Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the nine months ended 30 September 2012

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Independent auditors' report on review of condensed consolidated interim financial information

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

11 November 2012

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arab Insurance Group (B.S.C.) (the "Company") and its subsidiaries (together the "Group") as at 30 September 2012, and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine month period then ended and explanatory notes ("the condensed consolidated interim financial information"). The Board of Directors of the Company is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 - *Interim Financial Reporting*.

KPMG

KPMG Fakhro, a registered partnership under Bahrain law,
is a member of KPMG International, a Swiss cooperative

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2012

(In thousands of U.S. Dollars)

	Note	30 September 2012 (reviewed)	31 December 2011 (audited)	30 September 2011 (reviewed)
ASSETS				
Cash and bank balances		**333,358**	343,844	357,724
Investments	4	**319,403**	305,728	291,602
Accrued income	5	**112,390**	94,583	140,311
Insurance receivables		**90,873**	94,412	85,502
Insurance deposits		**41,912**	48,938	48,038
Deferred policy acquisition costs		**32,928**	23,523	35,611
Reinsurers' share of technical provisions	6	**74,130**	53,889	59,311
Other assets	7	**30,839**	31,703	29,260
Property and equipment	9	**27,848**	27,657	27,775
		1,063,681	1,024,277	1,075,134
LIABILITIES				
Technical provisions	10	**658,531**	618,660	661,241
Insurance payables		**31,535**	27,703	24,789
Borrowings		**20,000**	40,000	40,000
Other liabilities	11	**52,109**	56,602	56,547
		762,175	742,965	782,577
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(14,793)
Reserves		**40,365**	31,360	34,285
Accumulated deficit		**(3,642)**	(14,179)	(6,657)
		241,930	222,388	232,835
Non-controlling interests		**59,576**	58,924	59,722
		301,506	281,312	292,557
		1,063,681	1,024,277	1,075,134

These consolidated interim condensed financial statements were approved by the Board of Directors on 11 November 2012 and signed by:

Khalid A. Al Bustani	Khalid J. Bin Kalban	Yassir Albaharna
Chairman	Vice Chairman	Chief Executive Officer

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 September 2012 (reviewed)	For the three months ended 30 September 2011 (reviewed)	For the financial year-to-date 30 September 2012 (reviewed)	For the financial year-to-date 30 September 2011 (reviewed)	For the year ended 31 December 2011 (audited)
Gross premiums written		**38,351**	50,106	**209,435**	239,000	247,463
Net earned premiums		**54,782**	61,854	**157,178**	168,757	222,869
Claims and related expenses		**(32,543)**	(42,994)	**(99,249)**	(123,634)	(167,797)
Policy acquisition costs		**(15,469)**	(15,396)	**(41,450)**	(38,985)	(53,714)
Investment income (loss) attributable to insurance funds	13	**4,017**	(2,719)	**8,691**	1,499	3,743
Operating expenses	14	**(7,727)**	(4,721)	**(16,891)**	(15,488)	(19,618)
Underwriting result	12	**3,060**	(3,976)	**8,279**	(7,851)	(14,517)
Investment income (loss) attributable to shareholders' funds	13	**3,311**	(5,946)	**7,354**	(1,347)	293
Operating expenses – non underwriting activities	14	**(2,196)**	(2,581)	**(7,148)**	(9,286)	(11,845)
Borrowing cost		**(93)**	(158)	**(315)**	(376)	(533)
Other income	15	**1,877**	1,893	**5,922**	6,609	8,469
Other expenses and provisions	16	**767**	1,619	**(3,608)**	(1,009)	(3,147)
Profit (loss) for the period		**6,726**	(9,149)	**10,484**	(13,260)	(21,280)
Attributable to:						
Non-controlling interests		**276**	(1,788)	**232**	(1,783)	(2,224)
Shareholders of Parent Company		**6,450**	(7,361)	**10,252**	(11,477)	(19,056)
		6,726	(9,149)	**10,484**	(13,260)	(21,280)
Earnings per share attributable to shareholders (basic and diluted)	17 US$	**0.03**	(0.04)	**0.05**	(0.06)	(0.10)

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

(In thousands of U.S. Dollars)

	For the three months ended 30 September 2012 (reviewed)	For the three months ended 30 September 2011 (reviewed)	**For the financial year-to-date 30 September 2012 (reviewed)**	For the financial year-to-date 30 September 2011 (reviewed)	For the year ended 31 December 2011 (audited)
Profit (loss) for the period	**6,726**	(9,149)	**10,484**	(13,260)	(21,280)
Other comprehensive income					
Changes on remeasurement of available-for-sale investments	**(2,991)**	(3,576)	**4,438**	(888)	(3,783)
Transfers for recognition of losses on disposal of available for sale investments	**4,230**	337	**4,545**	362	278
Revaluation of property	**-**	-	**727**	-	-
Other comprehensive income for the period	**1,239**	(3,239)	**9,710**	(526)	(3,505)
Total comprehensive income for the period	**7,965**	(12,388)	**20,194**	(13,786)	(24,785)
Attributable to:					
Non-Controlling interests	**479**	(1,765)	**652**	(1,333)	(1,885)
Shareholders of Parent Company	**7,486**	(10,623)	**19,542**	(12,453)	(22,900)
	7,965	(12,388)	**20,194**	(13,786)	(24,785)

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Accumulated deficit	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2011	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(14,179)	222,388	58,924	281,312
Net profit for the period	-	-	-	-	-	-	10,252	10,252	232	10,484
Changes on remeasurement of available-for-sale investments	-	-	-	4,053	-	4,053	-	4,053	385	4,438
Transfers for recognition of losses on disposal of available-for-sale investment	-	-	-	4,509	-	4,509	1	4,510	35	4,545
Revaluation of Property (note 9)	-	-	-	-	727	727	-	727	-	727
Total comprehensive income for the period	-	-	-	8,562	727	9,289	10,253	19,542	652	20,194
Transfer of net depreciation on revalued property	-	-	-	-	(284)	(284)	284	-	-	-
Balances at 30 September 2012	220,000	(14,793)	28,194	5,235	6,936	40,365	(3,642)	241,930	59,576	301,506

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				(Accumulated deficit) Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2010	220,000	(14,793)	28,160	518	6,857	35,535	19,398	260,140	61,055	321,195
Net loss for the year	-	-	-	-	-	-	(19,056)	(19,056)	(2,224)	(21,280)
Changes on remeasurement of available-for-sale investments	-	-	-	(4,064)	-	(4,064)	-	(4,064)	281	(3,783)
Transfers for recognition of losses on disposal of available-for-sale investments	-	-	-	219	-	219	1	220	58	278
Total comprehensive income for the year	-	-	-	(3,845)	-	(3,845)	(19,055)	(22,900)	(1,885)	(24,785)
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Dividend	-	-	-	-	-	-	(14,852)	(14,852)	-	(14,852)
Acquisition of minority share in subsidiary	-	-	34	-	-	34	(34)	-	(246)	(246)
Balances at 31 December 2011	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(14,179)	222,388	58,924	281,312
Parent company balances at 31 December 2011	220,000	(14,793)	28,094	(3,471)	6,493	31,116	(13,935)	222,388	-	222,388

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				(Accumulated deficit) Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2010	220,000	(14,793)	28,160	518	6,857	35,535	19,398	260,140	61,055	321,195
Net loss for the period	-	-	-	-	-	-	(11,477)	(11,477)	(1,783)	(13,260)
Changes on remeasurement of available-for-sale investments	-	-	-	(1,284)	-	(1,284)	-	(1,284)	396	(888)
Transfers for recognition of losses on disposal of available-for-sale investment	-	-	-	307	-	307	1	308	54	362
Total comprehensive income for the period	-	-	-	(977)	-	(977)	(11,476)	(12,453)	(1,333)	(13,786)
Transfer of net depreciation on revalued property	-	-	-	-	(273)	(273)	273	-	-	-
Dividend	-	-	-	-	-	-	(14,852)	(14,852)	-	(14,852)
Balances at 30 September 2011	220,000	(14,793)	28,160	(459)	6,584	34,285	(6,657)	232,835	59,722	292,557

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2012 (reviewed)	For the financial year-to-date 30 September 2011 (reviewed)	For the year ended 31 December 2011 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**184,546**	185,844	245,688
Reinsurance premiums paid		**(19,104)**	(13,914)	(23,554)
Claims and acquisition costs paid		**(171,411)**	(198,535)	(239,628)
Reinsurance receipts in respect of claims		**20,154**	17,427	22,861
Investment income (loss)		**2,436**	(2,924)	(3,655)
Interest received		**3,305**	3,947	4,781
Dividend received		**871**	1,531	1,694
Operating expenses paid		**(22,795)**	(17,395)	(24,696)
Other income/expenses, net		**882**	428	1,055
Insurance deposits received		**7,215**	17,786	16,886
Purchase of trading investments		**(55,213)**	(67,017)	(90,328)
Sale of trading investments		**88,441**	101,069	115,812
Directors' remuneration paid		**-**	(846)	(846)
Net cash provided by operating activities	18	**39,327**	27,401	26,070
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**195,945**	118,662	135,043
Purchase of investments		**(182,889)**	(86,446)	(106,951)
Term deposit with bank		**(24,810)**	(49,697)	(49,694)
Interest received		**2,904**	4,660	5,773
Dividend Received		**18**	151	243
Investment income received		**6,141**	(917)	(4,223)
Collateralised cash deposits (paid) received		**829**	152	(6,206)
Purchase of property and equipment		**(123)**	(1,049)	(1,169)
Purchase of intangible assets		**(410)**	(621)	(171)
Investment in associate		**-**	(375)	(375)
Net cash used in investing activities		**(2,395)**	(15,480)	(27,730)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings		**(20,000)**	27,294	27,294
Dividends paid		**(2,482)**	(11,745)	(11,810)
Net cash (used in) provided by financing activities		**(22,482)**	15,549	15,484
Net increase in cash and cash equivalents		**14,450**	27,470	13,824
Effect of exchange rate on cash and cash equivalents		**(52)**	-	(231)
Cash and cash equivalents, beginning of period		**294,150**	280,557	280,557
Cash and cash equivalents, end of period		**308,548**	308,027	294,150
Term deposit with bank		**24,810**	49,697	49,694
Cash and bank balances end of period		**333,358**	357,724	343,844

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

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial information to be prepared in condensed form. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2011 that were prepared in accordance with International Financial Reporting Standards (IFRS). Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

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

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2012, including IAS 19 (amended) Employment Benefit Scheme. The adoption of these Standards and interpretation does not have any material impact on the Financial Statements.

3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group registers approximately 55% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

4. INVESTMENTS

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**41,327**	61,921	52,642
	41,327	61,921	52,642
Designated at fair value on initial recognition			
Debt Securities			
- Other investment grade	**22,997**	21,931	21,606
- Other	**9,070**	6,835	5,422
	32,067	28,766	27,028
Held-to-maturity			
Debt securities			
- Supra-Nationals and OECD country Governments	**35,986**	48,041	57,129
- Other investment grade	**26,055**	43,131	43,167
- Non OECD country government	**2,656**	2,656	2,657
	64,697	93,828	102,953
Available-for-sale			
Debt securities			
- Supra-nationals and OECD country governments	**22,019**	21,525	9,603
- Other investment grade	**80,118**	39,784	33,826
- Non-OECD country governments	**5,495**	5,427	5,423
- Other	**46,262**	14,598	17,594
Common stock of listed companies	**735**	11,521	10,780
Common stock of unlisted companies	**6,997**	8,613	9,701
Other	**19,407**	19,370	21,677
	181,033	120,838	108,604
Investment in associate	**279**	375	375
	319,403	305,728	291,602

Debt securities amounting to US$ 67.3 million (31 December 2011: US$ 67.1 million; 30 September 2011: US$ 60.1 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

5. ACCRUED INCOME

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
Accrued insurance premiums	**109,739**	91,369	137,535
Accrued interest	**2,651**	3,214	2,776
	112,390	94,583	140,311

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
General insurance business			
- Claims outstanding	**48,535**	43,084	43,915
- Unreported claims	**10,208**	5,727	4,197
- Deferred retrocession premium reserve	**14,941**	4,563	10,684
	73,684	53,374	58,796
Life insurance business			
- Claims outstanding	**446**	515	515
	446	515	515
	74,130	53,889	59,311

7. OTHER ASSETS

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
Intangible assets :			
- Present value of future profits (PVFP)	**-**	5,000	5,000
- Computer software	**10,935**	10,522	10,500
- Goodwill	**-**	1,921	1,893
	10,935	17,443	17,393
Less: Accumulated amortisation/ impairment	**(9,702)**	(16,355)	(14,600)
Net intangible assets	**1,233**	1,088	2,793
Other assets:			
- Collateralised cash deposits	**11,863**	12,692	6,334
- Prepayments and other receivables	**17,743**	17,923	20,133
	29,606	30,615	26,467
	30,839	31,703	29,260

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
ASSETS			
Cash & cash equivalents	**10,240**	16,090	14,921
Accrued income	**28,646**	26,617	32,420
Insurance receivable	**13,381**	8,464	7,580
Insurance deposits	**4,710**	2,540	2,395
Deferred acquisition costs	**5,555**	4,660	7,145
Reinsurers' share of Takaful participants' fund	**2,209**	7,607	-
Deferred Wakala fees	**2,725**	2,087	3,169
	67,466	68,065	67,630
LIABILITIES			
Accounts payable	**15,498**	12,540	13,449
	15,498	12,540	13,449
TAKAFUL PARTICIPANTS' FUND			
Unearned contributions	**23,730**	18,451	26,068
Outstanding claims	**24,774**	34,288	23,975
Unreported losses	**32,064**	28,979	30,515
	80,568	81,718	80,558
Accumulated deficit	**(28,600)**	(26,193)	(26,377)
	67,466	68,065	67,630

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 30 September 2012	Year ended 31 December 2011	Year-to-date 30 September 2011
Gross contributions	**34,704**	40,048	37,706
Outward reinsurance premiums	**(3,974)**	(2,385)	(1,641)
Unearned contributions	**(4,656)**	(3,674)	(11,477)
Net earned contributions	**26,074**	33,989	24,588
Reported losses	**(15,372)**	(23,556)	(16,061)
Provision for unreported losses	**(2,709)**	1,221	(565)
Claim and related expenses	**(18,081)**	(22,335)	(16,626)
Policy acquisition costs	**(7,689)**	(11,316)	(10,808)
Deferred policy acquisition costs	**895**	362	2,846
Policy acquisition costs	**(6,794)**	(10,954)	(7,962)
Fee payable to operator (Wakala fee)	**(3,452)**	(4,381)	(3,694)
Investment income	**212**	261	230
Other expenses & provisions	**(366)**	56	(84)
(Deficit) surplus for the period	**(2,407)**	(3,364)	(3,548)

9. PROPERTY AND EQUIPMENT

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
Land	**1,340**	1,340	1,340
Building	**7,221**	9,270	9,270
Work in progress – building	**19,058**	19,058	19,058
Information systems, furniture, equipment and other	**14,013**	13,902	14,050
	41,632	43,570	43,718
Less: accumulated depreciation	**(13,784)**	(15,913)	(15,943)
	27,848	27,657	27,775

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in March 2012 by independent external valuers. Based on open market valuation, the fair value of land remained unchanged at US$ 1,340,000. The fair value of the building has been determined at US$ 7,221,000 as against a carrying value of US$ 6,494,000. The increase in fair value of US$ 727,000 has been included in Property Revaluation Reserve.

Work in progress-building is the office premises of the subsidiary Takaful Re Limited under construction in Dubai, U.A.E.

10. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
General insurance business			
Claims outstanding	**271,512**	267,709	268,815
Unreported losses	**155,474**	161,204	151,357
Unearned premiums	**136,369**	95,871	143,589
	563,355	524,784	563,761
Life insurance business			
Claims outstanding	**15,599**	17,375	16,328
Unreported losses	**69,535**	70,228	70,237
Unearned premiums	**10,042**	6,273	10,915
	95,176	93,876	97,480
	658,531	618,660	661,241

11. OTHER LIABILITIES

	US$ '000		
	30 September 2012	31 December 2011	30 September 2011
Post employment benefits	**13,146**	14,696	15,643
Reinsurance premiums accrued	**14,983**	13,107	12,065
Dividends payable	**1,822**	4,302	4,753
Accrued expenses	**5,778**	5,433	4,918
Employee share scheme	**1,463**	3,278	4,145
Other	**14,917**	15,786	15,023
	52,109	56,602	56,547

12. SEGMENT INFORMATION - Analysis of revenue by primary business segment

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

	US$ '000							
	Period ended 30 September 2012							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	82,045	28,476	23,931	20,192	30,424	19,080	5,287	209,435
Outward reinsurance premiums	(12,334)	(975)	(567)	(2,112)	(2,272)	(169)	(45)	(18,474)
Change in unearned premiums - gross	(13,772)	(4,069)	(5,200)	(4,874)	(4,343)	(2,685)	(1,085)	(36,028)
Change in unearned premiums - reinsurance	1,342	35	(202)	402	668	-	-	2,245
Net earned premiums	57,281	23,467	17,962	13,608	24,477	16,226	4,157	157,178
Investment income attributable to insurance funds	1,742	958	590	1,377	2,132	860	1,032	8,691
	59,023	24,425	18,552	14,985	26,609	17,086	5,189	165,869
COSTS AND EXPENSES :								
Gross claims paid	(50,130)	(15,467)	(11,855)	(11,032)	(22,597)	(10,928)	(9,041)	(131,050)
Claims recovered from reinsurers	16,693	676	475	2,044	259	7	-	20,154
Change in provision for outstanding claims - gross	(10,329)	4,529	3,850	(1,228)	3,935	(618)	2,502	2,641
Change in provision for outstanding claims - reinsurance	(752)	(580)	(628)	672	(72)	(68)	(1)	(1,429)
Change in provision for unreported losses - gross	3,466	(1,016)	(1,383)	26	5,923	(515)	1,231	7,732
Change in provision for unreported losses - reinsurance	1,289	586	447	2,112	(1,719)	(7)	(5)	2,703
Claims and related expenses	(39,763)	(11,272)	(9,094)	(7,406)	(14,271)	(12,129)	(5,314)	(99,249)
Policy acquisition costs	(19,616)	(9,715)	(7,776)	(5,855)	(6,936)	(2,441)	321	(52,018)
Policy acquisition costs recovered from reinsurers	(23)	194	227	62	(3)	(4)	-	453
Change in deferred policy acquisition costs - gross	4,058	1,548	1,286	1,486	1,599	100	4	10,081
Change in deferred policy acquisition costs - reinsurance	(18)	(14)	(12)	78	-	-	-	34
Policy acquisition costs	(15,599)	(7,987)	(6,275)	(4,229)	(5,340)	(2,345)	325	(41,450)
Operating expenses	(6,661)	(1,972)	(1,981)	(1,576)	(2,680)	(1,140)	(881)	(16,891)
Underwriting result	(3,000)	3,194	1,202	1,774	4,318	1,472	(681)	8,279

12. SEGMENT INFORMATION - Analysis of revenue by primary business segment (Contd.)

	US$ '000							
	Year ended 31 December 2011							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	107,524	33,834	22,615	26,467	34,073	20,022	2,928	247,463
Outward reinsurance premiums	(23,680)	(1,442)	(3,843)	(1,306)	(822)	(517)	(8)	(31,618)
Change in unearned premiums - gross	(9,770)	(208)	1,432	(2,309)	5,902	581	10,309	5,937
Change in unearned premiums - reinsurance	973	(189)	(327)	390	240	-	-	1,087
Net earned premiums	75,047	31,995	19,877	23,242	39,393	20,086	13,229	222,869
Investment income attributable to insurance funds	1,400	319	90	133	1,025	370	406	3,743
	76,447	32,314	19,967	23,375	40,418	20,456	13,635	226,612
COSTS AND EXPENSES :								
Gross claims paid	(60,182)	(19,236)	(14,372)	(11,820)	(50,530)	(19,094)	(10,551)	(185,785)
Claims recovered from reinsurers	17,797	1,077	2,813	620	549	4	1	22,861
Change in provision for outstanding claims - gross	(8,420)	9,052	603	2,192	17,347	331	(2,003)	19,102
Change in provision for outstanding claims - reinsurance	(241)	(664)	156	(499)	(498)	(5)	-	(1,751)
Change in provision for unreported losses - gross	(17,612)	(4,318)	117	435	4,531	7,235	(7,174)	(16,786)
Change in provision for unreported losses - reinsurance	(5,185)	(478)	465	(201)	(39)	-	-	(5,438)
Claims and related expenses	(73,843)	(14,567)	(10,218)	(9,273)	(28,640)	(11,529)	(19,727)	(167,797)
Policy acquisition costs	(26,725)	(10,642)	(5,749)	(8,785)	(6,859)	(169)	115	(58,814)
Policy acquisition costs recovered from reinsurers	169	231	855	257	1	(4)	(1)	1,508
Change in deferred policy acquisition costs - gross	3,706	187	(673)	477	(268)	(38)	-	3,391
Change in deferred policy acquisition costs - reinsurance	(17)	71	163	(16)	-	-	-	201
Policy acquisition costs	(22,867)	(10,153)	(5,404)	(8,067)	(7,126)	(211)	114	(53,714)
Operating expenses	(8,073)	(2,667)	(1,747)	(1,988)	(2,603)	(1,955)	(585)	(19,618)
Underwriting result	(28,336)	4,927	2,598	4,047	2,049	6,761	(6,563)	(14,517)

12. SEGMENT INFORMATION - Analysis of revenue by primary business segment (Contd.)

	US$ '000							
	Period ended 30 September 2011							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	103,766	31,216	24,401	38,141	21,159	19,164	1,153	239,000
Outward reinsurance premiums	(23,491)	(1,180)	(331)	(2,261)	(3,623)	(347)	(8)	(31,241)
Change in unearned premiums - gross	(32,377)	(5,619)	(5,574)	(7,526)	(1,369)	(2,946)	9,196	(46,215)
Change in unearned premiums - reinsurance	6,050	(140)	80	1,379	(156)	-	-	7,213
Net earned premiums	53,948	24,277	18,576	29,733	16,011	15,871	10,341	168,757
Investment income attributable to insurance funds	298	245	222	264	191	122	157	1,499
	54,246	24,522	18,798	29,997	16,202	15,993	10,498	170,256
COSTS AND EXPENSES :								
Gross claims paid	(43,435)	(15,414)	(11,852)	(41,707)	(10,991)	(15,276)	(9,331)	(148,006)
Claims recovered from reinsurers	13,284	912	505	214	2,503	4	1	17,423
Change in provision for outstanding claims - gross	(581)	7,324	2,955	12,590	85	(1,117)	616	21,872
Change in provision for outstanding claims - reinsurance	(223)	(338)	(433)	(84)	70	(5)	-	(1,013)
Change in provision for unreported losses - gross	(5,504)	(4,396)	149	5,295	(2,258)	2,232	(2,175)	(6,657)
Change in provision for unreported losses - reinsurance	(7,548)	(194)	(230)	185	534	-	-	(7,253)
Claims and related expenses	(44,007)	(12,106)	(8,906)	(23,507)	(10,057)	(14,162)	(10,889)	(123,634)
Policy acquisition costs	(24,412)	(10,427)	(8,148)	(7,945)	(5,230)	(146)	521	(55,787)
Policy acquisition costs recovered from reinsurers	1	219	98	-	838	(5)	-	1,151
Change in deferred policy acquisition costs - gross	8,933	2,335	1,752	2,284	219	39	4	15,566
Change in deferred policy acquisition costs - reinsurance	(45)	47	(27)	(1)	111	-	-	85
Policy acquisition costs	(15,523)	(7,826)	(6,325)	(5,662)	(4,062)	(112)	525	(38,985)
Operating expenses	(5,043)	(2,269)	(1,736)	(2,779)	(1,498)	(1,571)	(592)	(15,488)
Underwriting result	(10,327)	2,321	1,831	(1,951)	585	148	(458)	(7,851)

13. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 September 2012			Financial year-to-date 30 September 2011	Year ended 31 December 2011
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**374**	**214**	**588**	802	1,190
- Others	**4,642**	**4,145**	**8,787**	8,118	10,378
Dividends	**557**	**507**	**1,064**	1,577	2,207
Realised gains					
- Trading investments	**756**	**310**	**1,066**	520	202
- Investment designated at fair value through profit or loss	**339**	**214**	**553**	(68)	237
- Available-for-sale	**1,283**	**970**	**2,253**	4,166	4,414
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	**1,356**	**1,770**	**3,126**	(11,319)	(8,018)
- Investments designated at fair value through profit or loss	**110**	**69**	**179**	(363)	(615)
Impairment loss					
- available-for-sale	**(224)**	**(472)**	**(696)**	(2,334)	(4,149)
Other	**(502)**	**(373)**	**(875)**	(947)	(1,810)
	8,691	**7,354**	**16,045**	152	4,036

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 September 2012			Financial year-to-date 30 September 2011	Year ended 31 December 2011
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**9,898**	**3,977**	**13,875**	17,713	21,932
General and administration	**6,993**	**3,171**	**10,164**	7,061	9,531
	16,891	**7,148**	**24,039**	24,774	31,463

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 September 2012	Financial year-to-date 30 September 2011	Year ended 31 December 2011
Fees on managing Islamic reinsurance operations	**3,452**	3,687	4,381
Software sales and related services	**1,412**	1,540	2,049
Third party administration services	**931**	1,201	1,655
Other	**127**	181	384
	5,922	6,609	8,469

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 September 2012	Financial year-to-date 30 September 2011	Year ended 31 December 2011
Foreign exchange loss (gain)	**2,108**	(1,114)	(2,359)
Amortisation / impairment of intangible assets	**-**	1,750	3,422
Provision for doubtful receivable & Deposits	**4**	-	1,801
Other	**1,496**	373	283
	3,608	1,009	3,147

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 September 2012	Financial year-to-date 30 September 2011	Year ended 31 December 2011
Weighted average number of shares outstanding	'000	**198,032**	198,032	198,032
Net profit (loss)	US$'000	**10,252**	(11,477)	(19,056)
Earnings per share	US$	**0.05**	(0.06)	(0.10)

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

	US$ '000		
	Financial year-to-date 30 September 2012	Financial year-to-date 30 September 2011	Year ended 31 December 2011
Profit (loss) for the period	**10,484**	(13,260)	(21,280)
(Decrease) Increase in insurance funds	**(8,720)**	19,318	8,561
Change in insurance receivable/ payable, net	**1,375**	(10,565)	(20,223)
Change in accrued income	**27,921**	(9,137)	26,932
Change in other assets/liabilities, net	**8,267**	41,045	32,080
Net cash provided by operating activities	**39,327**	27,401	26,070

19. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

At 30 September 2012, the principal subsidiaries of the Company were:

	Country of incorporation	Ownership
Arig Capital Limited	United Kingdom	100.0%
Arima Insurance Software W.L.L.	Kingdom of Bahrain	100.0%
Gulf Warranties W.L.L.	Kingdom of Bahrain	100.0%
Takaful Re Limited	United Arab Emirates	54.0%

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2011. The Company continues to hold 50% of the joint venture Hardy Arig Insurance Management W.L.L. which is incorporated in the Kingdom of Bahrain. The Group also holds 25% of the equity shares in Globemed Bahrain W.L.L., Bahrain

20. RELATED PARTY TRANSACTIONS

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

The following is the summary of transactions with related parties:

i) **Subsidiary companies:**

	US$ '000		
	For the Financial year-to-date 30 September 2012	For the Financial year-to-date 30 September 2011	For the Year ended 31 December 2011
a) Gross premium retroceded by subsidiary to parent company	**21,859**	21,126	21,126
b) Service fees for administration services provided by parent company	**2,918**	2,246	3,362
c) Balances outstanding			
- Receivables	**18,475**	14,194	14,077
- Payables	**-**	-	1,518
d) Software royalty fees	**-**	-	129

ii) **Joint Venture**:

	US$ '000		
	For the Financial year-to-date 30 September 2012	For the Financial year-to-date 30 September 2011	For the Year ended 31 December 2011
a) Service fees for administration services provided	**65**	50	66
b) Balances receivable	**32**	97	115

20. RELATED PARTY TRANSACTIONS (Contd.)

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

	US$ '000		
	Financial year-to-date 30 September 2012	Financial year-to-date 30 September 2011	Year ended 31 December 2011
a) Directors			
- Allowances	**68**	56	97
b) Key management compensation			
- Salaries and other short-term employee benefits	**1,112**	1,662	2,033
- Post employment benefits	**195**	164	221
- Share-based compensation	**303**	343	30
c) Balances payable (net)			
Key management			
- Maximum balance	**4,739**	4,973	4,867
- Closing balance	**4,739**	4,973	4,867

21. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 6.9 million (31 December 2011: US$ 8.37 million; 30 September 2011: US$ 7.4 million).

The Subsidiary, Takaful Re Limited has a commitment to provide an interest free loan to the extent of the accumulated deficit. The Group's share of the commitment is US$ 15.4 million (31 December 2011: US$ 14.1 million; 30 September 2011: US$ 14.2 million).

APPENDIX I

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS PER CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2011

INVESTMENTS

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

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

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

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

The fair value of publicly traded investments is based on quoted market values at the statement of financial position date. Fair value of managed funds is based on net asset value quoted by the fund manager and fair values of other investments are estimated at realisable values. Where it is not possible to estimate the fair value, the asset is carried at cost less impairment, if any.

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

INVESTMENT IN ASSOCIATED COMPANIES

Investments in associated companies are accounted for using the equity method. Associated companies are defined as those companies over which the Group is able to exercise significant influence, being the power to participate in the financial and operating policy decisions of the company, but not the power to control such policy decisions. Generally, these are companies in which the Group owns 20% to 50% of the voting shares.

INVESTMENT INCOME

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 30-September-2012		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	82,807	250,551	**333,358**
Total Cash & Cash Equivalents	**82,807**	**250,551**	**333,358**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	1,968	39,359	**41,327**
	1,968	**39,359**	**41,327**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	22,997	**22,997**
- Other	-	9,070	**9,070**
	-	**32,067**	**32,067**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	35,986	**35,986**
- Other Investment grade	5,002	21,053	**26,055**
- Non-OECD country government	-	2,656	**2,656**
	5,002	**59,695**	**64,697**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	22,019	**22,019**
- Other Investment grade	10,215	69,903	**80,118**
- Non-OECD country governments	1,357	4,138	**5,495**
- Other	15,450	30,812	**46,262**
Common stock of listed companies	-	735	**735**
Common stock of unlisted companies	-	6,997	**6,997**
Other (see note)	9,936	9,471	**19,407**
	36,958	**144,075**	**181,033**
Investment in Associate	-	279	**279**
	-	**279**	**279**
Total Investments	**43,928**	**275,475**	**319,403**

Note: The Group does not have any direct investments in land or real estate. However, 'Other' includes investments in Real Estate funds amounting to US$ 2,868,000 (in U.A.E.: US$ 3,000).