18 | 1,917 |
| **Total comprehensive income for the period** | - | - | - | 6,909 | - | 6,909 | 3,444 | 10,353 | 986 | 11,339 |
| Transfer of net depreciation on revalued property | - | - | - | - | (137) | (137) | 137 | - | - | - |
| Transfer (from) to non-distributable reserves | - | - | (31) | - | - | (31) | 31 | - | - | - |
| **Balances at 30 September 2016** | 220,000 | (14,793) | 33,169 | 1,714 | 5,608 | 40,491 | 8,903 | 254,601 | 35,718 | 290,319 |

The accompanying notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 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) |
| Dividends 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 |

The accompanying notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

## CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 (reviewed) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 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 profit (loss) for the period | - | - | - | - | - | - | 1,392 | 1,392 | (3,284) | (1,892) |
| Changes on remeasurement of available for sale investments | - | - | - | (3,266) | - | (3,266) | - | (3,266) | 136 | (3,130) |
| Transfers for recognition of losses on disposal of available for sale investments | - | - | - | 233 | - | 233 | - | 233 | 7 | 240 |
| Total comprehensive income for the period | - | - | - | (3,033) | - | (3,033) | 1,392 | (1,641) | (3,141) | (4,782) |
| Dividend paid | - | - | - | - | - | - | (9,902) | (9,902) | - | (9,902) |
| Transfer of net depreciation on revalued property | - | - | - | - | (138) | (138) | 138 | - | - | - |
| Balances at 30 September 2015 | 220,000 | (14,793) | 33,144 | (2,250) | 5,792 | 36,686 | 11,113 | 253,006 | 34,721 | 287,727 |

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

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

### CONSOLIDATED STATEMENT OF CASH FLOWS
### FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

(In thousands of U.S. Dollars)

| | Note | For the financial year-to-date 30 September 2016 (reviewed) | For the financial year-to-date 30 September 2015 (reviewed) | For the year ended 31 December 2015 (audited) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Premiums received | | **194,309** | 246,839 | 308,434 |
| Reinsurance premiums paid | | **(27,460)** | (42,786) | (58,869) |
| Claims and acquisition costs paid | | **(177,038)** | (203,208) | (250,677) |
| Reinsurance receipts in respect of claims | | **15,543** | 24,464 | 31,190 |
| Investment income | | **(4,735)** | 5,051 | 1,986 |
| Interest received | | **1,707** | 1,523 | 2,211 |
| Dividends received | | **683** | 1,074 | 1,878 |
| Operating expenses paid | | **(22,644)** | (18,719) | (22,700) |
| Other (expenses) / income, net | | **(5,318)** | (3,981) | (3,332) |
| Insurance deposits received, net | | **4,225** | 5,038 | 5,444 |
| Purchase of trading investments | | **(22,807)** | (44,298) | (46,990) |
| Sale of trading investments | | **27,940** | 9,158 | 31,340 |
| Directors' remunerations paid | | **-** | (305) | (305) |
| **Net cash used in operating activities** | 17 | **(15,595)** | (20,150) | (390) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Maturity/sale of investments | | **218,140** | 273,828 | 329,987 |
| Purchase of investments | | **(189,549)** | (278,077) | (348,512) |
| Term deposits with bank | | **153** | 34,427 | 29,845 |
| Interest received | | **6,849** | 6,409 | 9,347 |
| Dividends received | | **-** | 10 | 10 |
| Investment income | | **6,855** | 6,152 | 7,492 |
| Collateralised cash deposits | | **6,493** | (12,698) | (10,137) |
| Purchase of property and equipment | | **(273)** | (446) | (574) |
| Purchase of intangible assets | | **(38)** | (29) | (38) |
| Investment in associate | | **(63)** | - | - |
| **Net cash provided by investing activities** | | **48,567** | 29,576 | 17,420 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Borrowings | | **(3,000)** | 34,000 | 34,000 |
| Interest on borrowings | | **(723)** | (251) | (328) |
| Dividends paid | | **(63)** | (9,164) | (9,245) |
| **Net cash (used in) provided by financing activities** | | **(3,786)** | 24,585 | 24,427 |
| **Net increase in cash and cash equivalents** | | **29,186** | 34,011 | 41,457 |
| Effect of exchange rate on cash and cash equivalents | | **7** | (26) | 13 |
| Cash and cash equivalents, beginning of period | | **136,515** | 95,045 | 95,045 |
| **Cash and cash equivalents, end of period** | | **165,708** | 129,030 | 136,515 |
| Term deposits with bank | | **62,101** | 57,672 | 62,254 |
| **Cash and bank balances, end of period** | | **227,809** | 186,702 | 198,769 |

The accompanying notes 1 to 21 are an integral part of these condensed consolidated interim financial statements.

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

### 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 condensed consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial information to be prepared in condensed form. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2015.

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

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2015 that were prepared in accordance with International Financial Reporting Standards (IFRS). Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2016.

### 3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group registers approximately 60% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

## 4. INVESTMENTS

| | US$ '000 | | |
|---|---|---|---|
| | **30 September 2016** | 31 December 2015 | 30 September 2015 |
| **At fair value through profit or loss** | | | |
| **Held for trading** | | | |
| Common stock of listed companies | **42,138** | 44,825 | 58,942 |
| | **42,138** | 44,825 | 58,942 |
| **Designated at fair value on initial recognition** | | | |
| Debt securities | | | |
| - Other investment grade | **51,026** | 49,490 | 50,108 |
| - Other | **41,235** | 40,696 | 41,140 |
| | **92,261** | 90,186 | 91,248 |
| **Held to maturity** | | | |
| Debt securities | | | |
| - Supra-nationals and OECD country governments | **1,000** | 1,000 | 7,999 |
| - Other investment grade | **4,851** | 4,000 | 4,002 |
| - Non OECD country government | **-** | - | 2,650 |
| - Other | **3,910** | 9,902 | 9,895 |
| | **9,761** | 14,902 | 24,546 |
| **Available for sale** | | | |
| Debt securities | | | |
| - Supra-nationals and OECD country governments | **48,753** | 77,147 | 53,590 |
| - Other investment grade | **208,641** | 199,147 | 210,987 |
| - Other | **77,096** | 83,177 | 71,648 |
| Common stock of listed companies | **8,685** | 12,214 | 16,324 |
| Common stock of unlisted companies | **6,429** | 6,422 | 6,362 |
| Other equity type investment | **16,140** | 17,202 | 17,540 |
| | **365,744** | 395,309 | 376,451 |
| **Investment in associate** | **91** | 237 | 239 |
| | **509,995** | 545,459 | 551,426 |

Debt securities amounting to US$ 147.9 million (31 December 2015: US$ 151.8 million; 30 September 2015: US$ 148.6 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and borrowings.

## 5. ACCRUED INCOME

| | US$ '000 | | |
|---|---|---|---|
| | **30 September 2016** | 31 December 2015 | 30 September 2015 |
| Accrued insurance premiums | **122,548** | 68,975 | 103,663 |
| Accrued interest | **2,458** | 2,347 | 3,140 |
| | **125,006** | 71,322 | 106,803 |

## 6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

| | US$ '000 | | |
|---|---|---|---|
| | **30 September 2016** | 31 December 2015 | 30 September 2015 |
| **General insurance business** | | | |
| - Claims outstanding | **38,741** | 37,738 | 43,789 |
| - Unreported claims | **17,862** | 14,674 | 16,098 |
| - Deferred retrocession premium reserve | **31,407** | 13,304 | 14,161 |
| | **88,010** | 65,716 | 74,048 |
| **Life insurance business** | | | |
| - Claims outstanding | **152** | 20 | 461 |
| - Unreported claims | **126** | 114 | 208 |
| | **278** | 134 | 669 |
| | **88,288** | 65,850 | 74,717 |

## 7. OTHER ASSETS

| | US$ '000 | | |
|---|---|---|---|
| | **30 September 2016** | 31 December 2015 | 30 September 2015 |
| Intangible assets : | | | |
| - Computer software | **9,568** | 9,530 | 9,521 |
| | **9,568** | 9,530 | 9,521 |
| Less: Accumulated amortisation | **(9,195)** | (9,019) | (8,945) |
| Net intangible assets | **373** | 511 | 576 |
| Other assets: | | | |
| - Collateralised cash deposits | **12,520** | 19,104 | 21,665 |
| - Prepayments and other receivables | **4,961** | 2,372 | 5,448 |
| | **17,481** | 21,476 | 27,113 |
| | **17,854** | 21,987 | 27,689 |

## 8. PROPERTY AND EQUIPMENT

| | US$ '000 | | |
|---|---|---|---|
| | **30 September 2016** | 31 December 2015 | 30 September 2015 |
| Land | **2,469** | 2,469 | 2,469 |
| Building | **19,182** | 19,182 | 19,182 |
| Work in progress | **-** | 19 | 12 |
| Information systems, furniture, equipment and other | **10,830** | 10,679 | 10,602 |
| | **32,481** | 32,349 | 32,265 |
| Less: Accumulated depreciation | **(10,713)** | (10,113) | (9,931) |
| | **21,768** | 22,236 | 22,334 |

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

## 9. TECHNICAL PROVISIONS

**Technical provisions comprise:**

| | US$ '000 | | |
|---|---|---|---|
| | **30 September 2016** | 31 December 2015 | 30 September 2015 |
| **General insurance business** | | | |
| - Claims outstanding | **287,606** | 298,985 | 315,352 |
| - Unreported losses | **186,706** | 192,072 | 183,105 |
| - Unearned premiums | **181,824** | 109,828 | 153,102 |
| | **656,136** | 600,885 | 651,559 |
| **Life insurance business** | | | |
| - Claims outstanding | **17,808** | 17,976 | 18,336 |
| - Unreported losses | **49,890** | 52,996 | 52,531 |
| - Unearned premiums | **9,909** | 7,686 | 10,954 |
| | **77,607** | 78,658 | 81,821 |
| | **733,743** | 679,543 | 733,380 |

## 10. OTHER LIABILITIES

| | US$ '000 | | |
|---|---|---|---|
| | **30 September 2016** | 31 December 2015 | 30 September 2015 |
| Post-employment benefits | **14,569** | 14,236 | 14,320 |
| Reinsurance premiums accrued | **6,067** | 8,619 | 8,619 |
| Accrued expenses | **5,046** | 7,978 | 5,226 |
| Dividends payable | **2,516** | 2,579 | 2,660 |
| Employee share scheme | **2,727** | 4,902 | 5,522 |
| Other | **16,565** | 13,619 | 4,947 |
| | **47,490** | 51,933 | 41,294 |

## 11. SEGMENT INFORMATION - ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT

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

| | US$ '000 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Period ended 30 September 2016 | | | | | | | | |
| | Non-life | | | | | | Life | | Total |
| | Property | Engineering | Marine | Accident | Whole Account | Others | Short term | Long term | |
| **REVENUES :** | | | | | | | | | |
| Gross premiums written | 38,439 | 19,253 | 10,142 | 8,671 | 112,764 | 21,237 | 16,487 | 488 | 227,481 |
| Outward reinsurance premiums | (5,557) | (3,472) | (1,260) | (465) | (25,726) | (1,126) | (142) | - | (37,748) |
| Change in unearned premiums - gross | (5,409) | (1,083) | (1,530) | (764) | (50,063) | (4,583) | (1,791) | (229) | (65,452) |
| Change in unearned premiums - reinsurance | 2,303 | 1,620 | 786 | 255 | 3,640 | (852) | (205) | - | 7,547 |
| **Net earned premiums** | 29,776 | 16,318 | 8,138 | 7,697 | 40,615 | 14,676 | 14,349 | 259 | 131,828 |
| Investment income attributable to insurance funds | 2,607 | 1,292 | 878 | 386 | 164 | 1,608 | 744 | 1,086 | 8,765 |
| | 32,383 | 17,610 | 9,016 | 8,083 | 40,779 | 16,284 | 15,093 | 1,345 | 140,593 |
| **COSTS AND EXPENSES :** | | | | | | | | | |
| Gross claims paid | (27,498) | (13,783) | (6,422) | (6,565) | (25,818) | (17,438) | (15,377) | (2,469) | (115,370) |
| Claims recovered from reinsurers | (147) | 325 | 354 | 74 | (4,849) | 546 | 254 | - | (3,443) |
| Change in provision for outstanding claims - gross | (1,000) | 5,662 | 4,123 | 1,139 | 25,056 | 4,943 | (212) | 300 | 40,011 |
| Change in provision for outstanding claims - reinsurance | 1,570 | (248) | (1,150) | (261) | (10) | (898) | 131 | - | (866) |
| Change in provision for unreported losses - gross | 10,019 | (3,437) | 250 | 435 | (22,053) | 2,264 | 2,245 | 796 | (9,481) |
| Change in provision for unreported losses - reinsurance | (289) | 82 | (89) | 22 | (279) | (46) | 78 | - | (521) |
| **Claims and related expenses** | (17,345) | (11,399) | (2,934) | (5,156) | (27,953) | (10,629) | (12,881) | (1,373) | (89,670) |
| Policy acquisition costs | (9,937) | (6,475) | (3,625) | (2,718) | (14,723) | (712) | (246) | 142 | (38,294) |
| Policy acquisition costs recovered from reinsurers | 1,120 | 879 | 473 | 216 | - | (25) | - | - | 2,663 |
| Change in deferred policy acquisition costs - gross | 567 | 757 | 496 | 128 | 4 | (81) | (101) | 7 | 1,777 |
| Change in deferred policy acquisition costs - reinsurance | (569) | (577) | (291) | (122) | - | 235 | - | - | (1,324) |
| **Policy acquisition costs** | (8,819) | (5,416) | (2,947) | (2,496) | (14,719) | (583) | (347) | 149 | (35,178) |
| Operating expenses | (4,371) | (1,487) | (1,060) | (1,096) | (306) | (1,807) | (1,647) | (303) | (12,077) |
| **Underwriting result** | 1,848 | (692) | 2,075 | (665) | (2,199) | 3,265 | 218 | (182) | 3,668 |

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

| | 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 |

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

| | US$ '000 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Period ended 30 September 2015 | | | | | | | | |
| | Non-life | | | | | | Life | | Total |
| | Property | Engineering | Marine | Accident | Whole Account | Others | Short term | Long term | |
| REVENUES : | | | | | | | | | |
| Gross premiums written | 49,983 | 24,747 | 13,504 | 13,438 | 54,993 | 31,569 | 23,587 | 813 | 212,634 |
| Outward reinsurance premiums | (4,048) | (2,700) | (356) | (143) | (7,562) | (2,271) | (217) | - | (17,297) |
| Change in unearned premiums - gross | (7,930) | (2,456) | (1,666) | (843) | (1,836) | (8,213) | (4,410) | (216) | (27,570) |
| Change in unearned premiums - reinsurance | 244 | 119 | 130 | 31 | (2,518) | 1,748 | (6) | - | (252) |
| Net earned premiums | 38,249 | 19,710 | 11,612 | 12,483 | 43,077 | 22,833 | 18,954 | 597 | 167,515 |
| Investment income attributable to insurance funds | 1,975 | 883 | 628 | 140 | 70 | 1,220 | 505 | 768 | 6,189 |
| | 40,224 | 20,593 | 12,240 | 12,623 | 43,147 | 24,053 | 19,459 | 1,365 | 173,704 |
| COSTS AND EXPENSES : | | | | | | | | | |
| Gross claims paid | (45,119) | (13,458) | (10,884) | (8,397) | (29,662) | (20,626) | (13,108) | (1,537) | (142,791) |
| Claims recovered from reinsurers | 1,211 | 193 | 107 | 72 | 6,891 | 168 | 18 | - | 8,660 |
| Change in provision for outstanding claims - gross | 20,216 | 1,115 | 4,545 | 1,210 | (3,286) | 4,725 | (163) | (1,315) | 27,047 |
| Change in provision for outstanding claims - reinsurance | (1,374) | 288 | (445) | (41) | 2 | (1,800) | (41) | (1) | (3,412) |
| Change in provision for unreported losses - gross | 438 | (648) | 1,249 | (323) | (1,869) | (3,088) | 337 | 2,042 | (1,862) |
| Change in provision for unreported losses - reinsurance | (110) | 38 | (31) | (43) | (279) | 1,709 | (123) | (1) | 1,160 |
| Claims and related expenses | (24,738) | (12,472) | (5,459) | (7,522) | (28,203) | (18,912) | (13,080) | (812) | (111,198) |
| Policy acquisition costs | (13,879) | (7,560) | (4,735) | (3,789) | (15,460) | (1,676) | (1,180) | (93) | (48,372) |
| Policy acquisition costs recovered from reinsurers | 359 | 267 | 105 | 32 | - | 638 | - | - | 1,401 |
| Change in deferred policy acquisition costs - gross | 2,280 | 748 | 664 | 98 | 105 | 638 | 161 | (1) | 4,693 |
| Change in deferred policy acquisition costs - reinsurance | (80) | (44) | (37) | (7) | - | (481) | - | - | (649) |
| Policy acquisition costs | (11,320) | (6,589) | (4,003) | (3,666) | (15,355) | (881) | (1,019) | (94) | (42,927) |
| Operating expenses | (5,975) | (2,243) | (1,551) | (1,462) | (393) | (2,772) | (2,208) | (399) | (17,003) |
| Underwriting result | (1,809) | (711) | 1,227 | (27) | (804) | 1,488 | 3,152 | 60 | 2,576 |

## 12. INVESTMENT INCOME

| US$ '000 | Financial year-to-date 30 September 2016 | | | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
|---|---|---|---|---|---|
| | Insurance funds | Shareholders' funds | Total | | |
| Interest income | | | | | |
| - Investments designated at fair value through profit or loss | 613 | 348 | 961 | 614 | 768 |
| - Others | 4,383 | 3,740 | 8,123 | 8,160 | 10,839 |
| Dividends | 416 | 267 | 683 | 1,084 | 1,888 |
| Realised gains/ (loss) | | | | | |
| - Trading investments | 918 | 1,336 | 2,254 | 6,010 | 3,344 |
| - Investment designated at fair value through profit or loss | (75) | (42) | (117) | 519 | 489 |
| - Available for sale | 1,596 | 1,685 | 3,281 | 3,661 | 3,955 |
| Gain (loss) on remeasurement of investments at fair value through profit & loss | | | | | |
| - Trading investments | 610 | (327) | 283 | (7,242) | (3,105) |
| - Investments designated at fair value through profit or loss | 785 | 446 | 1,231 | (1,092) | (1,589) |
| Impairment loss - available for sale | (124) | (563) | (687) | (845) | (1,189) |
| Other | (357) | (207) | (564) | (781) | (1,106) |
| | 8,765 | 6,683 | 15,448 | 10,088 | 14,294 |

## 13. OPERATING EXPENSES

| US$ '000 | Financial year-to-date 30 September 2016 | | | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
|---|---|---|---|---|---|
| | Underwriting | Non-Underwriting | Total | | |
| Salaries and benefits | 8,384 | 3,728 | 12,112 | 15,675 | 19,809 |
| General and administration | 3,693 | 1,827 | 5,520 | 6,676 | 8,747 |
| | 12,077 | 5,555 | 17,632 | 22,351 | 28,556 |

## 14. OTHER INCOME

| | US$ '000 | | |
|---|---|---|---|
| | **Financial year-to-date 30 September 2016** | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
| Third party administration services | **2,415** | 2,115 | 4,490 |
| Other | **868** | 1,248 | 1,455 |
| | **3,283** | 3,363 | 5,945 |

## 15. OTHER EXPENSES AND PROVISIONS

| | US$ '000 | | |
|---|---|---|---|
| | **Financial year-to-date 30 September 2016** | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
| Loss on revaluation of building | **-** | 4,850 | 4,850 |
| Foreign exchange loss (gain) | **3,499** | (1,805) | 3,509 |
| Provision for doubtful receivable & Deposits | **(53)** | 2,007 | 71 |
| Other | **(30)** | 1,092 | 3,704 |
| | **3,416** | 6,144 | 12,134 |

## 16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

| | | **Financial year-to-date 30 September 2016** | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
|---|---|---|---|---|
| Weighted average number of shares outstanding | '000 | **198,032** | 198,032 | 198,032 |
| Net profit (loss) | US$'000 | **3,444** | 1,392 | (4,421) |
| Earnings per share | US$ | **0.02** | 0.01 | (0.02) |

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

| | US$ '000 | | |
|---|---|---|---|
| | **Financial year-to-date 30 September 2016** | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
| Profit (loss) for the period | **4,150** | (1,892) | (7,624) |
| Increase (decrease) in insurance funds | **34,897** | 25,622 | (12,277) |
| Change in insurance receivable/ payable, net | **3,866** | 5,002 | 5,828 |
| Change in accrued income | **(53,684)** | (18,780) | 16,701 |
| Change in other assets/liabilities, net | **(4,824)** | (30,102) | (3,018) |
| Net cash used in operating activities | **(15,595)** | (20,150) | (390) |

## 18. FAIR VALUE DISCLOSURE

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

| | US$ '000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 September 2016 | | | | | | |
| | 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 balances | - | 227,809 | - | - | - | 227,809 | 227,809 |
| Investments | 134,399 | - | 9,761 | 365,744 | - | 509,904 | 510,412 |
| Accrued income | - | 125,006 | - | - | - | 125,006 | 125,006 |
| Insurance receivables | - | 106,705 | - | - | - | 106,705 | 106,705 |
| Insurance deposits | - | 33,268 | - | - | - | 33,268 | 33,268 |
| Other assets | - | 17,481 | - | - | - | 17,481 | 17,481 |
| **LIABILITIES** | | | | | | | |
| Insurance payables | - | - | - | - | 39,155 | 39,155 | 39,155 |
| Borrowings | - | - | - | - | 41,000 | 41,000 | 41,000 |
| Other liabilities | - | - | - | - | 42,444 | 42,444 | 42,444 |

| | US$ '000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 December 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 balances | - | 198,769 | - | - | - | 198,769 | 198,769 |
| Investments | 135,011 | - | 14,902 | 395,309 | - | 545,222 | 545,495 |
| Accrued income | - | 71,322 | - | - | - | 71,322 | 71,322 |
| Insurance receivables | - | 116,022 | - | - | - | 116,022 | 116,022 |
| Insurance deposits | - | 37,017 | - | - | - | 37,017 | 37,017 |
| Other assets | - | 21,476 | - | - | - | 21,476 | 21,476 |
| LIABILITIES | | | | | | | |
| Insurance payables | - | - | - | - | 44,606 | 44,606 | 44,606 |
| Borrowings | - | - | - | - | 44,000 | 44,000 | 44,000 |
| Other liabilities | - | - | - | - | 43,955 | 43,955 | 43,955 |

## 18. FAIR VALUE DISCLOSURE (CONTD.)

| | US$ '000 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30 September 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 balances | - | 186,702 | - | - | - | 186,702 | 186,702 |
| Investments | 150,190 | - | 24,546 | 376,451 | - | 551,187 | 551,663 |
| Accrued income | - | 106,803 | - | - | - | 106,803 | 106,803 |
| Insurance receivables | - | 116,883 | - | - | - | 116,883 | 116,883 |
| Insurance deposits | - | 37,020 | - | - | - | 37,020 | 37,020 |
| Other assets | - | 27,113 | - | - | - | 27,113 | 27,113 |
| LIABILITIES | | | | | | | |
| Insurance payables | - | - | - | - | 44,641 | 44,641 | 44,641 |
| Borrowings | - | - | - | - | 44,000 | 44,000 | 44,000 |
| Other liabilities | - | - | - | - | 36,068 | 36,068 | 36,068 |

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

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

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

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

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

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

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.

## 18. FAIR VALUE DISCLOSURE (CONTD.)

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

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

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

| | US$'000 | | | |
|---|---|---|---|---|
| **30 September 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **At fair value through profit or loss** | | | | |
| **Held for trading** | | | | |
| Common stock of listed companies | **42,138** | - | - | **42,138** |
| **Designated at fair value on initial recognition** | | | | |
| Debt Securities | **92,261** | - | - | **92,261** |
| **Available for sale** | | | | |
| Debt securities | **334,490** | - | - | **334,490** |
| Common stock of listed companies | **8,685** | - | - | **8,685** |
| Common stock of unlisted companies | - | - | **6,429** | **6,429** |
| Other | - | **881** | **15,259** | **16,140** |
| **Forward foreign exchange contracts** | **125** | - | - | **125** |
| | **477,699** | **881** | **21,688** | **500,268** |

| | US$'000 | | | |
|---|---|---|---|---|
| 31 December 2015 | Level 1 | Level 2 | Level 3 | Total |
| 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 |
| | 506,763 | 1,372 | 22,252 | 530,387 |

## 18. FAIR VALUE DISCLOSURE (CONTD.)

| 30 September 2015 | US$'000 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| At fair value through profit or loss | | | | |
| Held for trading | | | | |
| Common stock of listed companies | 58,942 | - | - | 58,942 |
| Designated at fair value on initial recognition | | | | |
| Debt Securities | 91,248 | - | - | 91,248 |
| Available for sale | | | | |
| Debt securities | 336,225 | - | - | 336,225 |
| Common stock of listed companies | 16,324 | - | - | 16,324 |
| Common stock of unlisted companies | - | 70 | 6,292 | 6,362 |
| Other | - | 1,662 | 15,878 | 17,540 |
| Forward foreign exchange contracts | (3) | - | - | (3) |
| | 502,736 | 1,732 | 22,170 | 526,638 |

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

| **30 September 2016** | **US$ '000** | | |
|---|---|---|---|
| | **Unlisted equity** | **Others** | **Total** |
| **Balance at 1 January 2016** | **6,357** | **15,895** | **22,252** |
| Gain (loss) recognised in: | | | |
| - Income statement | **-** | **(602)** | **(602)** |
| - other comprehensive income | **(10)** | **(337)** | **(347)** |
| Investments made during the period | **170** | **2,257** | **2,427** |
| Investments redeemed during the period | **(88)** | **(1,954)** | **(2,042)** |
| **Balance at 30 September 2016** | **6,429** | **15,259** | **21,688** |

| 31 December 2015 | US$'000 | | |
|---|---|---|---|
| | 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 |

## 18. FAIR VALUE DISCLOSURE (CONTD.)

| 30 September 2015 | US$ '000 | | |
|---|---|---|---|
| | 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 | 364 | 368 | 732 |
| Investments made during the period | 177 | 3,848 | 4,025 |
| Investments redeemed during the Period | (8) | (1,955) | (1,963) |
| Balance at 30 September 2015 | 6,292 | 15,878 | 22,170 |

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 period ended 30 September 2016, there were no transfers in and out of level 1, level 2 and level 3 (31 December 2015: nil; 30 September 2015: nil). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the Company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

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

**iii. Forward foreign exchange contracts:**

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

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

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

## 19. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

At 30 September 2016, 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 2015. The joint venture Hardy Arig Insurance Management W.L.L. has been liquidated. The Group holds 49% and 25% of the equity shares in Arima Insurance software W.L.L. and Globemed Bahrain W.L.L., Bahrain respectively.

## 19. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES (CONTD.)

The subsidiary Takaful Re Limited which had ceased writing business in 2015 was placed in run-off at the Annual General Meeting of the subsidiary held on 7th April 2016. The run-off is being managed internally under supervision of the Board of Directors of the subsidiary.

## 20. 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 | | |
|---|---|---|---|
| | **Financial year-to-date 30 September 2016** | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
| a) Gross premium retroceded by subsidiary to parent company | **76,616** | 33,491 | 30,365 |
| b) Service fees for administration services provided by parent company | **340** | 656 | 860 |
| c) Balances outstanding - Receivables | **63,732** | 65,167 | 62,636 |

ii) **Compensation to directors and key management personnel:**

| | US$ '000 | | |
|---|---|---|---|
| | **Financial year-to-date 30 September 2016** | Financial year-to-date 30 September 2015 | Year ended 31 December 2015 |
| a) Directors | | | |
| - Attendance fees | **82** | 107 | 145 |
| - Travel expense | **115** | 101 | 148 |
| b) Key management compensation | | | |
| - Salaries and other short-term employee benefits | **1,342** | 1,690 | 2,102 |
| - Post-employment benefits | **234** | 227 | 302 |
| - Share-based compensation | **1,435** | 1,606 | 1,607 |
| c) Balances payable (net) | | | |
| Key management | | | |
| - Maximum balance | **6,338** | 7,548 | 7,096 |
| - Closing balance | **6,338** | 7,548 | 7,096 |

## 21. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 5.6 million (31 December 2015: US$ 5.2 million; 30 September 2015: US$ 5.8 million).

arig
المجموعة العربية للتأمين
ARAB INSURANCE GROUP

**APPENDIX**

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

## A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS AT 30 SEPTEMBER 2016

### INVESTMENTS

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

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

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

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

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

### PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

## INVESTMENT IN ASSOCIATED COMPANIES

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

## INVESTMENT IN JOINT VENTURES

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

## INVESTMENT INCOME

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

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

## FOREIGN CURRENCY TRANSLATION

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

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

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

## DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

**APPENDIX**

**B. ADDITIONAL DISCLOSURE ON INVESTMENTS**

| | US$ '000 30-September-2016 | | |
|---|---|---|---|
| | Investments in U.A.E. | Investments outside U.A.E. | Total |
| **a. Cash & bank balances** | 32,519 | 195,290 | **227,809** |
| **Total cash & bank balances** | **32,519** | **195,290** | **227,809** |
| **b. Investments** | | | |
| **At fair value through profit or loss** | | | |
| **Held for trading** | | | |
| Common stock of listed companies | 3,536 | 38,602 | **42,138** |
| | **3,536** | **38,602** | **42,138** |
| **Designated at fair value on initial recognition** | | | |
| Debt Securities | | | |
| - Other Investment grade | - | 51,026 | **51,026** |
| - Other | - | 41,235 | **41,235** |
| | **-** | **92,261** | **92,261** |
| **Held to maturity** | | | |
| Debt securities | | | |
| - Supra-nationals and OECD country governments | - | 1,000 | **1,000** |
| - Other Investment grade | 4,851 | - | **4,851** |
| - Non-OECD country government | - | - | **-** |
| - Other | - | 3,910 | **3,910** |
| | **4,851** | **4,910** | **9,761** |
| **Available for sale** | | | |
| Debt securities | | | |
| - Supra-nationals and OECD country governments | - | 48,753 | **48,753** |
| - Other Investment grade | 22,221 | 186,420 | **208,641** |
| - Other | 3,995 | 73,101 | **77,096** |
| Common stock of listed companies | - | 8,685 | **8,685** |
| Common stock of unlisted companies | - | 6,429 | **6,429** |
| Other (see note) | 872 | 15,268 | **16,140** |
| | **27,088** | **338,656** | **365,744** |
| **Investment in associates** | - | 91 | **91** |
| | **-** | **91** | **91** |
| **Total Investments** | **35,475** | **474,520** | **509,995** |

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$ 1,386,607 (in U.A.E.: US$ NIL).