Arab Reinsurance Company S.A.L.

Report and financial statements
for the year ended 31 December 2017

ARAB REINSURANCE COMPANY S.A.L.

Report and financial statements
for the year ended 31 December 2017

Independent Auditor's Report
to the shareholders of Arab Reinsurance Company S.A.L.

Opinion

We have audited the financial statements of "Arab Reinsurance Company S.AL.", which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Arab Reinsurance Company S.A.L. as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for 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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Code of Ethics of the Lebanese Association of Certified Public Accountants that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

- In preparing the financial statements, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
- Those charged with governance are responsible for overseeing the Company's financial reporting process.

Fiduciaire du Moyen-Orient is registered at the Lebanese Association of Certified Public Accountants under no 67
Sin El Fil – Mkalles, Fouad Chehab Blvd, Geahchan Bldg, 1st Floor • Beirut – Lebanon • P.O.Box: 110-167 • Tel: +961 1 480917/723 • Fax: +961 1 496682

Independent Auditor's Report
to the shareholders of Arab Reinsurance Company S.A.L.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Fiduciaire du Moyen-Orient is registered at the Lebanese Association of Certified Public Accountants under no 67
Sin El Fil – Mkalles, Fouad Chehab Blvd, Geahchan Bldg, 1st Floor • Beirut – Lebanon • P.O.Box: 110-167 • Tel: +961 1 480917/723 • Fax: +961 1 496682

Independent Auditor's Report (continued)
to the shareholders of Arab Reinsurance Company S.A.L.

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

We communicate with those charged with governance 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.

Beirut, Lebanon
29 January, 2018

DFK Fiduciaire du Moyen-Orient

Fiduciaire du Moyen-Orient is registered at the Lebanese Association of Certified Public Accountants under no 67
Sin El Fil – Mkalles, Fouad Chehab Blvd, Geahchan Bldg, 1st Floor • Beirut – Lebanon • P.O.Box: 110-167 • Tel: +961 1 480917/723 • Fax: +961 1 496682

Arab Reinsurance Company S.A.L.

Statement of financial position
As at 31 December 2017

	Notes	2017 US$	2016 US$
Assets			
Property and equipment	5	**2,459,781**	2,526,515
Investment property	6	**681,261**	693,328
Intangible assets		**95,389**	143,085
Deferred acquisition cost	23	**7,911,755**	7,668,368
Financial assets at amortised cost	7	**62,870,454**	59,203,349
Financial assets at fair value through other comprehensive income	8	**3,716,752**	4,365,811
Insurance receivables	9	**71,428,860**	65,991,514
Reinsurance assets	16	**31,020,026**	31,822,754
Bank deposits with original maturity of more the three months	10	**90,555,093**	95,897,195
Cash and cash equivalents	11	**4,689,637**	3,024,218
Total Assets		**275,429,008**	271,336,137
Equity and liabilities			
Equity			
Capital	13	**75,000,000**	75,000,000
General reserves		**3,773,299**	3,773,299
Legal reserves	14	**13,110,668**	12,698,515
Fair value reserve	12	**(2,552,679)**	(2,403,620)
Treasury shares	13	**(7,371,678)**	(7,371,678)
Retained earnings		**20,920,427**	20,234,457
Total shareholders' equity		**102,880,037**	101,930,973
Liabilities			
Insurance contract	16	**135,031,129**	135,121,322
Unearned reinsurance commission	21	**2,521,187**	2,722,032
Retirement benefit obligation	17	**327,270**	320,322
Accounts payable	18	**34,489,077**	31,082,848
Income tax provision	27	**180,308**	158,640
Total liabilities		**172,548,971**	169,405,164
Total equity and liabilities		**275,429,008**	271,336,137

The financial statements on pages 4 to 41 were authorized for issue by the Chairman
The notes on pages 8 to 41 are an integral part of these financial statements.

Arab Reinsurance Company S.A.L.

Statement of Profit or Loss and Other comprehensive income for the year ended 31 December 2017

	Notes	2017 US$	2016 US$
Insurance premium revenue	19	**66,140,583**	66,573,307
Insurance premium ceded to reinsurers	19	**(17,321,628)**	(20,137,379)
Net insurance premium revenue		**48,818,955**	46,435,928
Investment income	20	**9,222,275**	8,848,118
Reinsurance commission income and profit sharing	21	**4,541,981**	5,114,412
Other operating (loss)	26	**(94,116)**	(265,700)
Net income		**62,489,095**	60,132,758
Insurance claims and loss adjustment expenses	22	**(46,264,314)**	(47,664,657)
Insurance claims and loss adjustment expenses recovered from reinsurers	22	**8,838,463**	13,608,167
Net insurance claims		**(37,425,851)**	(34,056,490)
Expenses for acquisition of insurance contracts	23	**(15,101,812)**	(16,874,543)
Expenses for administration and other expenses	24	**(5,215,364)**	(4,863,643)
Expenses		**(57,743,027)**	(55,794,676)
Profit before tax		**4,746,068**	4,338,082
Income tax	27	**(244,717)**	(216,555)
Profit for the year		**4,501,351**	4,121,527
Other comprehensive income for the year			
Change in fair value reserve of financial assets at fair value through OCI		**(149,059)**	(386,644)
Total comprehensive income for the year		**4,352,292**	3,734,883

The notes on pages 8 to 41 are an integral part of these financial statements.

ARAB REINSURANCE COMPANY S.A.L.

Statement of changes in equity
for the year ended 31 December 2017

	Share Capital US$	General reserve US$	Legal reserve US$	Fair value reserve US$	Treasury shares US$	Retained earnings US$	Total US$
Balance at 31 December 2015	75,000,000	3,773,299	12,171,365	(2,016,976)	(7,371,678)	16,288,771	97,844,781
Transfers to legal reserves (note 14)	-	-	527,150	-	-	(527,150)	-
Profit for the year	-	-	-	-	-	4,121,527	4,121,527
Other comprehensive income							
Gain on disposal financial assets at fair value through OCI (note 8)	-	-	-	(351,309)	-	351,309	-
Changes in fair value reserve for financial assets at fair value through OCI (note 8)	-	-	-	(35,335)	-	-	(35,335)
Balance at 31 December 2016	75,000,000	3,773,299	12,698,515	(2,403,620)	(7,371,678)	20,234,457	101,930,973
Transfer to legal reserve (note 14)	-	-	412,153	-	-	(412,153)	-
Dividends distribution (note 15)	-	-	-	-	-	(3,403,228)	(3,403,228)
Profit for the year	-	-	-	-	-	4,501,351	4,501,351
Other comprehensive income							
Changes in fair value reserve for financial assets at fair value through OCI (note 8)	-	-	-	(149,059)	-	-	(149,059)
Balance at 31 December 2017	**75,000,000**	**3,773,299**	**13,110,668**	**(2,552,679)**	**(7,371,678)**	**20,920,427**	**102,880,037**

Arab Reinsurance Company S.A.L.

Statement of cash flows
for the year ended 31 December 2017

	Notes	2017 US$	2016 US$
Cash flows from operating activities			
Net cash (used in) operating activities	29	5,081,077	(9,612,589)
Cash flows from investing activities			
Purchase of property and equipment	5	(12,430)	(31,943)
Decrease in financial assets at fair value through P&L		-	7,087,208
Net cash provided from investing activities		(12,430)	7,055,265
Cash flows from financing activities			
Dividends paid		(3,403,228)	-
Net cash used in financing activities		(3,403,228)	-
Net (decrease) increase in cash and cash equivalents		1,665,419	(2,557,324)
Cash and cash equivalents at beginning of year		3,024,218	5,581,542
Cash and cash equivalents at end of year	11	4,689,637	3,024,218

The notes on pages 8 to 41 are an integral part of these financial statements.

1 General information

Arab Reinsurance Company S.A.L. ("the Company") is incorporated and licensed by a special presidential decree Number 2933 on 11 March 1972 as a Lebanese joint stock company (Inter-Arab Company) to carry all reinsurance and investments activities and was registered in the Commercial Register of Beirut under number 26233.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are prepared in US dollars which is the functional currency of the Company unless, otherwise stated.

The financial statements have been prepared in accordance with IFRS defined under IAS 1 'Presentation of financial statements'. The financial statements have been prepared under the historical cost convention, except for financial assets carried at fair market value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note3.

2.2 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations adopted by the Company

The following new and revised standards, which became effective for annual periods beginning on or after 1 January 2017, have been adopted by the Company:

- Annual Improvements to IFRSs 2014-2016 Cycle covering amendments to IFRS 12
- Amendments to IAS 12 Income Taxes. Relating to the recognition of deferred tax assets for unrealized losses
- Amendments to IAS 7 Statement of Cash Flows
  To provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policy and disclosures (continued)

The application of these revised IFRSs has not had any material impact on the amounts reported for the current period and prior years but may affect the accounting for future transactions or arrangements.

(b) New standards, amendments and interpretations not yet adopted:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. It introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The company is in the process of assessing the impact of this standard's implementation on its financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'US Dollars' (US$), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified at fair value through OCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measure at fair value, such as equities classified as financial assets at fair value through Other Comprehensive Income, are included in other comprehensive income.

2.4 Property and equipment

All property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to write off the cost or revalue amount of each asset to their residual values over their estimated useful lives as follows:

	Years
Buildings	50
Leasehold improvements	5
Office equipment	5-13
Furniture	13
Other equipment	5

Subsequent expenditures are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

2 Summary of significant accounting policies (continued)

2.4 Property and equipment (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of profit or loss. Upon sale of revalued assets, the related amounts accounted for under fair value reserves will be transferred to retained earnings.

2.5 Investment properties

Property held for long-term rental yields that is not occupied by the Company is classified as investment property.

Investment property comprises land and buildings which are stated at historical cost based on IAS 40 'Investment property'.

Depreciation on the building is calculated using the straight-line method to allocate cost over the estimated useful economic lives. The estimated useful economic life is 50 years.

The investment property carrying amount will be written down immediately to its recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount.

2.6 Intangible assets

Separately purchased computer software is capitalised on the basis of the costs incurred to acquire and bring to the specific software. These costs are amortised on the basis of the software's expected useful life (three to five years).

2.7 Impairment of non financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

2.8 Financial assets

2.8.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, fair value through other comprehensive income and financial asset at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.1 Classification (continued)

(a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell immediately or in the short term, which are classified at fair value through profit and loss.
Receivables are recognised initially at fair value and measured subsequently at amortised cost using the effective interest rate method, less provision for impairment.

(c) Financial assets at fair value through other comprehensive income

Financial assets classified at fair value through OCI are non-derivatives that are either designated in this category or not classified in any of the other categories. They are considered as non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(d) Financial assets at amortised cost

Financial assets at amortised cost are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, these do not include any of the classifications listed above.Interest on financial assets at amortised cost is included in the statement of profit or loss. In case of impairment, the loss is reported as a deduction in the carrying amount of the investment and recognised in the statement of profit or loss.

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.8.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of a financial asset at fair value through profit or loss category are presented in the statement of profit or loss in the period in which they arise. Dividend income from financial assets is recognised in the statement of profit or loss when the Company's right to receive payment is established.

Receivables are carried at amortised cost net of provision for impairment losses where applicable.

Changes in the fair value of monetary securities classified at fair value through OCI are recognised in other comprehensive income.When securities classified fair value through OCI are sold or impaired, the accumulated fair value adjustments are recognised in equity.

Interest on these securities calculated using the effective interest method is recognised in the income statement as part of investment income.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss. If a loan or investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

2 Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

2.9 Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of profit or loss to the extent that the carrying amount of the financial asset at the date the impaiment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

(b) Other non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are declared by the general assembly of shareholders.

2 Summary of significant accounting policies (continued)

2.12 Retirement benefit obligations

The Company is subscribed to the compulsory defined benefit plan in accordance with the National Social Security Fund. The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees' were voluntarily terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the sum of the last basic salary and the monthly average of the last 12 months' remunerations, less contributions paid to the Lebanese National Social Security Fund.

2.13 Cash and cash equivalents

Cash and cash equivalents consist of deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

2.15 Treasury shares

When an entity purchases its own shares and holds them in treasury 'treasury shares', the amount paid is deducted from equity. No gain or loss should be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

2.16 Current income tax

Reference to the law 64 issued on the October 26, 2017. The income tax charge is calculated, from January 01, 2017 till October 26, 2017, at the rate of 15% of assumed profit which represents 10% of gross premiums written in Lebanon and other operating income on the basis of the local laws. Whereas starting October 27, 2017 the income tax rate was changed to 17% of assumed profit.

2.17 Investment income

Investment income mainly comprises interest and dividend income and realised gains and losses on sale of financial assets. Investment income is stated net of investment expenses and charges.

Interest income is recognised on accrual basis. Interest includes interest earned on bank deposits and financial assets at amortised costs. Dividend income is recognised under investment income when dividends are declared. Realised gains and losses from sale of investments are calculated as the difference between net proceeds from sale and the carrying value of investments.

2 Summary of significant accounting policies (continued)

2.18 Insurance contracts

The Company enters into insurance agreements whereby it compensates insurance companies for losses on one or more contracts issued by these companies. Such insurance agreements transfer significant insurance risk to the Company.

(a) Recognition and measurement

The Company's insurance contracts cover general insurance risks insured by the Company.
General insurance contracts cover insurance risks written by the ceding companies. They protect the customers of the ceding companies from damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General insurance contracts also protect the customers of the ceding companies from the consequences of events such as illness and disability.

Premiums are recognised as revenue when they are underwritten, and they include an estimation of underwritten premiums that are not yet received from the ceding companies and in proportion with the period of coverage. Unearned premiums represent the proportion of premiums accepted in the year that relate to unexpired terms of policies in force at the statement of financial position date, calculated on a time apportionment basis.

Claims and loss adjustments expenses are recognised in the statement of profit or loss when incurred and based on the estimated claims on the basis of the ultimate cost of settling the claims, using the ultimate loss ratios of the benefits due to contract holders and the third parties affected by the contract holders. These expenses include claims and loss adjustment expenses direct or indirectly related to events occurring within the balance sheet date even if they were not reported to the Company.

The claims provisions cover future payments obligations from claims in respect of which the amount of the insurance benefit and / or the time of payment are still uncertain. These are established for losses from loss events that occurred prior to the statement of financial position date. The level of the provision is based on information provided by cedants. Additional provisions are constituted in cases where the provisions indicated by cedants are considered to be inadequate. The provisions also include claim settlement costs.

Taking into consideration the fact that significant time lags may exist between loss events and notification of the claims to the Company, incurred but not reported claims ("IBNR") are established on the basis of the Company's own estimates for claims that have already been incurred but not yet reported. These are guided by the principle of best estimate using actuarial methods (e.g. ultimate loss ratio methods). Such estimates are based upon both past experience and assessments of the future development. The adequacy of the provisions is regularly reviewed.

2 Summary of significant accounting policies (continued)

2.18 Insurance contracts (continued)

(b) Deferred acquisition costs

Commissions and other acquisition costs that are related to securing new contracts and renewing existing contracts are capitalised as deferred acquisition cost - ("DAC"). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contract. The resulting change to the carrying value of the DAC is charged to the statement of profit or loss.

(c) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts issued by the Company are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in note 2.6.

Reinsurance commissions income received from reinsurers are earned over the same period as the related ceded premiums.

2 Summary of significant accounting policies (continued)

2.18 Insurance contracts (continued)

(d) Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from insurance companies and brokers. If there is objective evidence that the reinsurance receivable is impaired, the Company reduces the carrying amount of the reinsurance receivable accordingly and recognises that impairment loss in the statement of profit or loss. The Company gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

2.19 Comparative figures

Where applicable comparative figures have been re-classified in order to conform to current year presentation.

3 Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) The ultimate liability arising from claims under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Company's critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

(b) Process used to decide on assumptions

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis.

The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at year-end 2014 to derive data for the contracts held. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The Company uses the ultimate loss ratio based on history and experience and multiplies this ratio by the earned premiums in order to estimate the ultimate cost of claims.

3 Critical accounting estimates and judgements (continued)

(c) Estimated premium revenue

Premium revenue not reported by cedants at balance sheet date and relating to the current underwriting year is estimated based on average development factors computed using triangulation of data received per class of business and type of treaty.

4 Management of insurance and financial risk

The Company issues contracts that transfer issuance risks. This section summarises the way the Company manages this risk.

4.1 Insurance risk

The risk under one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew treaties, it can impose deductibles and it has the right to reject the payment of a fraudulent claim.

4 Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

The Company is protected by reinsurance arrangements including quota share, surplus excess of loss treaties as well as catastrophe treaties.

The concentration of insurance risk before and after reinsurance in relation to the type of general insurance risk accepted is summarised below, with reference to the carrying amount of the related insurance liabilities (gross and net of reinsurance) arising from general insurance contracts:

As at 31 December 2017
In US$

			Type of risk			
	Fire	**Engineering**	**Marine**	**Motor**	**Other**	**Total**
Gross	**47,569,605**	**22,780,958**	**14,648,436**	**18,613,885**	**31,418,245**	**135,031,129**
Net	**29,570,479**	**14,424,144**	**14,673,887**	**18,613,885**	**26,728,708**	**104,011,103**

As at 31 December 2016
In US$

			Type of risk			
	Fire	**Engineering**	**Marine**	**Motor**	**Other**	**Total**
Gross	41,319,629	24,859,442	14,407,180	13,317,432	41,217,639	135,121,322
Net	25,944,199	15,948,957	14,412,636	13,317,432	33,675,344	103,298,568

(b) Sources of uncertainty in the estimation of future claim payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The liability for these contracts comprise a provision for Incurred But Not Reported, a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

4 Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

(b) Sources of uncertainty in the estimation of future claim payments (continued)

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until several months after the event that gave rise to the claims has happened.

In estimating the liability for the cost of reported claims not yet paid the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

4.2 Financial risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that in the long term the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk (interest rate risk, equity price risk and foreign currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is equity price risk. The Company manages these positions to achieve investment returns in excess of its obligations under insurance contracts. The Company has not changed the processes used to manage its risks from previous periods.

4.2.1 Market risk

Market risk is comprised of interest rate risk, equity price risk and currency risk.

(i) Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.The Company's revenue will be significantly affected by changes in prevailing interest rates since a portion of its income derives from interest on investments and bank deposits because interest-bearing assets earn interest at fixed rates.

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

	Effective interest rate	
	2017	2016
	%	%
Financial assets at amortised cost	7.0	7.0
Bank deposits	5.3	5.1
Cash & cash equivalents	0.1	0.1

A change in 5% from interest income on cash and bank deposits would result in a gain or loss for the year of US$ 246,000 (2016 - US$ 214,000), recognized in the statement of comprehensive income.

(ii) Equity price risk

The sensitivity analysis for equity risk illustrates how fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

The equity securities described in this note are classified as financial assets at fair value through OCI.

An increase or decrease in value by 5% (2016-5%) would result in the change of fair value of financial assets through OCI by US$ 185,838 (2016- US$ 218,291).

(iii) Currency risk

The Company underwrites insurance contracts mainly in US Dollar. The Company concentrates its investments in assets denominated in the same currency as their related liabilities; which reduces the foreign currency exchange risk for these operations. The Company's exposure to foreign currencies arises from assets and liabilities that are denominated in currencies other than the US$.

In case of an increase or decrease in the price of Turkish lira against US Dollars by 5% (2016- 5%) with all other variables held constant, the profit for the year would have an increased or decreased by US$ 373,723 (2016 - US$ 404,895).

In case of an increase or decrease in the exchange rate of other currencies against the US$ by 5% (2016- 5%) with all other variable held constant, the profit for the year would increase or decrease by US$ 486,339 (2016- US$ 574,623).

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2017 and 2016. The Company's assets and liabilities included in the table are categorised by currency at their carrying amount.

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk

(iii) Currency risk (continued)

As at 31 December 2017	US$	Indexed in US$	Turkish Lira in US$	Other in US$	Total in US$
Assets					
Property and equipment	2,459,781	-	-	-	2,459,781
Investment property	681,261	-	-	-	681,261
Intangible assets	95,389	-	-	-	95,389
Deferred acquisition cost	3,006,467	2,610,879	158,235	2,136,174	7,911,755
Financial assets at amortised cost	62,870,454	-	-	-	62,870,454
Financial assets at fair value through OCI	3,716,752	-	-	-	3,716,752
Insurance receivables	25,628,691	24,338,220	2,724,918	18,737,031	71,428,860
Reinsurance assets	10,038,080	11,108,272	2,627,396	7,246,278	31,020,026
Bank deposits with original maturity of more than 3 months	90,555,093	-	-	-	90,555,093
Cash & cash equivalents	3,648,925	-	-	1,040,712	4,689,637
Total Assets	**202,700,893**	**38,057,371**	**5,510,549**	**29,160,195**	**275,429,008**
Liabilities					
Insurance contracts	43,696,073	48,354,647	11,437,137	31,543,272	135,031,129
Unearned reinsurance commission	815,856	902,837	213,545	588,949	2,521,187
Retirement benefit obligation	327,270	-	-	-	327,270
Accounts Payable	17,412,533	8,987,467	1,334,328	6,754,749	34,489,077
Income tax provision	180,308	-	-	-	180,308
Total Liabilities	**62,432,040**	**58,244,951**	**12,985,010**	**38,886,970**	**172,548,971**
Net balance sheet position at 31 December 2017	**140,268,853**	**(20,187,580)**	**(7,474,461)**	**(9,726,775)**	**102,880,037**

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

(iii) Currency risk (continued)

As at 31 December 2016

	US$	Indexed in US$	Turkish Lira in US$	Other in US$	Total in US$
Total Assets	204,702,117	33,500,526	5,725,148	27,408,346	271,336,137
Total liabilities	66,690,553	49,990,751	13,823,060	38,900,800	169,405,164
Net balance sheet position at 31 December 2016	**138,011,564**	**(16,490,225)**	**(8,097,912)**	**(11,492,454)**	**101,930,973**

4.2.2 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

– reinsurance assets including receivables from reinsurers;

– amounts due from insurance contract holders;

– amounts due from insurance intermediaries

– bank deposits; and

– financial assets at amortised cost

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to a regular review. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract.

The table below summarises assets bearing credit risk:

	2017	2016
	US$	US$
Insurance receivables (excluding prepayments)	**71,427,775**	65,982,629
Reinsurance assets	**31,020,026**	31,822,754
Financial assets at amortised cost	**62,870,454**	59,203,349
Bank deposits with original maturity of more than three months	**90,555,093**	95,897,195
Cash and cash equivalents (excluding cash on hand)	**4,687,821**	3,021,050
Total assets bearing credit risk	**260,561,169**	255,926,977

4 Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Credit risk (continued)

The assets above are analysed in the table below using Standard & Poor's rating or equivalent when not available from Standard & Poor's. The concentration of credit risk is substantially unchanged compared to the prior year.

	2017	2016
	US$	US$
AA	**7,933,524**	4,634,784
A	**11,516,316**	7,468,204
BBB	**15,252,559**	27,072,455
Below BBB or not rated	**188,942,449**	183,326,976
Total	**223,644,848**	222,502,419
Pipeline receivable	**36,916,321**	33,424,558
	260,561,169	255,926,977

4.2.3 Liquidity risk

The table below indicates the estimated amount and timing of cash flows arising from liabilities:

At 31 December 2017
In US$

		Payments due by period				
	Carring Amount	0-1 years	1-2 years	2-3 years	3-4 years	>5 years
Insurance contracts	135,031,129	75,865,000	30,848,000	13,334,620	2,508,000	12,475,509
Other liabilities	34,996,655	13,758,654	15,418,883	3,462,982	473,314	1,882,822
	170,027,784	89,623,654	46,266,883	16,797,602	2,981,314	14,358,331

At 31 December 2016
In US$

Insurance contracts	135,121,322	81,805,122	25,664,000	10,601,200	2,835,000	14,216,000
Other liabilities	31,561,810	12,706,895	13,526,918	2,581,917	547,990	2,198,090
	166,683,132	94,512,017	39,190,918	13,183,117	3,382,990	16,414,090

4 Management of insurance and financial risk (continued)

4.3 Fair value hierarchy

The different levels have been identified as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),

- Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2),

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table shows an analysis of financial instruments recorded at fair value by level of the far value hierarchy:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	US$	**US$**	**US$**	**US$**
At fair value through OCI	1,225,740	2,491,012	-	3,716,752
	1,225,740	2,491,012	-	3,716,752

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	US$	**US$**	**US$**	**US$**
At fair value through OCI	1,239,273	3,126,538	-	4,365,811
	1,239,273	3,126,538	-	4,365,811

Unlisted equity securities amounting to US$ 665,000 were stated at cost in the absence of active markets or other means of reliably measuring fair value.

During 2017, there were no transfers between level 1 and level 2 fair value measurements.

5 Property and equipment

	Land & building in US $	Leasehold improvements in US $	Furniture in US $	Office equipment in US $	Other equipment in US $	Total in US $
In January 1 2016						
Cost	2,962,112	225,000	460,956	25,865	326,660	4,000,593
Accumulated Depreciation	(552,644)	(225,000)	(376,941)	(25,865)	(255,636)	(1,436,086)
Net Book Value	**2,409,468**	**-**	**84,015**	**-**	**71,024**	**2,564,507**
Year ended 31 Decemeber 2016						
Net book amount at the beginning of the year	2,409,468	-	84,015	-	71,024	2,564,507
Additions	-	16,775	2,000	-	13,168	31,943
Depreciation charge	(35,677)	(1,128)	(12,041)	-	(21,089)	(69,935)
Net book amount at the end of the year	**2,373,791**	**15,647**	**73,974**	**-**	**63,103**	**2,526,515**
In 31 December 2016						
Cost	2,962,112	241,775	462,956	25,865	339,828	4,032,536
Accumulated Depreciation	(588,321)	(226,128)	(388,982)	(25,865)	(276,725)	(1,506,021)
Net Book Value	**2,373,788**	**15,647**	**73,974**	**-**	**63,103**	**2,526,515**

5 Property and equipment (continued)

	Land & building in US $	Leasehold improvements in US $	Furniture in US $	Office equipment in US $	Other equipment in US $	Total in US $
Year ended 31 December 2017						
Net book amount at the beginning of the year	2,373,788	15,647	73,974	-	63,103	2,526,512
Additions	-	-	-	250	12,180	12,430
Disposals						-
Depreciation charge	(35,674)	(3,355)	(11,485)	(250)	(28,400)	(79,164)
Net book amount at the end of the year	**2,338,114**	**12,292**	**62,489**	-	**46,883**	**2,459,778**
In 31 December 2017						
Cost	2,962,112	241,775	462,956	26,115	352,008	4,044,966
Accumulated Depreciation	(623,995)	(229,483)	(400,467)	(26,115)	(305,125)	(1,585,185)
Net Book Value	**2,338,117**	**12,292**	**62,489**	-	**46,883**	**2,459,781**

6 Investment property

	2017 US$	2016 US$
Cost	924,983	924,983
Depreciation	(243,722)	(231,655)
At end of year	681,261	693,328

Investment property comprises leased and vacant commercial properties in the Beirut Central District and an apartment in Ras Beirut. The fair value of these properties amounts to US$ 3 million. The company is holding these properties for long term rental income purposes. The Company's investment property revenue amounted to US$ is nil in 2017 (2016- US$ 12,364).

7 Financial assets at amortised cost

	2017 US$	2016 US$
Debt securities issued by Lebanese Banks	3,530,000	3,530,000
Debt securities issued by the Lebanese government	22,105,000	23,098,333
Foreign debt securities	35,922,020	31,355,800
Amortisation	111,144	117,285
	61,668,164	58,101,418
Interest earned but not received	1,202,290	1,101,931
	62,870,454	59,203,349

The table below analyses the maturity of the financial assets listed in the above:

	Nominal value	1 - 5 years	6 - 10 years	11 - 15 years
Debt securities issued by Lebanese banks	3,530,000	3,530,000	-	-
Debt securities issued by the Lebanese government	22,105,000	5,000,000	10,605,000	6,500,000
Foreign debt securities	35,922,020	12,212,020	23,710,000	-

7 Financial assets at amortised cost (continued)

	2017	2016
	US$	US$
At beginning of year	**58,101,418**	67,560,704
Additions	**12,360,000**	4,800,000
Maturities	**(2,352,333)**	(12,250,000)
Diposals	**(1,200,000)**	(1,500,000)
Redemption	**(24,780)**	(20,260)
Amortisation	**(6,141)**	(39,026)
Swaps	**(5,210,000)**	(450,000)
	61,668,164	58,101,418

During 2017, the company sold notes issued by a foreign bank with nominal value of US$ 1.2 million which resulted in a gain of US$ 136 thousands that was recognised under investment income (see note 20) in the statement of profit or loss.

During 2017, the Company executed several sale transactions of foreign debt securities in U.S dollars designated at amortized cost concluded in conjunction with the acquisition of other foreign debt securities in U.S dollars also designated at amortized cost. These transactions resulted in a yield enhancement over the new maturity terms.

During 2016, the company sold notes issued by a foreign bank with nominal value of US$ 1.5 million maturing in 2018 which resulted in a gain of US$ 168 thousands that was recognised under investment income (see note 20) in the statement of profit or loss.

8 Financial assets at fair value through OCI

	2017	2016
	US$	US$
Financial assets at fair value - listed	**1,225,740**	1,239,273
Financial assets at fair value - not listed	**2,491,012**	3,126,538
	3,716,752	4,365,811

Unlisted securities include an investment in a local company of US$ 665,000 for which a provision for impairment was allocated during 2017 for the amount of US$500,000. Accordingly as at 31 Decembe 2017, the net asset value of this investment is US$165,000. This investment is stated at cost in the absence of active markets or other means of reliably measuring its fair value. This caption consists mainly of equity securities dominated in US$. Financial assets at fair value through OCI are stated net of a provision for impairment.

8 Financial assets at fair value through OCI (continued)

Summarised below is the movement of financial assets at fair value through OCI:

	2017 US$	2016 US$
Balance at the beginning of the year	**4,365,811**	5,636,962
Disposals	**-**	(635,816)
Change in fair value	**(149,059)**	(35,335)
Impairment loss	**(500,000)**	(600,000)
	3,716,752	4,365,811

9 Insurance receivables

	2017 US$	2016 US$
Pipeline receivables	**36,916,321**	33,424,558
Due from insurance companies and brokers	**12,764,009**	10,723,117
Provision for impairment of receivables	**(1,500,000)**	(1,500,000)
Deposits with ceding companies	**20,470,311**	20,608,667
Due from related parties (note29)	**1,858,462**	2,016,945
Accrued interest	**449,637**	364,261
Commission from Arab Re Pool	**5,884**	49,207
Prepaid expenses	**1,085**	8,885
Due from employees	**106,751**	64,874
Other receivables	**356,400**	231,000
	71,428,860	65,991,514

The carrying amount of receivables approximates their fair values at 31 December 2016 and 2017. There is no concentration of credit risk with respect to balances due from contract holders, as the Company has a large number of dispensed debtors.

Provision for impairment of receivables as at 31 December 2017 represents individual provision for the amount of US$ 1,073 thousand (2016-US$ 1,085 thousand) and collective provision for the amount of US$ 427 thousand (2016- US$ 415 thousands).

The interest on deposits with ceding companies amounted to 0.7% (2016- 0.7%), (note 20).

10 Bank deposits with original maturity of more than 3 months

Bank deposits include deposits that originally mature within 3 months or more as at 31 December 2017. The effective interest rate on short-term bank deposits amounted to 5.27% (2016 – 5.1%).

11 Cash and cash equivalents

	2017 US$	2016 US$
Cash on hand	**1,816**	3,168
Bank current accounts	**4,687,821**	3,021,050
	4,689,637	3,024,218

12 Fair value reserve

Below is the movement of the fair value reserve of financial assets at fair value through OCI:

	2017 US$	2016 US$
At beginning of the year	**2,403,620**	2,016,976
Change in unrealised fair value losses	**149,059**	35,335
Realised loss on sale of financial assets	-	351,309
	2,552,679	2,403,620

13 Share capital

At 31 December 2017, the share capital is comprised of 75,000,000 authorised and fully paid shares with a par value of US$ 1 each. (2016- 75,000,000 authorised and fully paid shares with a par value of US$ 1 each).

An extraordinary general assembly of shareholders held on 21 May 2013, approved an amendment to article 18 of the Company's By Laws. This amendment grants the Board of Directors the power to purchase the Company's own shares from specific shareholder under certain circumstances. This concerns situations where the status of the shareholder is prejudicial to the interests of the Company as a result of an international sanctions regime applying to the shareholder or the Country in which he operates. Pursuant to the above amended article, the board of directors took the decision on 27 June 2013 to acquire 6,935,440 shares representing 9.24% of the share capital and held by one of the shareholders estimated the fair value of these shares at US$ 7.37 Million. This amount was reflected on the balance sheet as treasury shares, deducted from shareholders' equity and as an obligation payable to the shareholder.(note18).

A lawsuit was filed on the 10th of April 2014 by the previous shareholder in which he requested the immediate suspension of the execution of the resolutions voted in the ordinary and extraordinary general assemblies of the Company date 21 May 2013 and the annulment of the aforementioned assemblies.

On the 15th of September 2014, the court rendered a ruling rejecting the request of immediate suspension of the execution of the resolutions voted in the ordinary and extraordinary general assemblies of the Company dated 21 May 2013 while the request of annulment of the aforementioned assemblies is still pending.

14 Legal reserve

According to Article 60 of the Company's by-laws, 10% of the annual net profit should be transferred to a legal reserve until such reserve reaches the Company's capital. This reserve is not available for distribution to shareholders.

15 Dividends paid

In its meeting held on May 15, 2017 (2016 – 23 May 2016), the General Assembly of the Company's shareholders approved the distribution of dividends of 5% of paid Capital (excluding Treasury shares) representing a total of US$3.4millions (2016 - US$ nil).

16 Insurance contracts and reinsurance assets

	2017 **US$**	2016 US$
Insurance contracts		
Outstanding claims	**106,415,509**	104,483,990
Unearned premiums provision	**28,015,620**	29,261,201
Claims incurred but not reported	**600,000**	1,376,131
Total insurance liabilities, gross	**135,031,129**	135,121,322
Recoverable from reinsurers		
Outstanding claims	**24,033,419**	22,791,006
Unearned premiums provision	**6,986,607**	9,031,748
	31,020,026	31,822,754
Net		
Outstanding claims	**82,382,090**	81,692,984
Unearned premiums provision	**21,029,013**	20,229,453
Claims incurred but not reported	**600,000**	1,376,131
Total insurance liabilities, net	**104,011,103**	103,298,568

16.1 Development claims tables

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Company's estimate of total claims outstanding for each underwriting year has changed at successive year-ends. The bottom half of the tables reconciles the cumulative claims to the amount appearing in the balance sheet. An underwriting-year basis is considered to be most appropriate for the business written by the Company.

16 Insurance contracts and reinsurance assets (continued)

16.1 Development claims tables (continued)

Underwriting year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
In US$'000											
Estimate of ultimate claims costs:											
- at end of accident year		26,797	23,358	28,974	31,463	35,721	38,142	35,215	29,004	30,664	279,338
- one year later		40,605	34,476	37,024	49,379	50,939	47,848	55,836	47,237		363,344
- two years later		41,074	36,263	41,803	51,974	50,386	47,388	59,017			327,905
- three years later		40,710	36,648	45,078	51,155	46,450	45,424				265,465
- four years later		38,975	36,637	45,818	50,833	43,074					215,337
- five years later		39,360	36,166	46,074	51,447						173,047
- six years later		40,166	36,757	46,823							123,746
- seven years later		40,411	37,054								77,465
- eight years later		40,239									40,239
Current estimate of cumulative claims	10,191	40,239	37,054	46,823	51,447	43,074	45,424	59,017	47,237	30,664	411,170
Current payment to date		(36,164)	(35,465)	(42,640)	(47,278)	(33,605)	(40,067)	(44,230)	(23,021)	(1,685)	(304,155)
Liability recognised in the balance sheet	10,191	4,075	1,589	4,183	4,169	9,469	5,357	14,787	24,216	28,979	107,015
Total liability included in the balance sheet											107,015

17 Retirement benefit obligation

The movement in the provision recognised in the balance sheet is as follows:

	2017 US$	2016 US$
At beginning of year	**320,322**	436,619
Provision charged to income statement (note 25)	**25,078**	64,289
Utilised during the year	**(18,130)**	(180,586)
At end of year	**327,270**	320,322

18 Accounts payable

	2017 US$	2016 US$
Current account with insurance companies reinsurers and brokers	**12,385,928**	7,478,677
NSSF and other taxes payable	**246,300**	275,647
Deposits from reinsurance companies	**12,828,922**	13,982,861
Accrued expenses	**124,436**	79,502
Other payable	**7,371,688**	7,371,688
Due to related parties (note 28)	**1,531,803**	1,894,473
	34,489,077	31,082,848

19 Net insurance premium revenue

	2017 US$	2016 US$
Insurance contracts		
Insurance premium revenue	**64,012,887**	65,539,624
Change in unearned premium provision	**2,127,696**	1,033,683
Insurance premium revenue	**66,140,583**	66,573,307
Insurance premium revenue ceded to reinsurers	**15,276,487**	20,698,178
Change in reinsurance share of unearned premium provision	**2,045,141**	(560,799)
Insurance premium revenue ceded to reinsurers	**17,321,628**	20,137,379
Net reinsurance premium revenue	**48,818,955**	46,435,928

20 Investment income

	2017 US$	2016 US$
Interest on bank deposits	**4,913,697**	4,270,079
Interest on debt securities	**4,212,542**	4,048,111
Dividend Income	**54,978**	289,452
Interest income on deposits with cedants	**140,057**	153,963
Realised gains from sale of financial assets at FV through OCI	-	48,781
Realised gain from disposal of financial assets at FV through profit/loss	**265,051**	519,582
Realised gain from disposal of financial assets at amortised cost (note 7)	**135,950**	118,150
Impairment loss on financial assets FV through OCI	**(500,000)**	(600,000)
	9,222,275	8,848,118

Summarised below is the movement of financial assets at fair value through profit and loss:

	2017 US$	2016 US$
Balance at the beginning of the year	-	7,087,208
Additions	**1,000,000**	1,400,000
Disposals	**(1,000,000)**	(1,400,000)
Redemption	-	(7,087,208)
	-	-

During 2017, the company invested with an assets management company an amount of US$1mln which was liquidated later on resulting a gain of US$265 thousands that was recognized under investment income.

During 2016 the company redeemed its investment in a Lebanese debt fund and made several purchase and sales transactions which resulted in a gain of US$519 thousands that was recognized under investment income in the statement of profit or loss.

21 Reinsurance commission income

	2017 US$	2016 US$
Reinsurance commission income and profit sharing	**4,341,136**	4,867,608
Unearned reinsurance commissions at beginning of year	**2,722,032**	2,968,836
Unearned reinsurance commissions at end of year	**(2,521,187)**	(2,722,032)
	4,541,981	5,114,412

22 Insurance claims and loss adjustment expense

	2017 US$	2016 US$
Gross paid claims	**43,850,362**	37,547,721
Change in the provision for outstanding claims and IBNR	**2,413,952**	10,116,936
Insurance claims and loss adjustments expenses	**46,264,314**	47,664,657
Reinsurance share of paid claims	**7,596,050**	7,899,744
Change in reinsurer' share of outstanding claims and IBNR	**1,242,413**	5,708,423
Reinsurer' share of incurred claims	**8,838,463**	13,608,167
Insurance claims net of reinsurance	**37,425,851**	34,056,490

23 Expenses for acquisition of insurance contracts

	2017 US$	2016 US$
Commission paid	**15,345,199**	13,865,663
Deferred acquisition costs at beginning of year	**7,668,368**	10,677,248
Deferred acquisition costs at end of year	**(7,911,755)**	(7,668,368)
Total expenses for the acquisition of insurance contracts	**15,101,812**	16,874,543

24 Expenses for administration and other expenses

	2017 US$	2016 US$
Employee benefit expense (note 25)	**2,685,279**	2,632,335
Depreciation (note 5,6)	**138,926**	129,699
Utilities	**109,190**	128,534
Professional fees	**341,129**	413,671
Maintenance and repairs expenses	**24,563**	33,119
Rent	**6,417**	77,000
Other taxes	**309,190**	331,454
Board of director's attendance fees	**256,200**	314,035
Board of director's expense	**191,708**	195,671
Exchange loss	**789,345**	425,940
Other administrative expenses	**463,417**	531,321
Total administrative expenses	**5,315,364**	5,212,781
Less: Arab Re Pool expenses	**(100,000)**	(349,138)
	5,215,364	4,863,643

25 Employee benefit expense

	2017 US$	2016 US$
Salaries and wages	**2,303,302**	2,230,910
National social security costs	**287,748**	276,500
End of service indemnity costs (note 17)	**25,078**	64,289
Other staff costs	**69,151**	60,636
	2,685,279	**2,632,335**

26 Other operating (loss) income

	2017 US$	2016 US$
Rent income	-	12,364
Commission from Arab Re pool	**5,884**	71,074
Income related to Arab Re pool (note 24)	**(100,000)**	(349,138)
	(94,116)	(265,700)

27 Income Tax

The income tax is comprised of the following:

	2017 US$	2016 US$
Tax on insurance income	**180,308**	158,640
Other taxes	**64,409**	57,915
	244,717	216,555

	2017	2016
Taxable insurance income is comprised of the following:		
Gross premiums written in Lebanon	**10,313,740**	9,786,582
Commissions received on ceded premiums	**302,440**	343,313
Other income	**319,904**	446,103
Interest income net of tax	**766,872**	-
	11,702,956	10,575,998
Assumed profit at a weighted average rate of 10% (2016 – 10%)	**1,170,296**	1,057,600
Tax rate	15.41%	15.00%
Income tax expense	**180,308**	158,640

Reference to the law 64 issued on the 26th October 2017, the assumed profit with an average rate of 10% are subject to a new tax rate of 17%, whereas assumed profit related to the period before the date mentioned remains subject to the previous tax rate of 15%. Moreover the new law stated that the interest income net of tax are also subject to the new tax rate applied.

Open tax years that are subject to examination and acceptance by the fiscal authorities comprise the financial years from 2013 till 2017.

28 Related parties

The related parties are comprised of the Company's shareholders. The following transactions were carried out with related parties:

	2017 US$	2016 US$
(a) Insurance contracts		
Premiums accepted	**12,297,795**	13,418,597
Premiums ceded	**(3,271,140)**	(4,330,918)
Commission expense	**(3,050,837)**	(3,314,618)
Claims paid	**(6,609,036)**	(5,663,382)
Commission on income on ceded premiums	**1,273,200**	1,623,627
(b) Key management compensation		
Board of directors' attendance fees (note 24)	**363,700**	424,035

Outstanding balances arising from reinsurance and other activities were as follows:

	2017 US$	2016 US$
Due to related parties (note18)	**1,531,803**	1,894,473
Due from related parties (note9)	**1,858,462**	2,016,945

Related parties consist mainly of shareholders.

29 Cash from operating activities

		2017	2016
		US$	US$
Cash flow from operating activities	**Note**		
Profit before tax		**4,746,068**	**4,121,527**
Adjustments for:			
Depreciation	5 - 6	**138,926**	129,699
Amortisation on financial assets		**6,141**	39,026
Interest received		**9,080,561**	9,075,981
Interest income		**(9,266,296)**	(8,472,153)
Net decrease in financial assets at fair value through OCI		**500,000**	1,235,816
Net decrease (increase) in financial assets at amortised cost		**(3,572,887)**	9,420,260
Net decrease / (increase) in bank deposits with original maturity of more than 3 months		**5,342,102**	(24,407,172)
Net increase in insurance contracts		**(90,193)**	1,657,698
Net increase in reinsurance assets		**802,728**	(6,269,222)
Net decrease (increase) in deferred acquisition costs		**(243,387)**	3,008,880
Net increase in insurance receivable		**(5,351,970)**	331,219
Net increase in retirement benefit obligation		**6,948**	(116,297)
Net increase in accounts payable		**3,406,230**	1,248,284
Net increase in unearned reinsurance commission		**(200,845)**	(246,804)
Net cash used in operations		**5,304,126**	(9,243,258)
Income tax paid		**(223,049)**	(369,331)
Net cash used in operating activities		**5,081,077**	(9,612,589)

ARAB REINSURANCE COMPANY S.A.L.

Appendix A - Technical and non technical income statement

	2017 US$
Insurance premium revenue	66,140,583
Insurance premium ceded to reinsurance	(17,321,628)
Net insurance premium revenue	48,818,955
Investment income from technical operations	4,307,730
Reinsurance commission income and profit sharing	4,541,981
Income from technical operations	57,668,666
Insurance claims and loss adjustment expenses	(46,264,314)
Insurance claims and loss adjustment expenses recovered from reinsurers	8,838,463
Net insurance claims	(37,425,851)
Expenses for acquisition of insurance contracts	(15,101,812)
Expenses for administration and other expenses Allocated to technical operations	(4,130,301)
Expenses from technical operations	(56,657,964)
Net loss from technical operations	1,010,702
Investment income from non technical operations	4,914,545
Other operating loss	(94,116)
Income from non technical operations	4,820,429
Expenses for administration and other expenses allocated to non technical operations	(1,085,063)
Net income from non technical operations	3,735,366
Income tax	(244,717)
Net profit for the year	4,501,351