Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the three months ended 31 March 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

12 May 2013

Introduction

We have reviewed the accompanying 31 March 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 31 March 2013;
- the condensed consolidated income statement for the three month period ended 31 March 2013;
- the condensed consolidated statement of comprehensive income for the three-month period ended 31 March 2013;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2013;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2013; and
- notes to the 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 31 March 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 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 31 MARCH 2013

(In thousands of U.S. Dollars)

	Note	**31 March 2013 (reviewed)**	31 December 2012 (audited)	31 March 2012 (reviewed)
ASSETS				
Cash and bank balances		**293,806**	333,749	331,241
Investments	4	**332,653**	316,128	309,777
Accrued income	5	**171,783**	79,595	174,208
Insurance receivables		**95,064**	91,008	96,042
Insurance deposits		**40,844**	42,225	46,639
Deferred policy acquisition costs		**41,228**	23,876	41,255
Reinsurers' share of technical provisions	6	**56,789**	57,248	56,938
Other assets	7	**32,969**	27,860	35,673
Property and equipment	9	**27,526**	27,675	28,249
		1,092,662	999,364	1,120,022
LIABILITIES				
Technical provisions	10	**706,679**	600,990	724,921
Insurance payables		**33,073**	29,467	26,796
Borrowings		**-**	20,000	20,000
Other liabilities	11	**46,810**	45,493	53,554
		786,562	695,950	825,271
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(14,793)
Reserves		**41,708**	41,977	38,595
Retained earnings (Accumulated deficit)		**2,713**	(104)	(8,540)
		249,628	247,080	235,262
Non-controlling interests		**56,472**	56,334	59,489
		306,100	303,414	294,751
		1,092,662	999,364	1,120,022

These consolidated interim condensed financial statements were approved by the Board of Directors on 12 May 2013 and signed by:

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 INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2013

(In thousands of U.S. Dollars)

	Note		For the financial year-to-date 31 March 2013 (reviewed)	For the financial year-to-date 31 March 2012 (reviewed)	For the year ended 31 December 2012 (audited)
Gross premiums written			**164,932**	159,869	238,642
Net earned premiums			**45,610**	48,771	218,231
Claims and related expenses			**(32,262)**	(31,548)	(129,714)
Policy acquisition costs			**(10,976)**	(13,878)	(61,513)
Investment income attributable to insurance funds	13		**3,637**	5,240	11,740
Operating expenses	14		**(4,390)**	(5,068)	(18,863)
Underwriting result	12		**1,619**	3,517	19,881
Investment income attributable to shareholders' funds	13		**2,808**	5,248	9,631
Operating expenses non underwriting activities	14		**(2,451)**	(2,649)	(9,547)
Borrowing cost			**(63)**	(131)	(407)
Other income	15		**2,260**	1,940	8,000
Other expenses and provisions	16		**(1,199)**	(1,947)	(15,173)
Profit for the period			**2,974**	5,978	12,385
Attributable to:					
Non-controlling interests			**254**	430	(2,875)
Shareholders of Parent Company			**2,720**	5,548	15,260
			2,974	5,978	12,385
Earnings per share attributable to shareholders (basic and diluted)	17	US$	**0.01**	0.03	0.08

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

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ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2013

(In thousands of U.S. Dollars)

	For the financial year-to-date 31 March 2013 (reviewed)	For the financial year-to-date 31 March 2012 (reviewed)	For the year ended 31 December 2012 (audited)
Profit for the period	**2,974**	5,978	12,385
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Changes on remeasurement of available-for-sale investments	**80**	6,864	3,936
Transfers for recognition of (gains)/losses on disposal of available for sale investments	**(368)**	(130)	5,054
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of property	**-**	727	727
Other comprehensive income for the period	**(288)**	7,461	9,717
Total comprehensive income for the period	**2,686**	13,439	22,102
Attributable to:			
Non-controlling interests	**138**	565	(2,590)
Shareholders of Parent Company	**2,548**	12,874	24,692
	2,686	13,439	22,102

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 THREE MONTHS ENDED 31 MARCH 2013

(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 2012	220,000	(14,793)	29,759	5,378	6,840	41,977	(104)	247,080	56,334	303,414
Net profit for the period	-	-	-	-	-	-	2,720	2,720	254	2,974
Changes on remeasurement of available-for-sale investments	-	-	-	107	-	107	-	107	(27)	80
Transfers for recognition of gains on disposal of available-for-sale investment	-	-	-	(279)	-	(279)	-	(279)	(89)	(368)
Total comprehensive income for the period	-	-	-	(172)	-	(172)	2,720	2,548	138	2,686
Transfer of net depreciation on revalued property	-	-	-	-	(97)	(97)	97	-	-	-
Balances at 31 March 2013	220,000	(14,793)	29,759	5,206	6,743	41,708	2,713	249,628	56,472	306,100

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) Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			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 year	-	-	-	-	-	-	15,260	15,260	(2,875)	12,385
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 investments	-	-	-	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	15,260	24,692	(2,590)	22,102
Transfer of net depreciation on revalued property	-	-	-	-	(380)	(380)	380	-	-	-
Transfer to legal reserve	-	-	1,565	-	-	1,565	(1,565)	-	-	-
Balances at 31 December 2012	220,000	(14,793)	29,759	5,378	6,840	41,977	(104)	247,080	56,334	303,414
Parent company balances at 31 December 2012	220,000	(14,793)	29,620	4,900	6,840	41,360	513	247,080	-	247,080

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 THREE MONTHS ENDED 31 MARCH 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	-	-	-	-	-	-	5,548	5,548	430	5,978
Changes on remeasurement of available-for-sale investments	-	-	-	6,729	-	6,729	-	6,729	135	6,864
Transfers for recognition of (gains) /losses on disposal of available-for-sale investment	-	-	-	(131)	-	(131)	1	(130)	-	(130)
Revaluation of Property (note 9)	-	-	-	-	727	727	-	727	-	727
Total comprehensive income for the period	-	-	-	6,598	727	7,325	5,549	12,874	565	13,439
Transfer of net depreciation on revalued property	-	-	-	-	(90)	(90)	90	-	-	-
Balances at 31 March 2012	220,000	(14,793)	28,194	3,271	7,130	38,595	(8,540)	235,262	59,489	294,751

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 THREE MONTHS ENDED 31 MARCH 2013

(In thousands of U.S. Dollars)

	Note	**For the financial year-to-date 31 March 2013 (reviewed)**	For the financial year-to-date 31 March 2012 (reviewed)	For the year ended 31 December 2012 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		74,629	70,405	253,358
Reinsurance premiums paid		(4,616)	(4,913)	(35,654)
Claims and acquisition costs paid		(75,309)	(67,550)	(235,658)
Reinsurance receipts in respect of claims		3,841	6,604	30,783
Investment income		183	8,082	54
Interest received		1,691	2,294	5,304
Dividend received		340	432	1,137
Operating expenses paid		(6,069)	(9,276)	(25,103)
Other income/expenses, net		(3,449)	(1,242)	2,984
Insurance deposits received		1,408	1,077	6,901
Purchase of trading investments		(18,986)	(29,963)	(64,122)
Sale of trading investments		12,206	23,649	94,591
Net cash (used in) provided by operating activities	18	(14,131)	(401)	34,575
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		17,389	47,244	193,214
Purchase of investments		(24,819)	(41,774)	(222,068)
Term deposit with bank		13,698	24,884	22,371
Interest received		1,784	1,672	6,281
Dividend Received		-	9	24
Investment income		683	3,793	6,138
Collateralised cash deposits received (paid)		68	639	(3,814)
Purchase of property and equipment		(76)	(86)	(150)
Purchase of intangible assets		(187)	(32)	(422)
Net cash provided by investing activities		8,540	36,349	1,574
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings		(20,000)	(20,000)	(20,000)
Interest on borrowings		(371)	(633)	(633)
Dividends paid		(12)	(2,402)	(2,501)
Net cash used in by financing activities		(20,383)	(23,035)	(23,134)
Net (decrease) increase in cash and cash equivalents		(25,974)	12,913	13,015
Effect of exchange rate on cash and cash equivalents		(271)	5	(102)
Cash and cash equivalents, beginning of period		220,251	207,338	207,338
Cash and cash equivalents, end of period		194,006	220,256	220,251
Term deposit with bank		99,800	110,985	113,498
Cash and bank balances end of period		293,806	331,241	333,749

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 31 MARCH 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 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 that the amounts of its joint venture Hardy Arig Insurance Management (HAIM) has been consolidated using the equity method instead of the proportionate consolidation method. 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 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

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.

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		
	31 March 2013	31 December 2012	31 March 2012
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**56,056**	45,476	62,832
	56,056	45,476	62,832
Designated at fair value on initial recognition			
Debt securities			
- Other investment grade	**23,819**	23,851	23,146
- Other	**8,198**	8,449	7,168
	32,017	32,300	30,314
Held-to-maturity			
Debt securities			
- Supra-Nationals and OECD country governments	**36,970**	36,975	42,022
- Other investment grade	**24,035**	26,045	34,097
- Non OECD country government	**2,655**	2,655	2,656
- Other	**1,493**	-	-
	65,153	65,675	78,775
Available-for-sale			
Debt securities			
- Supra-nationals and OECD country governments	**21,989**	21,995	31,299
- Other investment grade	**84,980**	73,104	37,941
- Non-OECD country governments	**3,993**	6,803	5,470
- Other	**43,568**	44,584	18,810
Common stock of listed companies	**-**	813	16,982
Common stock of unlisted companies	**7,122**	6,808	7,684
Other	**17,380**	18,164	19,118
	179,032	172,271	137,304
Investment in joint venture	**116**	127	177
Investment in associate	**279**	279	375
	332,653	316,128	309,777

Debt securities amounting to US$ 67.3 million (31 December 2012: US$ 66.3 million; 31 March 2012: US$ 67.2 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

5. ACCRUED INCOME

	US$ '000		
	31 March 2013	31 December 2012	31 March 2012
Accrued insurance premiums	**169,362**	76,524	172,240
Accrued interest	**2,421**	3,071	1,968
	171,783	79,595	174,208

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	31 March 2013	31 December 2012	31 March 2012
General insurance business			
- Claims outstanding	**40,522**	41,550	40,481
- Unreported claims	**11,563**	12,137	7,824
- Deferred retrocession premium reserve	**4,258**	3,115	8,134
	56,343	56,802	56,439
Life insurance business			
- Claims outstanding	**446**	446	499
	446	446	499
	56,789	57,248	56,938

7. OTHER ASSETS

	US$ '000		
	31 March 2013	31 December 2012	31 March 2012
Intangible assets :			
- Computer software	**11,110**	10,944	10,554
	11,110	10,944	10,554
Less: Accumulated amortisation	**(9,891)**	(9,796)	(9,517)
Net intangible assets	**1,219**	1,148	1,037
Other assets:			
- Collateralised cash deposits	**16,438**	16,506	12,053
- Prepayments and other receivables	**15,312**	10,206	22,583
	31,750	26,712	34,636
	32,969	27,860	35,673

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000		
	31 March 2013	31 December 2012	31 March 2012
ASSETS			
Cash & cash equivalents	**16,788**	14,605	14,950
Accrued income	**27,995**	21,964	34,328
Insurance receivable	**5,688**	6,456	13,476
Insurance deposits	**3,682**	3,367	2,540
Deferred acquisition costs	**5,162**	4,117	7,213
Reinsurers' share of Takaful participants' fund	**2,059**	2,044	8,382
Deferred Wakala fees	**2,287**	1,724	3,382
	63,661	54,277	84,271
LIABILITIES			
Accounts payable	**7,589**	5,760	15,065
	7,589	5,760	15,065
TAKAFUL PARTICIPANTS' FUND			
Unearned contributions	**22,195**	15,307	30,836
Outstanding claims	**30,135**	27,924	35,085
Unreported losses	**26,706**	27,233	29,439
	79,036	70,464	95,360
Accumulated deficit	**(22,964)**	(21,947)	(26,154)
	63,661	54,277	84,271

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 31 March 2013	Year ended 31 December 2012	Year-to-date 31 March 2012
Gross contributions	**15,082**	37,875	23,718
Outward reinsurance premiums	**(525)**	(4,894)	(1,054)
Unearned contributions	**(7,095)**	3,506	(11,704)
Net earned contributions	**7,462**	36,487	10,960
Reported losses	**(6,390)**	(26,018)	(6,991)
Provision for unreported losses	**526**	2,379	(364)
Claim and related expenses	**(5,864)**	(23,639)	(7,355)
Policy acquisition costs	**(2,802)**	(8,749)	(5,025)
Deferred policy acquisition costs	**1,047**	(546)	2,856
Policy acquisition costs	**(1,755)**	(9,295)	(2,169)
Fee payable to operator (Wakala fee)	**(864)**	(4,109)	(1,233)
Rebate on wakala fees of prior years	**-**	5,936	-
Investment income	**15**	224	73
Other expenses & provisions	**(11)**	(1,358)	(237)
(Deficit) surplus for the period	**(1,017)**	4,246	39

9. PROPERTY AND EQUIPMENT

	US$ '000		
	31 March 2013	31 December 2012	31 March 2012
Land	**1,340**	1,340	1,340
Building	**26,297**	7,221	7,221
Work in progress	**12**	19,058	19,058
Information systems, furniture, equipment and other	**13,910**	13,941	13,985
	41,559	41,560	41,604
Less: accumulated depreciation	**(14,033)**	(13,885)	(13,355)
	27,526	27,675	28,249

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 during the quarter.

10. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	31 March 2013	31 December 2012	31 March 2012
General insurance business			
Claims outstanding	**269,730**	273,607	268,969
Unreported losses	**143,821**	148,430	160,811
Unearned premiums	**204,236**	95,211	192,531
	617,787	517,248	622,311
Life insurance business			
Claims outstanding	**15,192**	14,649	17,736
Unreported losses	**61,531**	63,905	67,900
Unearned premiums	**12,169**	5,188	16,974
	88,892	83,742	102,610
	706,679	600,990	724,921

11. OTHER LIABILITIES

	US$ '000		
	31 March 2013	31 December 2012	31 March 2012
Post employment benefits	**12,763**	12,484	13,701
Reinsurance premiums accrued	**8,619**	8,619	13,270
Dividends payable	**1,958**	1,971	1,900
Accrued expenses	**5,625**	6,238	6,430
Employee share scheme	**1,974**	2,480	988
Other	**15,871**	13,701	17,265
	46,810	45,493	53,554

12. 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 31 March 2013								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	43,517	17,920	12,683	7,174	64,723	7,414	9,348	2,153	164,932
Outward reinsurance premiums	(1,909)	(843)	46	(92)	-	(128)	176	1	(2,749)
Change in unearned premiums - gross	(23,729)	(8,922)	(8,116)	(4,209)	(62,865)	(2,785)	(5,149)	(1,831)	(117,606)
Change in unearned premiums - reinsurance	590	327	36	80	-	-	-	-	1,033
Net earned premiums	18,469	8,482	4,649	2,953	1,858	4,501	4,375	323	45,610
Investment income attributable to insurance funds	723	362	187	491	510	673	275	416	3,637
	19,192	8,844	4,836	3,444	2,368	5,174	4,650	739	49,247
COSTS AND EXPENSES :									
Gross claims paid	(16,354)	(7,319)	(6,109)	(1,678)	(963)	(5,460)	(2,966)	(2,483)	(43,332)
Claims recovered from reinsurers	3,017	505	(32)	219	-	132	-	-	3,841
Change in provision for outstanding claims - gross	(2,026)	5,471	(926)	(140)	273	(344)	(318)	(284)	1,706
Change in provision for outstanding claims - reinsurance	51	(238)	273	2	-	(149)	-	-	(61)
Change in provision for unreported losses - gross	1,952	(2,486)	3,159	83	8	1,802	46	2,327	6,891
Change in provision for unreported losses - reinsurance	(1,525)	(33)	135	(8)	-	126	(1)	(1)	(1,307)
Claims and related expenses	(14,885)	(4,100)	(3,500)	(1,522)	(682)	(3,893)	(3,239)	(441)	(32,262)
Policy acquisition costs	(13,492)	(6,655)	(3,509)	(3,388)	(2,059)	(375)	(12)	112	(29,378)
Policy acquisition costs recovered from reinsurers	357	276	(13)	55	-	-	-	-	675
Change in deferred policy acquisition costs – gross	8,466	3,293	2,560	2,317	1,314	258	(59)	57	18,206
Change in deferred policy acquisition costs - reinsurance	(268)	(150)	(14)	(47)	-	-	-	-	(479)
Policy acquisition costs	(4,937)	(3,236)	(976)	(1,063)	(745)	(117)	(71)	169	(10,976)
Operating expenses	(1,626)	(661)	(437)	(281)	(145)	(630)	(512)	(98)	(4,390)
Underwriting result	(2,256)	847	(77)	578	796	534	828	369	1,619

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

	US$ '000								
	Period ended 31 December 2012								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	68,271	31,356	22,474	16,486	53,403	23,430	17,556	5,666	238,642
Outward reinsurance premiums	(6,277)	(1,291)	(441)	(354)	(13,347)	(244)	(292)	(11)	(22,257)
Change in unearned premiums - gross	4,280	1,926	2,181	(147)	(9,863)	1,830	1,354	(270)	1,291
Change in unearned premiums - reinsurance	(982)	(83)	(36)	(368)	2,024	-	-	-	555
Net earned premiums	65,292	31,908	24,178	15,617	32,217	25,016	18,618	5,385	218,231
Investment income attributable to insurance funds	2,655	1,312	707	1,883	478	2,096	970	1,639	11,740
	67,947	33,220	24,885	17,500	32,695	27,112	19,588	7,024	229,971
COSTS AND EXPENSES :									
Gross claims paid	(64,631)	(18,997)	(15,976)	(12,531)	(13,066)	(25,179)	(16,202)	(10,269)	(176,851)
Claims recovered from reinsurers	20,190	826	514	2,009	3,200	84	7	-	26,830
Change in provision for outstanding claims - gross	(8,663)	2,534	2,924	(1,058)	(9,619)	8,626	857	2,001	(2,398)
Change in provision for outstanding claims - reinsurance	(2,535)	(621)	(1,081)	(280)	4,403	(2,385)	(68)	(1)	(2,568)
Change in provision for unreported losses - gross	11,858	1,536	(1,646)	4,472	(10,492)	10,027	2,327	4,021	22,103
Change in provision for unreported losses - reinsurance	(356)	937	169	1,074	4,561	(3,201)	(7)	(7)	3,170
Claims and related expenses	(44,137)	(13,785)	(15,096)	(6,314)	(21,013)	(12,028)	(13,086)	(4,255)	(129,714)
Policy acquisition costs	(16,411)	(10,311)	(8,135)	(4,830)	(18,277)	(3,503)	(2,670)	225	(63,912)
Policy acquisition costs recovered from reinsurers	10	227	313	80	-	(1)	(4)	-	625
Change in deferred policy acquisition costs – gross	(1,597)	(589)	(566)	(123)	3,844	432	136	55	1,592
Change in deferred policy acquisition costs - reinsurance	41	37	10	94	-	-	-	-	182
Policy acquisition costs	(17,957)	(10,636)	(8,378)	(4,779)	(14,433)	(3,072)	(2,538)	280	(61,513)
Operating expenses	(7,123)	(2,703)	(2,195)	(1,520)	(617)	(2,131)	(1,531)	(1,043)	(18,863)
Underwriting result	(1,270)	6,096	(784)	4,887	(3,368)	9,881	2,433	2,006	19,881

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

	US$ '000								
	Period ended 31 March 2012								
	Non-life						Life		Total
	Property	Engineering	Marine	Accident	Whole Account	Others	Short term	Long term	
REVENUES :									
Gross premiums written	43,261	14,887	12,922	7,218	55,130	10,523	11,696	4,232	159,869
Outward reinsurance premiums	(1,141)	(515)	(306)	(129)	(5,841)	(103)	203	(1)	(7,833)
Change in unearned premiums - gross	(24,714)	(7,239)	(8,393)	(3,780)	(46,240)	(5,686)	(7,757)	(2,945)	(106,754)
Change in unearned premiums - reinsurance	(609)	251	187	(116)	3,776	-	-	-	3,489
Net earned premiums	16,797	7,384	4,410	3,193	6,825	4,734	4,142	1,286	48,771
Investment income attributable to insurance funds	1,110	677	345	859	413	680	519	637	5,240
	17,907	8,061	4,755	4,052	7,238	5,414	4,661	1,923	54,011
COSTS AND EXPENSES :									
Gross claims paid	(14,034)	(4,937)	(4,037)	(4,544)	(264)	(5,542)	(2,488)	(4,160)	(40,006)
Claims recovered from reinsurers	5,528	146	64	863	1	2	-	-	6,604
Change in provision for outstanding claims - gross	(5,101)	1,774	1,333	2	(278)	2,179	(1,514)	1,153	(452)
Change in provision for outstanding claims - reinsurance	(2,218)	(228)	(182)	(32)	36	(25)	(15)	(1)	(2,665)
Change in provision for unreported losses - gross	2,973	(1,023)	591	2,032	(6,343)	2,301	1,340	999	2,870
Change in provision for unreported losses - reinsurance	(589)	428	158	534	2,843	(1,272)	-	(1)	2,101
Claims and related expenses	(13,441)	(3,840)	(2,073)	(1,145)	(4,005)	(2,357)	(2,677)	(2,010)	(31,548)
Policy acquisition costs	(12,347)	(5,409)	(4,985)	(2,802)	(4,642)	(1,533)	(387)	(15)	(32,120)
Policy acquisition costs recovered from reinsurers	225	189	185	35	-	-	(1)	-	633
Change in deferred policy acquisition costs – gross	7,971	2,862	2,886	1,694	1,926	419	87	13	17,858
Change in deferred policy acquisition costs - reinsurance	(103)	(107)	(64)	25	-	-	-	-	(249)
Policy acquisition costs	(4,254)	(2,465)	(1,978)	(1,048)	(2,716)	(1,114)	(301)	(2)	(13,878)
Operating expenses	(1,843)	(778)	(610)	(415)	(272)	(446)	(393)	(311)	(5,068)
Underwriting result	(1,631)	978	94	1,444	245	1,497	1,290	(400)	3,517

13. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 31 March 2013			Financial year-to-date 31 March 2012	Year ended 31 December 2012
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**198**	**115**	**313**	202	879
- Others	**1,405**	**1,167**	**2,572**	2,518	10,563
Dividends	**207**	**133**	**340**	441	1,161
Realised gains					
- Trading investments	**244**	**143**	**387**	1,740	1,271
- Investment designated at fair value through profit or loss	**(229)**	**(110)**	**(339)**	575	775
- Available-for-sale	**339**	**383**	**722**	385	4,885
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	**1,393**	**932**	**2,325**	5,478	4,396
- Investments designated at fair value through profit or loss	**177**	**103**	**280**	(204)	32
Impairment gain (loss)					
- available-for-sale	**91**	**54**	**145**	(331)	(1,502)
Other	**(188)**	**(112)**	**(300)**	(316)	(1,089)
	3,637	**2,808**	**6,445**	10,488	21,371

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 31 March 2013			Financial year-to-date 31 March 2012	Year ended 31 December 2012
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**3,224**	**1,628**	**4,852**	5,952	20,127
General and administration	**1,166**	**823**	**1,989**	1,765	8,283
	4,390	**2,451**	**6,841**	7,717	28,410

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 31 March 2013	Financial year-to-date 31 March 2012	Year ended 31 December 2012
Fees on managing Islamic reinsurance operations	**864**	1,233	4,109
Software sales and related services	**248**	346	2,176
Third party administration services	**396**	307	1,338
Other	**752**	54	377
	2,260	1,940	8,000

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 31 March 2013	Financial year-to-date 31 March 2012	Year ended 31 December 2012
Foreign exchange loss	**477**	1,851	3,998
Provision for doubtful receivable & deposits	**-**	-	3,469
Rebate of fees on managing Islamic reinsurance operations	**-**	-	5,936
Other	**722**	96	1,770
	1,199	1,947	15,173

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 31 March 2013	Financial year-to-date 31 March 2012	Year ended 31 December 2012
Weighted average number of shares outstanding	'000	**198,032**	198,032	198,032
Net profit	US$'000	**2,720**	5,548	15,260
Earnings per share	US$	**0.01**	0.03	0.08

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

	US$ '000		
	Financial year-to-date 31 March 2013	Financial year-to-date 31 March 2012	Year ended 31 December 2012
Profit for the period	**2,974**	5,978	12,385
(Decrease) increase in insurance funds	**(12,271)**	614	(14,669)
Change in insurance receivable/ payable, net	**7,255**	(15,959)	708
Change in accrued insurance premium	**2,425**	35,868	15,115
Change in other assets/liabilities, net	**(14,514)**	(26,902)	21,036
Net cash (used in) provided by operating activities	**(14,131)**	(401)	34,575

19. FAIR VALUE DISCLOSURE

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

	US$ '000						
	31 March 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	-	**293,806**	-	-	-	**293,806**	**293,806**
Investments	**88,073**	-	**65,153**	**179,032**	-	**332,258**	**334,154**
Accrued income	-	**492**	**170,351**	**940**	-	**171,783**	**171,783**
Insurance receivables	-	**95,064**	-	-	-	**95,064**	**95,064**
Insurance deposits	-	**40,844**	-	-	-	**40,844**	**40,844**
Other assets	-	**31,750**	-	-	-	**31,750**	**31,750**
LIABILITIES							
Insurance payables	-	-	-	-	**33,073**	**33,073**	**33,073**
Other liabilities	-	-	-	-	**41,185**	**41,185**	**41,185**

	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	-	333,749	-	-	-	333,749	333,749
Investments	77,776	-	65,675	172,271	-	315,722	318,432
Accrued income	-	1,118	77,459	1,018	-	79,595	79,595
Insurance receivables	-	91,008	-	-	-	91,008	91,008
Insurance deposits	-	42,225	-	-	-	42,225	42,225
Other assets	-	26,712	-	-	-	26,712	26,712
LIABILITIES							
Insurance payables	-	-	-	-	29,467	29,467	29,467
Borrowings	-	-	-	-	20,000	20,000	20,000
Other liabilities	-	-	-	-	39,255	39,255	39,255

19. FAIR VALUE DISCLOSURE (Contd.)

	US$ '000						
	31 March 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	-	331,241	-	-		331,241	331,241
Investments	93,146	-	78,775	137,304	-	309,225	351,436
Accrued income	-	548	172,696	964	-	174,208	174,208
Insurance receivables	-	96,042	-	-	-	96,042	96,042
Insurance deposits	-	46,639	-	-	-	46,639	46,639
Other assets	-	34,636	-	-	-	34,636	34,636
LIABILITIES							
Insurance payables	-	-	-	-	26,796	26,796	26,796
Borrowings	-	-	-	-	20,000	20,000	20,000
Other liabilities	-	-	-	-	47,124	47,124	47,124

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.

19. 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:

	US$'000			
31 March 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**56,056**	**-**	**-**	**56,056**
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	**23,819**	**-**	**-**	**23,819**
- Other	**8,198**	**-**	**-**	**8,198**
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	**21,989**	**-**	**-**	**21,989**
- Other investment grade	**84,980**	**-**	**-**	**84,980**
- Non-OECD country governments	**3,993**	**-**	**-**	**3,993**
- Other	**43,568**	**-**	**-**	**43,568**
Common stock of listed companies	**-**	**-**	**-**	**-**
Common stock of unlisted companies	**-**	**1,721**	**5,401**	**7,122**
Other	**-**	**2,686**	**14,694**	**17,380**
	242,603	**4,407**	**20,095**	**267,105**

	US$'000			
31 December 2012	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

19. FAIR VALUE DISCLOSURE (Contd.)

31 March 2012	US$'000 Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading	62,832	-	-	62,832
Common stock of listed companies				
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	23,146	-	-	23,146
- Other	7,168	-	-	7,168
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	31,299	-	-	31,299
- Other investment grade	37,941	-	-	37,941
- Non-OECD country governments	5,470	-	-	5,470
- Other	18,810	-	-	18,810
Common stock of listed companies	16,982	-	-	16,982
Common stock of unlisted companies	-	2,475	5,209	7,684
Other	-	2,536	16,582	19,118
	203,648	5,011	21,791	230,450

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

31 March 2013	**Unlisted equity**	**Others**	**Total**
Balance at 1 January 2013	**5,087**	**15,536**	**20,623**
Gain (loss) recognised in:			
- Income statement	**-**	**145**	**145**
- other comprehensive income	**-**	**(546)**	**(546)**
Investments made during the year	**314**	**223**	**537**
Investments redeemed during the year	**-**	**(664)**	**(664)**
Balance at 31 March 2013	**5,401**	**14,694**	**20,095**

19. FAIR VALUE DISCLOSURE (Contd.)

31 December 2012	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

31 March 2012	Unlisted equity	Others	Total
Balance at 1 January 2012	6,073	16,892	22,965
Gain (loss) recognised in:			
- Income statement	-	(313)	(313)
- other comprehensive income	143	57	200
Investments made during the year	323	182	505
Investments redeemed during the year	(1,330)	(236)	(1,566)
Balance at 31 March 2012	5,209	16,582	21,791

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 March 31, 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.

20. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

At 31 March 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

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 31 March 2013	For the Financial year-to-date 31 March 2012	For the Year ended 31 December 2012
a) Gross premium retroceded by subsidiary to parent company	**-**	4,697	31,433
b) Service fees for administration services provided by parent company	**1,192**	1,477	6,014
c) Balances outstanding - Receivables	**13,232**	15,408	12,468
d) Software royalty fees	**-**	-	114
e) Sale/purchase of intangible assets between subsidiaries	**-**	-	250

21. RELATED PARTY TRANSACTIONS (Contd.)

ii) **Joint Venture**:

	US$ '000		
	For the Financial year-to-date 31 March 2013	For the Financial year-to-date 31 March 2012	For the Year ended 31 December 2012
a) Service fees for administration services provided	**27**	35	74
b) Balances receivable	**136**	169	64

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

	US$ '000		
	Financial year-to-date 31 March 2013	Financial year-to-date 31 March 2012	Year ended 31 December 2012
a) Directors			
- Remuneration (attendance fee)	**34**	33	108
- Travel expense	**46**	53	148
ii) Key management compensation			
- Salaries and other short-term employee benefits	**371**	371	1,525
- Post employment benefits	**67**	65	261
- Share-based compensation	**112**	101	404
iii) Balances payable (net)			
Key management			
- Maximum balance	**4,356**	4,006	4,496
- Closing balance	**4,356**	4,006	4,496

22. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 5.6 million (31 December 2012: US$ 6.4 million; 31 March 2012: US$ 8.34 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$ 12.4 million (31 December 2012: US$ 11.9 million; 31 March 2012: US$ 14.1 million).

APPENDIX I

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS AT 31 MARCH 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 31-March-2013		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & bank balances	45,878	247,928	**293,806**
Total cash & bank balances	**45,878**	**247,928**	**293,806**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	2,624	53,432	**56,056**
	2,624	**53,432**	**56,056**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	23,819	**23,819**
- Other	-	8,198	**8,198**
	-	**32,017**	**32,017**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	36,970	**36,970**
- Other Investment grade	5,000	19,035	**24,035**
- Non-OECD country government	-	2,655	**2,655**
- Other	-	1,493	**1,493**
	5,000	**60,153**	**65,153**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	21,989	**21,989**
- Other Investment grade	11,213	73,767	**84,980**
- Non-OECD country governments	-	3,993	**3,993**
- Other	11,121	32,447	**43,568**
Common stock of listed companies	-	-	**-**
Common stock of unlisted companies	-	7,122	**7,122**
Other (see note)	2,012	15,369	**17,380**
	24,346	**154,686**	**179,032**
Investment in joint venture		116	**116**
Investment in associate	-	279	**279**
Total Investments	**31,970**	**300,683**	**332,653**

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$ 2,131,000 (in U.A.E.: US$ 3,000).