Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the six months ended 30 June 2013

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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

6 August 2013

Introduction

We have reviewed the accompanying 30 June 2013 condensed consolidated interim financial information of Arab Insurance Group (B.S.C.) ("the Company") and its subsidiaries (together the Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2013;
- the condensed consolidated income statements for the three month and six month periods ended 30 June 2013;
- the condensed consolidated statements of comprehensive income for the three month and six month periods ended 30 June 2013;
- the condensed consolidated statements of changes in equity for the six month period ended 30 June 2013;
- the condensed consolidated statements of cash flows for the six month period ended 30 June 2013; and
- notes to 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 the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial 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 30 June 2013 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG

KPMG Fakhro, a Bahrain partnership registered with Ministry of Commerce and Industry (MOIC), Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

(In thousands of U.S. Dollars)

	Note	30 June 2013 (reviewed)	31 December 2012 (restated)	30 June 2012 (restated)
ASSETS				
Cash and bank balances		**317,550**	348,354	335,585
Investments	4	**320,331**	316,128	322,645
Accrued income	5	**157,027**	101,560	177,340
Insurance receivables		**121,106**	97,385	95,739
Insurance deposits		**49,168**	45,592	45,833
Deferred policy acquisition costs		**42,092**	27,992	40,656
Reinsurers' share of technical provisions	6	**64,973**	59,292	77,800
Other assets	7	**39,724**	23,688	21,512
Property and equipment	8	**27,461**	27,675	28,056
		1,139,432	1,047,666	1,145,166
LIABILITIES				
Technical provisions	9	**757,677**	671,454	782,888
Insurance payables		**57,193**	31,043	30,159
Borrowings		**-**	20,000	20,000
Other liabilities	10	**44,881**	43,702	45,855
		859,751	766,199	878,902
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(14,793)
Reserves		**35,313**	41,977	39,426
Accumulated deficit		**(6,590)**	(11,955)	(24,918)
		233,930	235,229	219,715
Non-controlling interests		**45,751**	46,238	46,549
		279,681	281,467	266,264
		1,139,432	1,047,666	1,145,166

These consolidated interim condensed financial statements were approved by the Board of Directors on 6 August 2013 and signed by:

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

The accompanying notes 1 to 22 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 SIX MONTHS ENDED 30 JUNE 2013

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 June 2013 (reviewed)	For the three months ended 30 June 2012 (restated)	For the financial year-to-date 30 June 2013 (reviewed)	For the financial year-to-date 30 June 2012 (restated)	For the year ended 31 December 2012 (restated)
Gross premiums written		**44,239**	39,967	**224,253**	223,554	276,517
Net earned premiums		**65,093**	60,756	**118,165**	120,486	254,718
Claims and related expenses		**(38,464)**	(41,312)	**(76,589)**	(80,215)	(153,353)
Policy acquisition costs		**(18,556)**	(15,684)	**(31,287)**	(31,069)	(70,808)
Investment income attributable to insurance funds	12	**1,653**	(485)	**5,305**	4,828	11,963
Operating expenses	13	**(6,217)**	(2,798)	**(11,393)**	(9,622)	(22,972)
Underwriting result	11	**3,509**	477	**4,201**	4,408	19,548
Investment income attributable to shareholders' funds	12	**1,268**	(1,203)	**4,076**	4,044	9,631
Operating expenses non underwriting activities	13	**(1,753)**	(1,275)	**(3,418)**	(2,829)	(5,438)
Borrowing cost		**-**	(91)	**(63)**	(222)	(407)
Other income	14	**790**	1,182	**2,185**	1,652	3,891
Other expenses and provisions	15	**(638)**	(2,433)	**(1,848)**	(4,379)	(10,594)
Profit (loss) for the period		**3,176**	(3,343)	**5,133**	2,674	16,631
Attributable to:						
Non-controlling interests		**175**	(991)	**(39)**	(543)	(922)
Shareholders of Parent Company		**3,001**	(2,352)	**5,172**	3,217	17,553
		3,176	(3,343)	**5,133**	2,674	16,631
Earnings per share attributable to shareholders (basic and diluted)	16 US$	**0.02**	(0.01)	**0.03**	0.02	0.09

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 22 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 SIX MONTHS ENDED 30 JUNE 2013

(In thousands of U.S. Dollars)

	For the three months ended 30 June 2013 (reviewed)	For the three months ended 30 June 2012 (restated)	**For the financial year-to-date 30 June 2013 (reviewed)**	For the financial year-to-date 30 June 2012 (restated)	For the year ended 31 December 2012 (restated)
Profit (loss) for the period	**3,176**	(3,343)	**5,133**	2,674	16,631
Other comprehensive income					
Items that will be reclassified to profit or loss:					
Changes on remeasurement of available-for-sale investments	**(6,366)**	565	**(6,479)**	7,429	3,936
Items that will not be reclassified subsequently to profit or loss:					
Transfers for recognition of (gains)/ losses on disposal of available for sale investments	**(73)**	445	**(440)**	315	5,054
Revaluation of property	**-**	-	**-**	727	727
Other comprehensive income for the period	**(6,439)**	1,010	**(6,919)**	8,471	9,717
Total comprehensive income for the period	**(3,263)**	(2,333)	**(1,786)**	11,145	26,348
Attributable to:					
Non-Controlling interests	**(157)**	(909)	**(487)**	(326)	(637)
Shareholders of Parent Company	**(3,106)**	(1,424)	**(1,299)**	11,471	26,985
	(3,263)	(2,333)	**(1,786)**	11,145	26,348

The accompanying notes 1 to 22 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 SIX MONTHS ENDED 30 JUNE 2013

(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 1 January 2013 as previously reported	220,000	(14,793)	29,759	5,378	6,840	41,977	(104)	247,080	56,334	303,414
Impact of changes in accounting policies (note 20)	-	-	-	-	-	-	(11,851)	(11,851)	(10,096)	(21,947)
Restated balances as at 1 January 2013	220,000	(14,793)	29,759	5,378	6,840	41,977	(11,955)	235,229	46,238	281,467
Net profit (loss) for the period	-	-	-	-	-	-	5,172	5,172	(39)	5,133
Changes on remeasurement of available-for-sale investments	-	-	-	(6,130)	-	(6,130)	-	(6,130)	(349)	(6,479)
Transfers for recognition of gain on disposal of available-for-sale investment	-	-	-	(341)	-	(341)	-	(341)	(99)	(440)
Total comprehensive income for the period	-	-	-	(6,471)	-	(6,471)	5,172	(1,299)	(487)	(1,786)
Transfer of net depreciation on revalued property	-	-	-	-	(193)	(193)	193	-	-	-
Balances at 30 June 2013	220,000	(14,793)	29,759	(1,093)	6,647	35,313	(6,590)	233,930	45,751	279,681

The accompanying notes 1 to 22 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 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 1 January 2012 as previously reported	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(14,179)	222,388	58,924	281,312
Impact of changes in accounting policies	-	-	-	-	-	-	(14,144)	(14,144)	(12,049)	(26,193)
Restated balances as at 1 January 2012	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(28,323)	208,244	46,875	255,119
Net profit (loss) for the year	-	-	-	-	-	-	17,553	17,553	(922)	16,631
Changes on remeasurement of available-for-sale investments	-	-	-	3,659	-	3,659	-	3,659	277	3,936
Transfers for recognition of losses on disposal of available-for-sale investment	-	-	-	5,046	-	5,046	-	5,046	8	5,054
Revaluation of property	-	-	-	-	727	727	-	727	-	727
Total comprehensive income for the year	-	-	-	8,705	727	9,432	17,553	26,985	(637)	26,348
Transfer of net depreciation on revalued property	-	-	-	-	(380)	(380)	380	-	-	-
Transfer to non-distributable reserves	-	-	1,565	-	-	1,565	(1,565)	-	-	-
Restated balances at 31 December 2012	220,000	(14,793)	29,759	5,378	6,840	41,977	(11,955)	235,229	46,238	281,467
Parent company balances at 31 December 2012	220,000	(14,793)	29,620	4,900	6,840	41,360	(11,338)	235,229	-	235,229

The accompanying notes 1 to 22 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 SIX MONTHS ENDED 30 JUNE 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 (restated)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 1 January 2012 as previously reported	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(14,179)	222,388	58,924	281,312
Impact of changes in accounting policies	-	-	-	-	-	-	(14,144)	(14,144)	(12,049)	(26,193)
Restated balances as at 1 January 2012	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(28,323)	208,244	46,875	255,119
Net profit (loss) for the period	-	-	-	-	-	-	3,217	3,217	(543)	2,674
Changes on remeasurement of available-for-sale investments	-	-	-	7,228	-	7,228	-	7,228	201	7,429
Transfers for recognition of losses on disposal of available-for-sale investment	-	-	-	298	-	298	1	299	16	315
Revaluation of Property	-	-	-	-	727	727	-	727	-	727
Total comprehensive income for the period	-	-	-	7,526	727	8,253	3,218	11,471	(326)	11,145
Transfer of net depreciation on revalued property	-	-	-	-	(187)	(187)	187	-	-	-
Restated balances at 30 June 2012	220,000	(14,793)	28,194	4,199	7,033	39,426	(24,918)	219,715	46,549	266,264

The accompanying notes 1 to 22 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 SIX MONTHS ENDED 30 JUNE 2013

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 June 2013 (reviewed)	For the financial year-to-date 30 June 2012 (restated)	For the year ended 31 December 2012 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**146,236**	156,518	297,709
Reinsurance premiums paid		**(5,151)**	(15,906)	(40,547)
Claims and acquisition costs paid		**(127,307)**	(140,777)	(276,517)
Reinsurance receipts in respect of claims		**10,195**	12,718	36,583
Investment income		**112**	1,807	307
Interest received		**2,747**	3,412	5,304
Dividend received		**811**	871	1,138
Operating expenses paid		**(15,808)**	(14,479)	(25,102)
Other income/expenses, net		**(4,610)**	(4,347)	(2,330)
Insurance deposits received		**(3,549)**	5,833	6,075
Purchase of trading investments		**(29,659)**	(55,213)	(64,122)
Sale of trading investments		**23,246**	59,384	94,591
Net cash (used in) provided by operating activities	17	**(2,737)**	9,821	33,089
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**69,966**	92,780	193,214
Purchase of investments		**(72,108)**	(106,528)	(222,068)
Term deposit with bank		**5,629**	19,931	(4,866)
Interest received		**3,300**	2,904	6,024
Dividend received		**-**	18	24
Investment income		**908**	560	6,395
Collateralised cash deposits paid		**(9,075)**	(301)	(3,814)
Purchase of property and equipment		**(197)**	(116)	(150)
Purchase of intangible assets		**(276)**	(329)	(422)
Net cash (used in) provided by investing activities		**(1,853)**	8,919	(25,663)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings		**(20,000)**	(20,000)	(20,000)
Interest on borrowings		**(371)**	-	(633)
Dividends paid		**(31)**	(2,471)	(2,501)
Net cash used in financing activities		**(20,402)**	(22,471)	(23,134)
Net decrease in cash and cash equivalents		**(24,992)**	(3,731)	(15,708)
Effect of exchange rate on cash and cash equivalents		**(183)**	(50)	(101)
Cash and cash equivalents, beginning of period		**234,856**	250,665	250,665
Cash and cash equivalents, end of period		**209,681**	246,884	234,856
Term deposit with bank		**107,869**	88,701	113,498
Cash and bank balances, end of period		**317,550**	335,585	348,354

The accompanying notes 1 to 22 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 THREE MONTHS ENDED 30 JUNE 2013

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 2012.

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

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2012 that were prepared in accordance with International Financial Reporting Standards (IFRS) except as described below. Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2013, including IAS 1 - Presentation of items of other comprehensive income; IAS 19 Employee benefits; IAS 28 - Investment in associates and Joint Ventures; IFRS 7 - Financial instruments disclosures; IFRS 10 Consolidated financial statement; IFRS 11- Joint arrangements; IFRS 12 Disclosure of interests in other entities; IFRS 13 Fair value measurement.

IFRS 10 introduces a new control model that is applicable to all investees; it requires the consolidation of an investee if the Group controls the investee on the basis of:

i) power over the investee
ii) exposure to variable returns from the investee
iii) the ability to use its power to affect the amount of returns

In accordance with the transitional provisions of IFRS 10, the Group reassessed the control conclusion for its subsidiaries as at 1 January 2013. As a consequence, the Group has changed its control conclusion in respect of the subsidiary, Takaful Re Limited's participants (policyholders') funds. Management has concluded that Takaful Re Limited has control over the participant's funds and as a result the Participants fund accounts have been consolidated retrospectively. Previously Takaful Re Limited's participant's fund accounts were not being consolidated into the Group accounts.

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. The Group has re-evaluated its involvement in its only joint venture and has assessed that it is in the nature of a joint venture to be recognised by applying the equity method and is regarded as individually immaterial and there is no significant impact on the recognised assets, liabilities and comprehensive income of the Group.

The effect of adopting IFRS10 and IFRS 11 has been disclosed in note 20.

3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group registers approximately 67% 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 June 2013	31 December 2012	30 June 2012
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**54,584**	45,476	45,253
	54,584	45,476	45,253
Designated at fair value on initial recognition			
Debt Securities			
- Other investment grade	**23,975**	23,851	22,699
- Other	**11,847**	8,449	7,056
	35,822	32,300	29,755
Held-to-maturity			
Debt securities			
- Supra-Nationals and OECD country governments	**29,967**	36,975	40,003
- Other investment grade	**20,027**	26,045	30,071
- Non OECD country government	**2,655**	2,655	2,656
- Others	**2,469**	-	-
	55,118	65,675	72,730
Available-for-sale			
Debt securities			
- Supra-nationals and OECD country governments	**22,990**	21,995	22,344
- Other investment grade	**81,332**	73,104	63,873
- Non-OECD country governments	**2,553**	6,803	5,491
- Other	**44,902**	44,584	39,167
Common stock of listed companies	**-**	813	16,839
Common stock of unlisted companies	**6,701**	6,808	7,715
Other	**16,198**	18,164	19,049
	174,676	172,271	174,478
Investment in joint venture	**112**	127	151
Investment in associate	**19**	279	278
	320,331	316,128	322,645

Debt securities amounting to US$ 70.2 million (31 December 2012: US$ 66.3 million; 30 June 2012: US$ 67.4 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

5. ACCRUED INCOME

	US$ '000		
	30 June 2013	31 December 2012	30 June 2012
Accrued insurance premiums	**154,530**	98,488	174,778
Accrued interest	**2,497**	3,072	2,562
	157,027	101,560	177,340

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 June 2013	31 December 2012	30 June 2012
General insurance business			
- Claims outstanding	**46,876**	42,036	51,079
- Unreported claims	**9,885**	13,021	8,651
- Deferred retrocession premium reserve	**7,630**	3,644	17,207
	64,391	58,701	76,937
Life insurance business			
- Claims outstanding	**582**	591	863
	582	591	863
	64,973	59,292	77,800

7. OTHER ASSETS

	US$ '000		
	30 June 2013	31 December 2012	30 June 2012
Intangible assets :			
- Computer software	**11,221**	10,944	10,851
	11,221	10,944	10,851
Less: Accumulated amortisation	**(9,985)**	(9,796)	(9,607)
Net intangible assets	**1,236**	1,148	1,244
Other assets:			
- Collateralised cash deposits	**25,581**	16,506	11,993
- Prepayments and other receivables	**12,907**	6,034	8,275
	38,488	22,540	20,268
	39,724	23,688	21,512

8. PROPERTY AND EQUIPMENT

	US$ '000		
	30 June 2013	31 December 2012	30 June 2012
Land	**1,340**	1,340	1,340
Building	**26,279**	7,221	7,221
Work in progress	**-**	19,058	19,058
Information systems, furniture, equipment and other	**14,035**	13,941	14,011
	41,654	41,560	41,630
Less: accumulated depreciation	**(14,193)**	(13,885)	(13,574)
	27,461	27,675	28,056

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.
Building also includes office premises of the subsidiary Takaful Re Limited in Dubai, U.A.E; US$ 19.1 million. This property, earlier carried as work in progress, was handed over by the developer in the current period and is expected to be brought into use by end of the year after furnishing.

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 June 2013	31 December 2012	30 June 2012
General insurance business			
Claims outstanding	**316,789**	301,039	300,244
Unreported losses	**162,669**	174,235	184,358
Unearned premiums	**186,588**	109,740	195,804
	666,046	585,014	680,406
Life insurance business			
Claims outstanding	**17,825**	15,141	17,886
Unreported losses	**63,085**	65,333	68,967
Unearned premiums	**10,721**	5,966	15,629
	91,631	86,440	102,482
	757,677	671,454	782,888

10. OTHER LIABILITIES

	US$ '000		
	30 June 2013	31 December 2012	30 June 2012
Post employment benefits	**13,306**	12,484	12,896
Reinsurance premiums accrued	**8,619**	8,619	13,347
Dividends payable	**2,106**	1,971	1,833
Accrued expenses	**4,212**	6,238	3,887
Employee share scheme	**2,761**	2,480	1,298
Other	**13,877**	11,910	12,594
	44,881	43,702	45,855

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

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

	US$ '000								
	Period ended 30 June 2013								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	60,932	26,703	17,154	15,634	54,082	33,007	14,935	1,806	224,253
Outward reinsurance premiums	(3,043)	(1,210)	177	(110)	(18,064)	(271)	(610)	6	(23,125)
Change in unearned premiums - gross	(16,942)	(4,863)	(5,194)	(6,384)	(39,644)	(20,613)	(3,640)	(1,113)	(98,393)
Change in unearned premiums - reinsurance	449	169	(9)	49	14,986	(195)	(19)	-	15,430
Net earned premiums	41,396	20,799	12,128	9,189	11,360	11,928	10,666	699	118,165
Investment income attributable to insurance funds	1,031	529	280	692	849	931	398	595	5,305
	42,427	21,328	12,408	9,881	12,209	12,859	11,064	1,294	123,470
COSTS AND EXPENSES :									
Gross claims paid	(36,553)	(12,383)	(9,978)	(4,812)	(5,074)	(12,502)	(5,113)	(2,920)	(89,335)
Claims recovered from reinsurers	5,054	598	26	417	1,337	395	154	-	7,981
Change in provision for outstanding claims - gross	(1,763)	1,753	(1,711)	351	(3,068)	345	(1,208)	(1,469)	(6,770)
Change in provision for outstanding claims - reinsurance	2	(564)	353	95	886	(152)	10	-	630
Change in provision for unreported losses - gross	2,544	(318)	4,302	116	2,511	4,598	(1,766)	3,810	15,797
Change in provision for unreported losses - reinsurance	(1,487)	152	(20)	(181)	(2,870)	(688)	203	(1)	(4,892)
Claims and related expenses	(32,203)	(10,762)	(7,028)	(4,014)	(6,278)	(8,004)	(7,720)	(580)	(76,589)
Policy acquisition costs	(18,964)	(9,867)	(5,131)	(5,009)	(5,408)	(1,145)	(879)	236	(46,167)
Policy acquisition costs recovered from reinsurers	455	317	(32)	76	-	(1)	156	-	971
Change in deferred policy acquisition costs – gross	6,543	2,282	1,612	1,943	1,129	620	151	(3)	14,277
Change in deferred policy acquisition costs - reinsurance	(256)	(105)	2	(32)	-	17	6	-	(368)
Policy acquisition costs	(12,222)	(7,373)	(3,549)	(3,022)	(4,279)	(509)	(566)	233	(31,287)
Operating expenses	(4,040)	(1,675)	(1,150)	(701)	(323)	(1,735)	(1,523)	(246)	(11,393)
Underwriting result	(6,038)	1,518	681	2,144	1,329	2,611	1,255	701	4,201

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

	US$ '000								
	Period ended 31 December 2012								
	Non-life						Life		Total (restated)
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	78,056	36,943	25,780	18,242	53,790	37,836	20,204	5,666	276,517
Outward reinsurance premiums	(7,258)	(1,965)	(1,030)	(484)	(13,347)	(868)	(2,189)	(11)	(27,152)
Change in unearned premiums - gross	4,807	2,259	2,915	(6)	(9,873)	3,230	1,382	(270)	4,444
Change in unearned premiums - reinsurance	(945)	23	(8)	(351)	2,024	147	19	-	909
Net earned premiums	74,660	37,260	27,657	17,401	32,594	40,345	19,416	5,385	254,718
Investment income attributable to insurance funds	2,713	1,345	727	1,893	480	2,180	986	1,639	11,963
	77,373	38,605	28,384	19,294	33,074	42,525	20,402	7,024	266,681
COSTS AND EXPENSES :									
Gross claims paid	(79,433)	(20,727)	(18,103)	(12,483)	(13,563)	(35,846)	(17,901)	(10,269)	(208,325)
Claims recovered from reinsurers	25,620	828	526	2,020	3,200	210	226	-	32,630
Change in provision for outstanding claims - gross	930	1,091	1,820	(1,139)	(9,262)	6,620	1,739	2,002	3,801
Change in provision for outstanding claims - reinsurance	(9,431)	(462)	(953)	(262)	4,403	(2,385)	(20)	(1)	(9,111)
Change in provision for unreported losses - gross	11,931	1,065	163	5,264	(10,521)	9,256	2,817	4,021	23,996
Change in provision for unreported losses - reinsurance	(329)	1,367	10	1,126	4,561	(3,184)	112	(7)	3,656
Claims and related expenses	(50,712)	(16,838)	(16,537)	(5,474)	(21,182)	(25,329)	(13,027)	(4,254)	(153,353)
Policy acquisition costs	(19,439)	(12,188)	(9,329)	(5,520)	(11,570)	(6,009)	(3,136)	225	(66,966)
Policy acquisition costs recovered from reinsurers	141	344	388	132	-	65	594	-	1,664
Change in deferred policy acquisition costs – gross	(1,778)	(693)	(878)	(188)	(2,894)	678	100	57	(5,596)
Change in deferred policy acquisition costs - reinsurance	30	(1)	-	87	-	(21)	(5)	-	90
Policy acquisition costs	(21,046)	(12,538)	(9,819)	(5,489)	(14,464)	(5,287)	(2,447)	282	(70,808)
Operating expenses	(8,185)	(3,309)	(2,554)	(1,711)	(659)	(3,693)	(1,819)	(1,042)	(22,972)
Underwriting result	(2,570)	5,920	(526)	6,620	(3,231)	8,216	3,109	2,010	19,548

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

	US$ '000								
	Period ended 30 June 2012								
	Non-life						Life		Total (restated)
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	60,474	24,226	17,867	13,811	55,746	27,239	19,129	5,062	223,554
Outward reinsurance premiums	(4,010)	(993)	(716)	(351)	(16,644)	(101)	(1,662)	(26)	(24,503)
Change in unearned premiums - gross	(19,050)	(5,188)	(5,391)	(5,383)	(37,525)	(10,182)	(6,452)	(2,099)	(91,270)
Change in unearned premiums - reinsurance	(553)	219	171	(201)	12,828	(45)	286	-	12,705
Net earned premiums	36,861	18,264	11,931	7,876	14,405	16,911	11,301	2,937	120,486
Investment income attributable to insurance funds	945	529	330	745	300	939	472	568	4,828
	37,806	18,793	12,261	8,621	14,705	17,850	11,773	3,505	125,314
COSTS AND EXPENSES :									
Gross claims paid	(35,084)	(12,712)	(9,845)	(8,092)	(5,452)	(17,359)	(9,147)	(7,280)	(104,971)
Claims recovered from reinsurers	9,564	464	273	1,397	1,213	(406)	213	-	12,718
Change in provision for outstanding claims - gross	(3,047)	4,799	3,498	700	(7,824)	2,398	(785)	1,567	1,306
Change in provision for outstanding claims - reinsurance	(2,681)	(317)	(704)	60	4,897	(320)	(17)	(1)	917
Change in provision for unreported losses - gross	1,996	(2,354)	1,772	1,922	(4,046)	4,821	1,420	1,719	7,250
Change in provision for unreported losses - reinsurance	(645)	859	(64)	1,283	3,440	(2,472)	166	(2)	2,565
Claims and related expenses	(29,897)	(9,261)	(5,070)	(2,730)	(7,772)	(13,338)	(8,150)	(3,997)	(80,215)
Policy acquisition costs	(13,753)	(8,133)	(6,493)	(4,036)	(7,465)	(1,652)	(1,839)	240	(43,131)
Policy acquisition costs recovered from reinsurers	24	232	303	93	-	-	572	-	1,224
Change in deferred policy acquisition costs – gross	4,392	1,731	1,737	1,439	1,039	629	184	8	11,159
Change in deferred policy acquisition costs - reinsurance	(111)	(87)	(66)	38	-	-	(95)	-	(321)
Policy acquisition costs	(9,448)	(6,257)	(4,519)	(2,466)	(6,426)	(1,023)	(1,178)	248	(31,069)
Operating expenses	(3,069)	(1,265)	(1,049)	(693)	(280)	(1,888)	(849)	(529)	(9,622)
Underwriting result	(4,608)	2,010	1,623	2,732	227	1,601	1,596	(773)	4,408

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 June 2013			Financial year-to-date 30 June 2012	Year ended 31 December 2012
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**431**	**190**	**621**	511	879
- Others	**2,648**	**2,280**	**4,928**	5,175	10,786
Dividends	**447**	**364**	**811**	889	1,161
Realised gains					
- Trading investments	**587**	**458**	**1,045**	1,329	1,271
- Investment designated at fair value through profit or loss	**29**	**17**	**46**	558	775
- Available-for-sale	**742**	**738**	**1,480**	1,011	4,885
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	**992**	**614**	**1,606**	646	4,396
- Investments designated at fair value through profit or loss	**(367)**	**(217)**	**(584)**	(300)	32
Impairment gain (loss)					
- available-for-sale	**91**	**(174)**	**(83)**	(331)	(1,502)
Other	**(295)**	**(194)**	**(489)**	(616)	(1,089)
	5,305	**4,076**	**9,381**	8,872	21,594

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 June 2013			Financial year-to-date 30 June 2012	Year ended 31 December 2012
	Insurance funds	Shareholders' funds	Total		
Salaries and benefits	**8,295**	**2,344**	**10,639**	8,896	20,127
General and administration	**3,098**	**1,074**	**4,172**	3,555	8,283
	11,393	**3,418**	**14,811**	12,451	28,410

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 June 2013	Financial year-to-date 30 June 2012	Year ended 31 December 2012
Software sales and related services	**564**	961	2,176
Third party administration services	**737**	602	1,338
Other	**884**	89	377
	2,185	1,652	3,891

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 June 2013	Financial year-to-date 30 June 2012	Year ended 31 December 2012
Foreign exchange loss	**626**	3,727	4,641
Provision for doubtful receivable & deposits	**-**	4	4,177
Other	**1,222**	648	1,776
	1,848	4,379	10,594

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		US$ '000		
		Financial year-to-date 30 June 2013	Financial year-to-date 30 June 2012	Year ended 31 December 2012
Weighted average number of shares outstanding	'000	**198,032**	198,032	198,032
Net profit	US$'000	**5,172**	3,217	17,553
Earnings per share	US$	**0.03**	0.02	0.09

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

	US$ '000		
	Financial year-to-date 30 June 2013	Financial year-to-date 30 June 2012	Year ended 31 December 2012
Profit for the period	**5,133**	2,674	16,630
Decrease in insurance funds	**(17,155)**	(4,281)	(14,669)
Change in insurance receivable/ payable, net	**1,667**	(1,624)	708
Change in accrued insurance premium	**20,313**	28,885	15,115
Change in other assets/liabilities, net	**(12,695)**	(15,833)	15,305
Net cash (used in) provided by operating activities	**(2,737)**	9,821	33,089

18. FAIR VALUE DISCLOSURE

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

	US$ '000						
	30 June 2013						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	317,550	-	-	-	317,550	317,550
Investments	90,407	-	55,118	174,675	-	320,200	321,596
Accrued income	-	430	155,482	1,115	-	157,027	157,027
Insurance receivables	-	121,106	-	-	-	121,106	121,106
Insurance deposits	-	49,168	-	-	-	49,168	49,168
Other assets	-	38,492	-	-	-	38,492	38,492
LIABILITIES							
Insurance payables	-	-	-	-	57,193	57,193	57,193
Other liabilities	-	-	-	-	40,669	40,669	40,669

	US$ '000						
	31 December 2012						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	348,354	-	-	-	348,354	348,354
Investments	77,776	-	65,675	172,271	-	315,722	318,432
Accrued income	-	1,118	99,424	1,018	-	101,560	101,560
Insurance receivables	-	97,385	-	-	-	97,385	97,385
Insurance deposits	-	45,592	-	-	-	45,592	45,592
Other assets	-	27,992	-	-	-	27,992	27,992
LIABILITIES							
Insurance payables	-	-	-	-	31,043	31,043	31,043
Borrowings	-	-	-	-	20,000	20,000	20,000
Other liabilities	-	-	-	-	37,464	37,464	37,464

18. FAIR VALUE DISCLOSURE (Contd.)

	US$ '000						
	30 June 2012						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	335,585	-	-	-	335,585	335,585
Investments	75,008	-	72,730	174,478	-	322,216	324,694
Accrued income	-	754	175,880	706	-	177,340	177,340
Insurance receivables	-	95,739	-	-	-	95,739	95,739
Insurance deposits	-	45,833	-	-	-	45,833	45,833
Other assets	-	20,268	-	-	-	20,268	20,268
LIABILITIES							
Insurance payables	-	-	-	-	30,159	30,159	30,159
Borrowings	-	-	-	-	20,000	20,000	20,000
Other liabilities	-	-	-	-	41,968	41,968	41,968

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

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

i. General:

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

ii. Investments:

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

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

18. FAIR VALUE DISCLOSURE (Contd.)

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

30 June 2013	US$'000			
	Level 1	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**54,584**	**-**	**-**	**54,584**
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	**23,975**	**-**	**-**	**23,975**
- Other	**11,847**	**-**	**-**	**11,847**
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	**22,990**	**-**	**-**	**22,990**
- Other investment grade	**81,332**	**-**	**-**	**81,332**
- Non-OECD country governments	**2,553**	**-**	**-**	**2,553**
- Other	**44,902**	**-**	**-**	**44,902**
Common stock of listed companies	**-**	**-**	**-**	**-**
Common stock of unlisted companies	**-**	**1,530**	**5,171**	**6,701**
Other	**-**	**2,265**	**13,933**	**16,198**
	242,183	**3,795**	**19,104**	**265,082**

31 December 2012	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	45,476	-	-	45,476
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	23,851	-	-	23,851
- Other	8,449	-	-	8,449
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	21,995	-	-	21,995
- Other investment grade	73,104	-	-	73,104
- Non-OECD country governments	6,803	-	-	6,803
- Other	44,584	-	-	44,584
Common stock of listed companies	813	-	-	813
Common stock of unlisted companies	-	1,721	5,087	6,808
Other	-	2,628	15,536	18,164
	225,075	4,349	20,623	250,047

18. FAIR VALUE DISCLOSURE (Contd.)

30 June 2012	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	45,253	-	-	45,253
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	22,699	-	-	22,699
- Other	7,056	-	-	7,056
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	22,344	-	-	22,344
- Other investment grade	63,873	-	-	63,873
- Non-OECD country governments	5,491	-	-	5,491
- Other	39,167	-	-	39,167
Common stock of listed companies	16,839	-	-	16,839
Common stock of unlisted companies	-	2,460	5,255	7,715
Other	-	2,493	16,556	19,049
	222,722	4,953	21,811	249,486

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

30 June 2013	**US$ '000**		
	Unlisted equity	**Others**	**Total**
Balance at 1 January 2013	**5,087**	**15,536**	**20,623**
Loss recognised in:			
- Income statement	**-**	**(155)**	**(155)**
- other comprehensive income	**(416)**	**(672)**	**(1,088)**
Investments made during the period	**610**	**385**	**995**
Investments redeemed during the period	**(110)**	**(1,161)**	**(1,271)**
Balance at 30 June 2013	**5,171**	**13,933**	**19,104**

18. FAIR VALUE DISCLOSURE (Contd.)

31 December 2012	US$ '000		
	Unlisted equity	Others	Total
Balance at 1 January 2012	6,073	16,892	22,965
Gain (loss) recognised in:			
- Income statement	(86)	(1,302)	(1,388)
- other comprehensive income	(122)	445	323
Investments made during the year	1,307	1,000	2,307
Investments redeemed during the year	(2,085)	(1,499)	(3,584)
Balance at 31 December 2012	5,087	15,536	20,623

30 June 2012	US$ '000		
	Unlisted equity	Others	Total
Balance at 1 January 2012	6,073	16,892	22,965
Gain (loss) recognised in:			
- Income statement	-	(314)	(314)
- other comprehensive income	146	46	192
Investments made during the period	474	422	896
Investments redeemed during the period	(1,438)	(490)	(1,928)
Balance at 30 June 2012	5,255	16,556	21,811

The carrying values of the investment held in level 3 are based on unobservable inputs and reflects proportional share of the fair values of the respective companies and their underlying net assets. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. For the period ended June 30, 2013, there were no transfers in and out of level 1, level 2 and level 3 (2012: none). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

iii. Forward foreign exchange contracts:

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

iv. Fair value less than carrying amounts:

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

19. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES (Contd.)

At 30 June 2013, 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 2012. 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. CHANGES IN ACCOUNTING POLICIES

The following tables summarise the cumulative effect, of adopting IFRS 10 and IFRS 11 on the Group's financial statements as described in Note 2.

i) Condensed consolidated statement of financial position

As at 30 June 2012

Effect of changes in accounting policies

	US$ '000		
	As previously reported	Subsidiaries	As restated
ASSETS			
Cash and bank balances	318,420	17,165	**335,585**
Investments	322,494	151	**322,645**
Accrued income	128,515	48,825	**177,340**
Insurance receivables	87,811	7,928	**95,739**
Insurance deposits	43,293	2,540	**45,833**
Deferred policy acquisition costs	36,014	4,642	**40,656**
Reinsurers' share of technical provisions	61,116	16,684	**77,800**
Other assets	33,905	(12,393)	**21,512**
Property and equipment	28,056	-	**28,056**
	1,059,624	85,542	**1,145,166**
LIABILITIES			
Technical provisions	667,903	114,985	**782,888**
Insurance payables	28,827	1,332	**30,159**
Borrowings	20,000	-	**20,000**
Other liabilities	49,353	(3,498)	**45,855**
	766,083	112,819	**878,902**
EQUITY			
Attributable to shareholders of parent company			
Share capital	220,000	-	**220,000**
Treasury stock	(14,793)	-	**(14,793)**
Reserves	39,426	-	**39,426**
Accumulated deficit	(10,189)	(14,729)	**(24,918)**
	234,444	(14,729)	**219,715**
Non-controlling interests	59,097	(12,548)	**46,549**
	293,541	(27,277)	**266,264**
	1,059,624	85,542	**1,145,166**

20. CHANGES IN ACCOUNTING POLICIES (Contd.)

As at 31 December 2012

Effect of changes in accounting policies

	US$ '000		
	As previously reported	Subsidiaries	As restated
ASSETS			
Cash and bank balances	334,345	14,009	**348,354**
Investments	316,001	127	**316,128**
Accrued income	79,595	21,965	**101,560**
Insurance receivables	91,008	6,377	**97,385**
Insurance deposits	42,225	3,367	**45,592**
Deferred policy acquisition costs	23,876	4,116	**27,992**
Reinsurers' share of technical provisions	57,248	2,044	**59,292**
Other assets	27,959	(4,271)	**23,688**
Property and equipment	27,675	-	**27,675**
	999,932	47,734	**1,047,666**
LIABILITIES			
Technical provisions	600,990	70,464	**671,454**
Insurance payables	30,015	1,028	**31,043**
Borrowings	20,000	-	**20,000**
Other liabilities	45,513	(1,811)	**43,702**
	696,518	69,681	**766,199**
EQUITY			
Attributable to shareholders of parent company			
Share capital	220,000	-	**220,000**
Treasury stock	(14,793)	-	**(14,793)**
Reserves	41,977	-	**41,977**
Accumulated deficit	(104)	(11,851)	**(11,955)**
	247,080	(11,851)	**235,229**
Non-controlling interests	56,334	(10,096)	**46,238**
	303,414	(21,947)	**281,467**
	999,932	47,734	**1,047,666**

20. CHANGES IN ACCOUNTING POLICIES (Contd.)

ii) Condensed consolidated statement of income

For the six months ended 30 June 2012 — **Effect of changes in accounting policies**

	US$ '000		
	As previously reported	Subsidiaries	As restated
Gross premiums written	171,084	52,470	**223,554**
Net earned premiums	102,396	18,090	**120,486**
Claims and related expenses	(66,706)	(13,509)	**(80,215)**
Policy acquisition costs	(25,981)	(5,088)	**(31,069)**
Investment income attributable to insurance funds	4,674	154	**4,828**
Operating expenses	(9,164)	(458)	**(9,622)**
Underwriting result	5,219	(811)	**4,408**
Investment income attributable to shareholders' funds	4,043	1	**4,044**
Operating expenses (non underwriting activities)	(4,952)	2,123	**(2,829)**
Borrowing cost	(222)	-	**(222)**
Other income	4,045	(2,393)	**1,652**
Other expenses and provisions	(4,375)	(4)	**(4,379)**
Profit for the period	3,758	(1,084)	**2,674**
Attributable to:			
Non-controlling interests	(44)	(499)	**(543)**
Shareholders of Parent Company	3,802	(585)	**3,217**
	3,758	(1,084)	**2,674**

20. CHANGES IN ACCOUNTING POLICIES (Contd.)

For the year ended 31 December 2012

Effect of changes in accounting policies

	US$ '000		
	As previously reported	Subsidiaries	As restated
Gross premiums written	238,642	37,875	**276,517**
Net earned premiums	218,231	36,487	**254,718**
Claims and related expenses	(129,714)	(23,639)	**(153,353)**
Policy acquisition costs	(61,513)	(9,295)	**(70,808)**
Investment income attributable to insurance funds	11,740	223	**11,963**
Operating expenses	(18,863)	(4,109)	**(22,972)**
Underwriting result	19,881	(333)	**19,548**
Investment income attributable to shareholders' funds	9,631	-	**9,631**
Operating expenses non underwriting activities	(9,638)	4,200	**(5,438)**
Borrowing cost	(407)	-	**(407)**
Other income	8,128	(4,237)	**3,891**
Other expenses and provisions	(15,210)	4,616	**(10,594)**
Profit for the year	12,385	4,246	**16,631**
Attributable to:			
Non-controlling interests	(2,875)	1,953	**(922)**
Shareholders of Parent Company	15,260	2,293	**17,553**
	12,385	4,246	**16,631**

21. 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 June 2013	For the Financial year-to-date 30 June 2012	For the Year ended 31 December 2012
a) Gross premium retroceded by subsidiary to parent company	**26,920**	31,433	31,433
b) Service fees for administration services provided by parent company	**2,482**	2,893	6,014
c) Balances outstanding - Receivables	**14,433**	15,807	12,468
d) Software royalty fees	**-**	-	114
e) Sale/purchase of intangible assets between subsidiaries	**-**	-	250

ii) **Joint Venture**:

	US$ '000		
	For the Financial year-to-date 30 June 2013	For the Financial year-to-date 30 June 2012	For the Year ended 31 December 2012
a) Service fees for administration services provided	**59**	46	74
b) Balances receivable	**191**	53	64

21. RELATED PARTY TRANSACTIONS (Contd.)

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

	US$ '000		
	Financial year-to-date 30 June 2013	Financial year-to-date 30 June 2012	Year ended 31 December 2012
a) Directors			
- Remuneration (attendance fee)	**59**	63	108
- Travel expense	**55**	90	148
ii) Key management compensation			
- Salaries and other short-term employee benefits	**1,324**	784	1,525
- Post employment benefits	**408**	129	261
- Share-based compensation	**224**	202	404
iii) Balances payable (net)			
Key management			
- Maximum balance	**4,808**	4,177	4,496
- Closing balance	**4,808**	4,177	4,496

22. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 6.4 million (31 December 2012: US$ 6.4 million; 30 June 2012: US$ 7.95 million).

APPENDIX I

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS AT 30 JUNE 2013

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 JOINT VENTURES

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. The Group has re-evaluated its involvement in its only joint venture and has assessed that it is in the nature of a joint venture to be recognised by applying the equity method and is regarded as individually immaterial and there is no significant impact on the recognised assets, liabilities and comprehensive income of the Group.

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-June-2013		
	Investments in U.A.E.	Investments outside U.A.E.	Total
a. Cash & bank balances	56,893	260,657	**317,550**
Total cash & bank balances	**56,893**	**260,657**	**317,550**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	1,815	52,769	**54,584**
	1,815	**52,769**	**54,584**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	23,975	**23,975**
- Other	-	11,847	**11,847**
	-	**35,822**	**35,822**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	29,967	**29,967**
- Other Investment grade	4,999	15,028	**20,027**
- Non-OECD country government	-	2,655	**2,655**
- Other	-	2,469	**2,469**
	4,999	**50,119**	**55,118**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	22,990	**22,990**
- Other Investment grade	12,602	68,731	**81,332**
- Non-OECD country governments	-	2,553	**2,553**
- Other	10,938	33,964	**44,902**
Common stock of listed companies	-	-	-
Common stock of unlisted companies	-	6,701	**6,701**
Other (see note)	1,712	14,486	**16,198**
	25,251	**149,424**	**174,676**
Investment in joint venture		112	**112**
Investment in associate	-	19	**19**
	-	**131**	**131**
Total Investments	**32,066**	**288,265**	**320,331**

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$ 2,126,000 (in U.A.E.: US$ 3,000).