Arab Insurance Group (B.S.C.)

Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2016

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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 36th Annual Report and Consolidated Financial Statements for the 2016 Financial Year.

Group Performance

Despite a very challenging market environment and continuing political unrest in some of Arig's core markets, the year 2016 ended for the Company with very encouraging news. A.M. Best upgraded the Group's Financial Strength Rating to 'A- (Excellent)' and its Long-Term Issuer Credit Rating to 'a-' with a stable outlook and highlighted in their related press release "the rating upgrades reflect Arig's ability to take strategic decisions to eliminate underperforming business segments and optimise its business profile to generate stronger prospective earnings".

The Group generated a net profit of US$ 9.2 million in 2016 (2015: a loss of US$ 4.4 million). The underwriting result for the Group recorded a profit of US$ 8.3 million (2015: profit of US$ 0.8 million), while the Group's combined ratio improved to 96.8% compared with 106.6% in 2015.

Arig's Gross written premiums increased to US$ 245.4 million over the year (2015: US$ 220.4 million) and the total investment income for the Group reached US$ 19.3 million (2015: US$ 14.3 million).

The Market

Economic Situation

Several political mega events dominated the news in 2016 and kept the world in a highly alert state. The US presidential election and the referendum in the United Kingdom on leaving the EU were surely the most prominent two. Politicians in continental Europe were preoccupied managing the consequences of the unprecedented high influx of refugees and asylum seekers, arriving mainly from the MENA region.

The devastating wars in Syria, Iraq, Libya and Yemen, which represents about one third of the MENA region's population, are also affecting all neighbouring countries on a much greater scale than Europe.

The world economy continued to be dominated by a historically low level of interest rates, low oil prices and slowly growing world trade.

The IMF estimated in its latest World Economic Outlook (Jan. 2017) an overall world output of 3.1% for 2016 (2015: 3.2%). Emerging Markets and developing countries are expected to grow by 4.1% in 2016, same level as 2015 against a growth of 1.8% (2015: 2.1%) in the advanced economies. China will remain at the top of the list with an expected growth of 6.7% (2015: 6.9%). A high growth of 6.6% is also expected for India; however, at a noticeable lower level than 2015 with 7.6%.

Growth has been constrained in the MENA region due to the impact of prolonged low oil prices, long-lasting conflicts and on-going security concerns.

Two of our core markets are expected to perform at a considerable lower level against 2015, the Kingdom of Saudi Arabia 1.4% (2015: 4.1%) and Turkey 2.9% (2015: 4%). Further, the growth in Sub-Saharan Africa is expected to drop to 1.4% against 3.4% in 2015.

In the USA, and contrary to earlier fears, the election of President Trump has triggered a broad-based rally in the financial markets, especially stock markets which has been fuelled by expectations of tax cuts, pro-business regulatory reforms and increased government spending. The US Dollar has appreciated sharply, while bond yields have increased across the board.

Post Brexit, domestic demand assisted UK to perform relatively strongly in the 3rd quarter 2016. The overall outlook for the UK in 2016 is 2% (2015: 2.2%). However, the effect of Brexit on the financial institutions, insurance and reinsurance market in Europe has yet to be resolved. A notable direct impact was a reduction of nearly 16% in the value of Sterling against the USD.

Insurance & Reinsurance

The insurance and reinsurance industry is directly impacted by this global and regional economic and political environment. Particularly, the low level of interest rates environment coupled with an absence of mega insurance events is still attracting investors, although at a reducing scale.

Capital availability and regulatory change are also resulting in new reinsurance company formations in rapidly developing and promising markets such as China and India.

Lloyds stamp capacity is expected to reach - for the first time - GBP 30 billion. This represents an increase of 10% over 2016 levels, but this is largely due to the fall in the value of Sterling against the Dollar following the Brexit announcement as over 50% of Lloyd's premium income is in US Dollars.

Aon Benfield estimates that the global reinsurance capacity is now in excess of USD 590 billion, an increase of more than 4.4% over last year. This figure includes conventional reinsurance as well as alternative capital, which is increasing in dominance as a viable risk transfer mechanism.

Overall demand for reinsurance increased in 2016, but growth has been limited by both region and line of business. It is therefore expected that such combined capacity will be adequate to meet the increased reinsurance demand.

The continued focus of supervisory authorities on financial risk management processes as well as on increasing capital adequacy standards should further enhance demand for reinsurance in the near future, as the gap between rating agency assessments and regulatory capital requirements narrows.

Corporate M&A activity in the specialty insurance and reinsurance markets has accelerated strongly in the fourth quarter of 2016. Continued consolidation is expected to occur in 2017, given the current market climate.

According to recent analysis by Munich Re, 2016 suffered from USD 50 billion of global natural catastrophe losses, a four year high and an increase of 50% over 2015. Losses occurred in several regions and the causes were varied with no single large event causing enough damage to influence current global pricing levels. Renewal pricing impacts were mainly localised.

With political instability increasing around the globe, reinsurance is adapting to the evolving nature of political risks in an attempt to close the gaps in existing coverage. In addition, new technologies, big data and predictive analytics will continue to present both challenges and opportunities for insurers in the years ahead.

In our region, medical insurance will continue to be the fastest growing line of business fuelled by the introduction of new compulsory health insurance requirements. This will also remain the most powerful driver of insurance and reinsurance demand.

Reinsurance exposure is expected to grow at a faster pace than the MENA countries' GDP. The region's robust insurance market growth is seen as being primarily driven by compulsory schemes followed by a more stringent regulatory environment for insurers and relatively low natural catastrophe exposure (except for Turkey, Iran and Algeria), making this region attractive to global insurers and reinsurers.

Despite continued political instability and the economic slowdown in the wake of falling oil prices in the region, regulatory intervention following large property losses is easing pressure on reinsurance rates, terms and conditions.

Arig's Position

Despite the challenging market conditions, flood losses in UAE and an increase in the 2015 fire loss at the prominent Address Hotel in Dubai, the overall technical return for the Group was US$ 14.7 million (2015: US$13.2 million) up 11.4% year–on-year basis. The margins of our non-life treaty business improved from a more or less negligible result in 2015 to US$ 6.2 million with medical treaty business contributing US$ 1.2 million (2015: US$ 0.1 million). Our Lloyd's portfolio returned negative results due to our participation in two new start-up syndicates, however in the long run these syndicates will most likely generate more positive returns as it is normal for the syndicates to over reserve in the initial years. Our non-life facultative portfolio showed, as in the previous years, a healthy performance of US$ 11.0 million (2015: US$ 8.2million), particularly in property and engineering lines.

The life business was affected by a combination of a single large individual life policy loss and adverse experience from some of Arig's larger credit life schemes, which led to a negative technical result of the Life portfolio by US$ 2.5 million. Remedial measures have been implemented to reverse this trend.

Our discontinued Takaful Re portfolio is also running off smoothly and this has additionally benefited our bottom line.

Gross written premiums were up by 11.3% for the year 2016, mainly driven by our continued diversification into the Lloyds market which has more than doubled in the last 12 months. This increase has largely offset the reduced volume in our core markets and business lines as the continued competitive market and unstable political environment hampers growth opportunities. Additionally, premium income reduced following the closure of our Takaful Re and the branches in Singapore and Labuan.

The Company also managed its operating expenses, where the expense ratio has been reduced by 10.5 percentage points compared with last year.

The most important development for Arig over the past several years has been the announcement by A.M. Best that our rating has been upgraded to A-, but this came in late December and was too late to have any effect on our 2016 portfolio.

While we continue to identify new products and opportunities, we are subject to the same market conditions that our clients and competitors face. Nevertheless, we are all determined to look for alternative solutions to the challenges at hand to maintain the Company's profitability.

Investment returns were better in 2016 as compared to the previous year. For a predominantly fixed income investor like Arig, the environment remained challenging. Money market rates and yields on government and corporate bonds continued to be low on a historic basis. Our well-executed strategy did however ensure that our investment income made a significant contribution to the overall group profit.

In view of the positive results achieved over the year in these difficult trading conditions, the Board is pleased to recommend a dividend of 5% subject to approval of the Central Bank of Bahrain.

Outlook

Following subdued economic activity in 2016, the performance of emerging markets and developing economies in particular is expected to improve in 2017 and beyond. This is despite the uncertainties surrounding ramifications of the controversial incoming U.S. administration.

The World Economic Outlook (WEO) looks positive. The IMF recent update estimated an overall projected world output of 3.4% for 2017. Emerging Markets and developing countries are expected to grow by 4.5% in the same period. The WEO forecast expects a firming of oil prices following OPEC members and other producers' agreement to control supply. Regional economies still largely driven by oil revenues will start to benefit from the increasing price of oil. According to the OPEC Reference Basket, the price has increased steadily since February 2016 albeit from its lowest value in 10 years.

Despite these optimistic economic projections, the global reinsurance industry outlook remains challenging in view of the current political risks and over supply of capacity. While insurers and reinsurers are progressing cautiously, it is difficult to envisage major changes in the economic sentiment and any substantial reduction in overall reinsurance capacity. However, with the reducing margins in reinsurance profitability, it is unlikely that rate reductions will be tolerated in future. Risk acceptance practices and underwriting controls will very likely be adjusted to ensure that profitability is maintained.

Regional regulators are increasingly becoming aware of the financial risks arising from the current underwriting and reserving practices, and it is expected that insurers and reinsurers will be facing increasing scrutiny which may force review of the efficiencies of their deployed risk capital.

At Arig, we apply capital modelling techniques to ensure that our risk adjusted capital remains at appropriate levels.

In line with our objective to further diversify our book of business towards the much more controllable and therefore better performing facultative business, we are at the final stage of the establishment of Arig Insurance Management (DIFC) Limited (AIM) at the Dubai International Finance Centre in Dubai.

DIFC has positioned itself not only as an important reinsurance hub for the region, but also for business emanating from Africa. The majority of the leading reinsurance brokers are represented, in one way or another, at the DIFC. These brokers are controlling the placement of largely better performing corporate accounts, which should improve Arig's access to this business.

AIM should in addition add value to the Group by positioning itself, over the medium-term, as an attractive manager for cover-holder arrangements. Specialized Lloyd's products will be offered to our clients via these arrangements for the mutual benefit of all stakeholders.

Our recent upgrade of the Group's Financial Strength Rating to 'A- (Excellent)' by A.M. Best is not only a very important and necessary corner stone in respect of our future plans at DIFC, but it also allows us further access to business previously out of our reach because of minimum security requirements requested by supervisory authorities, particularly in Asian markets, where 'A' rating is a prerequisite.

Arig views Personal Lines as a major area for development to diversify away from purely commercial business. In recent times, 'digital disruption' has become a commonplace phrase littering industry commentaries and frequently cited as probably the biggest challenge to the insurance industry. The unchecked progress of technology has completely changed the ways in which consumers not only purchase but how they are made aware of their needs. Our sector has been relatively slow to respond to the potentials of using the masses of data captured and held on today's computer systems but we are now seeing this phenomenon driving product design, distribution, pricing and even underwriting. In 2016, Arig has concluded a partnership agreement with a pioneering Personal Lines technology company in order to complement our traditional reinsurance services with a fully integrated series of technology distribution solutions. We are also embedding Life and Healthcare offerings into the mix, thereby working towards 'one stop' employee benefit solutions for both individuals and corporates.

Our focus will remain on Arig's operational efficiencies, using our financial strength, market presence and third party relationships in providing new products, services and know how to our customers. We continue to see growth areas that have largely been underexplored. We believe that our first and foremost duty is to generate added value to our customers and shareholders.

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 the Central Bank of Bahrain for their support and cooperation throughout the year. The Directors also thank the retiring Group Management team and the rest of staff of the Arig Group for their commitment, professionalism and sincere efforts.

On behalf of the Board of Directors

Khalid Jassim Bin Kalban
Chairman
13 February 2017

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
Arab Insurance Group (B.S.C)
PO Box 26992
Manama, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Arab Insurance Group (the Company) and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Technical insurance provisions

Refer to Note 14 to the consolidated financial statements.

Description

We focused on this matter because :

- the Group has significant insurance provisions (representing 82% of total liabilities) relating to outstanding claims, claims that have been incurred at reporting date but have not yet been reported to the Group, and unearned premiums.
- The valuation of outstanding claims and other insurance provisions is a key judgement area due to the level of subjectivity inherent in estimating the impact of claims, in particular claims that have been incurred at reporting date but have not yet been reported to the Group.

How the matter was addressed in our audit

Our audit procedures included :

- testing the design and operating effectiveness of the key controls around reserving process, reported claims, unreported claims and unearned premium;
- reviewing a sample of outstanding claims and related reinsurance recoveries, focusing on those with most significant impact on the financial statements, to assess whether claims and related recoveries are appropriately estimated;

- assessing the key reserving assumptions including loss ratios, frequency and severity of claims, and reasonableness of estimates made by the Group. We also evaluated whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused on lines of business with most inherent uncertainty. Furthermore, we were assisted by our own actuarial specialists to understand and evaluate Group's actuarial practice and provisions established. We also considered the work and findings of external actuarial experts engaged by the management to corroborate our own findings; and
- assessing the adequacy of the Group's disclosures related to technical insurance provisions by reference to relevant accounting standards.

Impairment of insurance receivables and recoveries

Refer to Note 9 and 11 to the consolidated financial statements.

Description

We focused on this matter because:

- the Group has significant insurance receivables from ceding companies and recoveries from reinsurance companies (representing 10% of total assets). The Group faces a risk of non-recoverability of receivables and recoveries due to financial difficulties of the counter parties.
- estimation of the recoverable amount and determining the level of impairment allowance involves judgement and estimation uncertainty.

How the matter was addressed in our audit

Our audit procedures included

- testing the design and operating effectiveness of controls over the process of collection and identification of doubtful balances;
- checking reconciliation of statement of accounts and receipts subsequent to the year-end, focusing on those accounts with the most significant potential impact on the consolidated financial statements;
- challenging the Group's assumptions on the calculation of accrued premiums and assessing the recoverability thereof; and
- assessing the adequacy of the Group's disclosures related to insurance receivables, insurance deposits, accrued income, and impairment allowance by reference to relevant accounting standards.

KPMG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Valuation and Impairment of investments

Refer to Note 6 to the consolidated financial statements.

Description	**How the matter was addressed in our audit**
We focused on this matter because: ▪ of the significance of investments (representing 50% of total assets) andits contribution to the operations and performance of the Group. We don't consider these investments to be at high risk of significant misstatement, or to be subject to a significant risk of judgment because most of the investments comprise liquid, quoted investments. ; and ▪ the Group makes subjective judgments over both timing of recognition of impairment of available-for-sale investments and the estimation of the amount of such impairment.	Our audit procedures included: • testing the design and operating effectiveness of controls over the process of identification and assessment of equity and debt securities for impairment; • testing the valuation of quoted securities by agreeing the prices used in the valuation to independent sources; • examining whether the Group has identified all available-for-sale investments that have experienced a decline in fair value below cost; • assessing if there has been a default event or significant drop in rating of individual debt security; • evaluating whether the Group's application of the significant or prolonged test is consistent with the relevant accounting standard; and • assessing the adequacy of the Group's disclosures related to classification and impairment of investments by reference to relevant accounting standards.

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report, but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Directors' report and the remaining sections of the annual report.

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Responsibilities of board of directors for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other regulatory requirements

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

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

The engagement partner on the audit resulting in this independent auditors' report is Jaffar Al Qubaiti.

KPMG

KPMG Fakhro
Partner Registration No. 83
13 February 2017

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

(In thousands of U.S. Dollars)

	Note	2016	2015
ASSETS			
Cash and bank balances	5	**180,460**	198,769
Investments	6	**554,660**	545,459
Accrued income	8	**101,610**	71,322
Insurance receivables	9	**108,402**	116,022
Insurance deposits	10	**28,086**	37,017
Deferred policy acquisition costs		**17,800**	20,400
Reinsurers' share of technical provisions	11	**83,818**	65,850
Other assets	12	**17,991**	21,987
Property and equipment	13	**21,588**	22,236
		1,114,415	1,099,062
LIABILITIES			
Technical provisions	14	**673,681**	679,543
Insurance payables	17	**61,571**	44,606
Borrowings	18	**41,000**	44,000
Other liabilities	19	**45,349**	51,933
		821,601	820,082
EQUITY			
Attributable to shareholders of parent company	20		
Share capital		**220,000**	220,000
Treasury stock		**(14,793)**	(14,793)
Reserves		**37,684**	33,750
Retained earnings		**13,743**	5,291
		256,634	244,248
Non-controlling interests	21	**36,180**	34,732
		292,814	278,980
		1,114,415	1,099,062

These consolidated financial statements were approved by the Board of Directors on 13 February 2017 and signed on its behalf by:

Khalid J. Bin Kalban
Chairman

Dr. Fouad A A Alfalah
Vice Chairman

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 2016
(In thousands of U.S. Dollars)

	Note		2016	2015
Gross premiums written			**245,431**	220,442
Net earned premiums			**180,503**	219,924
Claims and related expenses			**(119,412)**	(148,259)
Policy acquisition costs			**(46,370)**	(58,422)
Investment income attributable to insurance funds	23		**11,123**	8,542
Operating expenses	24		**(17,508)**	(21,012)
Underwriting result	22		**8,336**	773
Investment income attributable to shareholders' funds	23		**8,166**	5,752
Operating expenses – non underwriting activities	24		**(8,042)**	(7,544)
Borrowing cost			**(866)**	(416)
Other income	25		**5,516**	5,945
Other expenses and provisions	26		**(2,959)**	(12,134)
Profit (loss) for the year			**10,151**	(7,624)
Attributable to:				
Non-controlling interests			**989**	(3,203)
Shareholders of parent company			**9,162**	(4,421)
			10,151	(7,624)
Earnings per share attributable to shareholders (basic and diluted):	27	US$	**0.05**	(0.02)

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 2016

(In thousands of U.S. Dollars)

	2016	2015
Profit (loss) for the year	**10,151**	(7,624)
Other comprehensive income		
Items that will be reclassified to profit or loss:		
Changes on remeasurement of available for sale investments	**1,101**	(6,382)
Transfers for recognition of losses on disposal of available for sale investments	**2,262**	477
Other comprehensive income	**3,363**	(5,905)
Total comprehensive income	**13,514**	(13,529)
Attributable to:		
Non-controlling interests	**1,128**	(3,130)
Shareholders of parent company	**12,386**	(10,399)
	13,514	(13,529)

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 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
			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 year	-	-	-	-	-	-	9,162	9,162	989	10,151
Changes on remeasurement of available for sale investments	-	-	-	977	-	977	-	977	124	1,101
Transfers for recognition of losses on disposal of available for sale investments	-	-	-	2,247	-	2,247	-	2,247	15	2,262
Total comprehensive income for the year	-	-	-	3,224	-	3,224	9,162	12,386	1,128	13,514
Transfer of net depreciation on revalued property	-	-	-	-	(184)	(184)	184	-	-	-
Transfer to non-distributable reserves	-	-	894	-	-	894	(894)	-	-	-
Adjustment for minority's share of subsidiary	-	-	-	-	-	-	-	-	320	320
Balances at 31 December 2016	220,000	(14,793)	34,094	(1,971)	5,561	37,684	13,743	256,634	36,180	292,814
Parent company balances at 31 December 2016	220,000	(14,793)	33,957	(2,131)	5,561	37,387	14,040	256,634	-	256,634

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

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)
Dividends paid	-	-	-	-	-	-	(9,902)	(9,902)	-	(9,902)
Transfer of net depreciation on revalued property	-	-	-	-	(185)	(185)	185	-	-	-
Transfer to 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.

9. INSURANCE RECEIVABLES (Contd.)

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

	US$ '000	
	2016	2015
Over two years	4,936	5,103
	4,936	5,103

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

	US$ '000	
	2016	2015
Upto 6 months	4,536	3,304
6 to 12 months	12,731	14,668
	17,267	17,972

10. INSURANCE DEPOSITS

	US$ '000	
	2016	2015
Balances due :		
- Within 12 months	22,000	28,521
- After 12 months	6,086	8,496
	28,086	37,017

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

	US$ '000	
	2016	2015
At 1 January	3,494	3,666
Provision for / (write back of) impairment	674	(172)
Impaired deposits written off	(1,223)	-
31 December	2,945	3,494

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

	US$ '000	
	2016	2015
Under ten years	4,899	2,564
Over ten years	6,284	8,855
	11,183	11,419

10. INSURANCE DEPOSITS (Contd.)

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

	US$ '000 2016	US$ '000 2015
Up to 1 year	**6,233**	8,970
1 to 3 years	**16,684**	22,589
	22,917	31,559

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000 2016	US$ '000 2015
General insurance business		
- Claims outstanding	**38,669**	37,738
- Unreported claims	**18,172**	14,674
- Deferred retrocession premium reserve	**26,858**	13,304
	83,699	65,716
Life insurance business		
- Claims outstanding	**21**	20
- Unreported claims	**98**	114
	119	134
	83,818	65,850

12. OTHER ASSETS

	US$ '000 2016	US$ '000 2015
Intangible assets :		
- Computer software	**9,593**	9,530
	9,593	9,530
Less : Accumulated amortisation	**(9,245)**	(9,019)
Net intangible assets	**348**	511
Other assets due within 12 months:		
- Collateralised cash deposits	**12,246**	19,104
- Prepayments and other receivables	**5,397**	2,372
	17,643	21,476
	17,991	21,987

	US$ '000 2016	US$ '000 2015
Movement in intangible assets :		
Net book value at 1 January	**511**	781
- Additions	**70**	39
- Amortisation charge	**(232)**	(309)
- Disposal	**(1)**	-
Net book value at 31 December	**348**	511

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

13. PROPERTY AND EQUIPMENT

	US$ '000	
	2016	2015
Land	**2,469**	2,469
Building	**19,182**	19,182
Work in progress	**-**	19
Information systems, furniture, equipment and other	**10,592**	10,679
	32,243	32,349
Less: Accumulated depreciation	**(10,655)**	(10,113)
	21,588	22,236
Movements in property and equipment		
Net book value at 1 January	**22,236**	27,462
- Revaluation of property	**-**	(4,850)
- Additions	**365**	532
- Disposals	**(37)**	(19)
- Depreciation charge	**(976)**	(889)
Net book value at 31 December	**21,588**	22,236

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.

14. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000	
	2016	2015
General insurance business		
Claims outstanding	**279,957**	298,985
Unreported losses	**177,783**	192,072
Unearned premiums	**153,266**	109,828
	611,006	600,885
Life insurance business		
Claims outstanding	**14,638**	17,976
Unreported losses	**40,378**	52,996
Unearned premiums	**7,659**	7,686
	62,675	78,658
	673,681	679,543

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						
	2011	2012	2013	2014	2015	2016	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	128,402	113,735	112,367	106,448	101,570	74,463	
- One year later	205,558	178,609	190,431	182,358	175,247	-	
- Two years later	210,058	185,776	192,492	186,928	-	-	
- Three years later	218,371	179,510	190,167	-	-	-	
- Four years later	218,009	180,033	-	-	-	-	
- Five years later	214,904	-	-	-	-	-	
Current estimate of incurred claims	214,904	180,033	190,167	186,928	175,247	74,463	**1,021,742**
Cumulative payments to date	(187,102)	(144,818)	(142,308)	(120,513)	(73,565)	(4,599)	**(672,905)**
Liability recognised	27,802	35,215	47,859	66,415	101,682	69,864	**348,837**
Liability in respect of prior years							**163,919**
Total liability included in the statement of financial position							**512,756**

	2011	2012	2013	2014	2015	2016	Total
Net							
Estimate of incurred claims costs:							
- At end of underwriting year	112,047	108,594	110,213	102,592	98,169	66,195	
- One year later	175,123	166,667	182,910	174,824	165,317	-	
- Two years later	181,617	175,275	182,685	178,752	-	-	
- Three years later	186,925	169,531	179,862	-	-	-	
- Four years later	186,389	170,156	-	-	-	-	
- Five years later	183,704	-	-	-	-	-	
Current estimate of incurred claims	183,704	170,156	179,862	178,752	165,317	66,195	**943,986**
Cumulative payments to date	(156,045)	(135,417)	(132,508)	(119,514)	(38,117)	(6,126)	**(587,727)**
Liability recognised	27,659	34,739	47,354	59,238	127,200	60,069	**356,259**
Liability in respect of prior years							**99,537**
Total liability included in the statement of financial position							**455,796**

16. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

	US$ '000		
	Gross	**Reinsurance**	**Net**
2016			
Claims			
Claims outstanding	**316,961**	**37,758**	**279,203**
Unreported losses	**245,068**	**14,788**	**230,280**
Total at beginning of year	**562,029**	**52,546**	**509,483**
Change in provision during the year	**125,448**	**3,478**	**121,970**
Claims settled during the year	**(174,721)**	**936**	**(175,657)**
Balance at end of year	**512,756**	**56,960**	**455,796**
Unearned premium			
At beginning of year	**117,514**	**13,304**	**104,210**
Change in provision during the year	**43,411**	**13,554**	**29,857**
Balance at end of year	**160,925**	**26,858**	**134,067**
Accrued insurance premium			
At beginning of year	**75,916**	**6,941**	**68,975**
Movement during the year	**36,938**	**6,561**	**30,377**
Balance at end of year	**112,854**	**13,502**	**99,352**
Deferred policy acquisitions costs			
At beginning of year	**21,014**	**614**	**20,400**
Movement during the year	**(1,944)**	**656**	**(2,600)**
Balance at end of year	**19,070**	**1,270**	**17,800**

	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

17. INSURANCE PAYABLES

	US$ '000	
	2016	2015
Due Within 12 months	**61,571**	44,606
	61,571	44,606

18. BORROWINGS

	US$ '000	
	2016	2015
Balances Due:		
- Within 12 months	**41,000**	44,000
	41,000	44,000

Borrowings amounting to US$ 41 million (2015: US$ 44 million) are secured by debt securities amounting to US$ 51.6 million (2015: US$ 56.1 million). The effective interest rate on the borrowings was 2.27% (2015:1.7%)

19. OTHER LIABILITIES

	US$ '000	
	2016	2015
Post-employment benefits (note 28)	**12,398**	14,236
Reinsurance premiums accrued	**5,906**	8,619
Accrued expense	**5,984**	7,978
Dividends payable	**2,517**	2,579
Employee long-term incentives	**2,977**	4,902
Other	**15,567**	13,619
	45,349	51,933
Balances due:		
- Within 12 months	**29,974**	32,795
- After 12 months	**15,375**	19,138
	45,349	51,933

20. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition:

	US$ '000	
	2016	2015
Authorised		
500 million ordinary shares of US$ 1 each	**500,000**	500,000
Issued, Subscribed & Fully Paid-up		
220 million (2015: 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	
		2016	2015	**2016**	2015	**2016**	2015
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	
	2016	2015	**2016**	2015	**2016**	2015
Less than 1%	**49.0**	40.1	**4,540**	4,600	**24.8**	20.3
1% to 5%	**28.2**	37.1	**6**	4	**14.3**	18.7
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 2016 (2015: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2015: 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	
	2016	2015
At 1 January	**34,732**	37,862
Share of comprehensive income	**1,128**	(3,130)
Minority interest in subsidiary	**320**	-
At 31 December	**36,180**	34,732

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

22. SEGMENT INFORMATION (Contd.)

i) ANALYSIS OF REVENUE BY PRIMARY BUSINESS SEGMENT:

	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.)

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

	US$ '000			
	2016		2015	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	85,742	33,471	107,595	20,212
- Africa	22,067	3,575	21,885	4,111
- Asia	26,713	4,327	45,034	8,459
- Others	110,909	9,615	45,928	8,627
	245,431	50,988	220,442	41,409

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

iii) Analysis of segment assets and liabilities:

	US$ '000									
	2016									
	Non-Life						Life		Corporate	Total
	Property	Engineering	Marine	Accident	Whole	Others	Short Term	Long term		
Reinsurance assets	33,975	21,005	19,231	503	193,080	72,796	8,767	578	-	349,935
Cash	18,731	13,733	6,167	5,598	11,590	9,145	5,956	4,415	105,125	180,460
Investments	71,898	53,080	23,097	22,684	45,716	37,667	23,404	21,185	255,929	554,660
Others	-	-	-	-	-	-	-	-	29,360	29,360
	124,604	87,818	48,495	28,785	250,386	119,608	38,127	26,178	390,414	1,114,415
Reinsurance liabilities	102,737	90,582	42,315	27,887	140,864	122,894	48,946	10,295	-	586,520
Others	-	-	-	-	-	-	-	-	235,081	235,081
	102,737	90,582	42,315	27,887	140,864	122,894	48,946	10,295	235,081	821,601

22. SEGMENT INFORMATION (Contd.)

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

23. INVESTMENT INCOME

	US$ '000		
	2016		
	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or loss	800	437	1,237
- Others	5,866	4,827	10,693
Dividends	472	289	761
Realised gains / (loss)			
- Trading investments	1,512	1,644	3,156
- Investment designated at fair value through profit or loss	(183)	(100)	(283)
- Available for sale	1,672	1,701	3,373
Gains (loss) on remeasurement of investments at fair value through profit & loss			
- Trading investments	1,148	(45)	1,103
- Investments designated at fair value through profit or loss	442	242	684
Impairment loss-available for sale	(19)	(502)	(521)
Other	(587)	(327)	(914)
	11,123	8,166	19,289

	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

24. OPERATING EXPENSES

	US$ '000 2016 Underwriting	Non-Underwriting	Total
Salaries and benefits	**12,322**	**5,148**	**17,470**
General and administration	**5,186**	**2,894**	**8,080**
	17,508	**8,042**	**25,550**

	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

25. OTHER INCOME

	US$ '000	
	2016	2015
Third party administration services	**4,587**	4,490
Other	**929**	1,455
	5,516	5,945

26. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2016	2015
Loss on revaluation of building	**-**	4,850
Foreign exchange loss	**2,015**	3,509
Provision for doubtful receivable & deposits	**376**	71
Other	**568**	3,704
	2,959	12,134

27. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2016	2015
Weighted average number of shares outstanding	'000	**198,032**	198,032
Net profit (loss)	US$'000	**9,162**	(4,421)
Earnings per share	US$	**0.05**	(0.02)

28. POST EMPLOYMENT BENEFITS

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

The principal assumptions used for accounting purposes were:

	2016	2015
Discount rate	**2.0%**	2.0%
Expected return on assets	**2.0%**	2.0%
Future salary increases	**3.3%**	3.3%

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

	US$ '000	
	2016	2015
Balance at 1 January	**14,236**	13,302
Accruals for the year	**1,371**	1,649
Payments during the year	**(3,209)**	(715)
Balance at 31 December	**12,398**	14,236

29. FORWARD FOREIGN EXCHANGE CONTRACTS

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

i. Forward foreign exchange contracts – by currency:

	US$ '000			
	2016		2015	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Euro	-	**5,046**	1,079	500
Pound Sterling	-	**6,219**	1,814	1,292
Japanese yen	-	**789**	-	1,190
Others	-	**900**	-	1,054
	-	**12,954**	2,893	4,036

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.

29. FORWARD FOREIGN EXCHANGE CONTRACTS (Contd.)

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			
	2016		2015	
	Purchases	Sales	Purchases	Sales
Unrealised gains	-	285	7	161
Unrealised losses	-	(12)	(45)	(56)
	-	273	(38)	105

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

	US$ '000	
	2016	2015
Profit (loss) for the year	10,151	(7,624)
Decrease in insurance funds	(12,299)	(12,277)
Change in insurance receivable/payable, net	24,585	5,828
Change in accrued insurance premiums	(30,288)	16,701
Change in other assets/liabilities, net	7,074	(3,018)
Net cash used in operating activities	(777)	(390)

31. FAIR VALUE DISCLOSURE

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

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

31. FAIR VALUE DISCLOSURE (Contd.)

	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 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

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

- **31. FAIR VALUE DISCLOSURE (Contd.)**

  - 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.

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

	US$'000			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**43,937**	**-**	**-**	**43,937**
Designated at fair value on initial recognition				
Debt Securities	**94,123**	**-**	**-**	**94,123**
Available for sale				
Debt securities	**372,076**	**-**	**-**	**372,076**
Common stock of listed companies	**10,312**	**-**	**-**	**10,312**
Common stock of unlisted companies	**-**	**-**	**6,381**	**6,381**
Other	**-**	**878**	**17,100**	**17,978**
Forward foreign exchange contracts	**273**	**-**	**-**	**273**
	520,721	**878**	**23,481**	**545,080**

31. FAIR VALUE DISCLOSURE (Contd.)

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	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

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

31 December 2016	**US$'000**		
	Unlisted equity	**Others**	**Total**
Balance at 1 January 2016	**6,357**	**15,895**	**22,252**
Gain (loss) recognised in:			
- Income statement	**299**	**(599)**	**(300)**
- Other comprehensive income	**(10)**	**(679)**	**(689)**
Investments made during the year	**187**	**4,801**	**4,988**
Investments redeemed during the year	**(452)**	**(2,318)**	**(2,770)**
Balance at 31 December 2016	**6,381**	**17,100**	**23,481**

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

31. **FAIR VALUE DISCLOSURE (Contd.)**

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, 2016, there were no transfers in and out of level 1, level 2 and level 3 (2015: 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.

32. **PRINCIPAL SUBSIDIARIES & ASSOCIATES**

i) **Subsidiaries and Associates:**

At 31 December 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
ARIG Insurance Management (DIFC) Ltd.	United Arab Emirates	100%	Nil	Insurance Manager

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2015 except for Arig Insurance Management (DIFC) Ltd. which was incorporated on 7th December 2016. 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.

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

32. PRINCIPAL SUBSIDIARIES & ASSOCIATES (Contd.)

ii) Interest in Subsidiaries: Takaful Re Limited

	US$ '000	
	2016	2015
Non-controlling interest	**46%**	46%
Other assets	**129,497**	140,700
Other liabilities	**51,535**	65,192
Net Assets	**77,962**	75,508
Revenue	**(1,180)**	16,795
Profit (loss) for the year	**2,150**	(6,963)
Total comprehensive income	**2,453**	(6,804)
Comprehensive income attributable to non-controlling interests	**1,128**	(3,130)
Net cash provided by (used in) operating activities	**748**	(51)
Net cash (used in) provided by investing activities	**(2,064)**	30,892
Net (decrease) increase in cash and cash equivalents	**(1,316)**	33,988

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.

33. 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	
	2016	2015
a) Gross premium retroceded by subsidiary to parent company	**77,063**	30,365
b) Service fees for administration services provided by parent company	**453**	860
c) Balances outstanding		
- Receivables	**66,033**	62,636

ii) Compensation to directors and key management personnel:

	US$ '000	
	2016	2015
a) Directors		
- Attendance fees	**107**	145
- Travel expenses	**153**	148
b) Key management compensation		
- Salaries and other short-term employee benefits	**1,755**	2,102
- Post-employment benefits	**300**	302
- Employee long-term incentives	**1,767**	1,607
c) Balances payable (net)		
Key management		
- Maximum balance	**4,411**	7,096
- Closing balance	**4,411**	7,096

33. RELATED PARTY TRANSACTIONS (Contd.)

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 2016 and 2015 for any outstanding amounts due from related parties.

34. PARENT COMPANY

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

	US$ '000	
	2016	2015
ASSETS		
Cash and bank balances	**99,630**	124,318
Investments	**478,031**	457,767
Accrued income	**95,193**	65,004
Insurance receivables	**32,699**	47,844
Insurance deposits	**27,286**	35,347
Deferred policy acquisition costs	**10,801**	12,963
Reinsurers' share of technical provisions	**30,661**	29,383
Other assets	**80,920**	83,976
Investment in subsidiaries and associates	**43,613**	42,602
Property and equipment	**8,202**	8,492
	907,036	907,696
LIABILITIES		
Technical provisions	**536,616**	549,271
Insurance payables	**43,373**	32,287
Borrowings	**41,000**	44,000
Other liabilities	**29,413**	37,890
	650,402	663,448
SHAREHOLDERS' EQUITY (note 20)		
Share capital	**220,000**	220,000
Treasury stock	**(14,793)**	(14,793)
Reserves	**37,387**	33,596
Retained earnings	**14,040**	5,445
	256,634	244,248
	907,036	907,696

35. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The directors propose to recommend the following appropriations for approval of shareholders at the Annual General Assembly meeting to be held on 20 March 2017:

	US$ '000
Cash dividend of US$ 0.05 per share of US$ 1 each	**11,000**