Arab Insurance Group (B.S.C.)

Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2012

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REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The Directors of the Arab Insurance Group (B.S.C.) (Arig) are pleased to present the Company's 32nd Annual Report and consolidated Financial Statement for the year that ended on 31 December, 2012.

FINANCIAL RESULTS

The Group rebounded strongly, ending its 2012 Financial Year with a US$ 15.3 million profit against a loss of US$ 19.1 million for the 2011 Financial Year. The gains were supported by Arig's favorable combined ratio of 96.9% (2011: 108.6%) generating US$ 19.9 million of underwriting income, higher than expected investment returns of US$ 21.4 million and lower operational expenses at the parent organization. Results were partially offset by higher acquisition cost and losses incurred by some of Arig's subsidiaries.

THE MARKET

More than a decade ago, the industry was shaken by the enormous claims that had evolved from the events around the attacks on the World Trade Center and two other locations in America. Insurers and reinsurers, who were previously considered over-capitalized, suddenly found themselves confronted with a capital shortfall resulting from under-protection of their portfolios. It was a defining moment for the industry. Since then, government regulators, risk managers, rating agencies and scores of actuaries have formed an invisible alliance to ensure that never again, insurance companies in such great numbers would find themselves on the brink of bankruptcy.

In the meantime, the concept of Enterprise Risk Management (ERM) has become standard fare for any self-respecting company. ERM strives to emulate *any* imaginable risk to the company, looks at mitigation measures and then defines the minimum capital amount that is required to safely sustain the operations of the company. While this practice had previously been in place for peak underwriting risks, ERM now tries to include a wider spectrum of risks across the company as well such as reserving, operational risks, finance and investments. In fact, this effort has been so successful that the insurance industry virtually sailed through the 2008 Financial Crisis without existential fallout, with one notable exception only.

Today, investments into the reinsurance industry are widely considered an attractive option, despite the fact that equity returns are ranging far below pre-2008 levels. But in an environment where national budgets are surviving on low interest rates to manage exploding debt levels, any return above 5% is likely to catch investors' attention. The other attraction in reinsurance stock is based on its relatively low correlation with other financial products. Portfolio managers around the world consider us as a good complement to balance their book.

The net result of this development has been a steady influx of capital into our industry, which is estimated to have increased by another 10% to the startling level of US$ 500[1] billion at the end of the 3rd quarter 2012. Despite the global experience around the 2008 Financial Crisis and record high underwriting losses in 2011, reinsurers' capital has increased by 46% world-wide over the past five years alone.

However, investors' interest in our industry contrasts with the global demand curve for reinsurance products. Total premium growth in advanced markets[2], whose sheer size outnumbers that of emerging economies by more than 5:1, has fallen behind already weak GDP growth. Even higher premium increase in the emerging world has settled into single-digit range as the world economy is taking a breather at an expected 3.3% growth in 2012[3]. At the same time, strong capitalization is encouraging insurance companies to retain more risk. Clearly, it has been a buyers' market in 2012 with a flat premium curve but increased underwriting profits from an uncommonly benign claims experience.

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[1] Aon Benfield: Reinsurance Market Outlook, January 2013

[2] North America, Western Europe, Japan, Hong Kong, Singapore, South Korea, Taiwan and Oceania

[3] IMF, World Economic Outlook, October 2012

With investment income from less volatile asset classes ranging at historical lows and no end to the low interest regime in sight, attention has shifted to underwriting performance. Companies, who have traditionally relied on investment income for profitability, are seeing declining surpluses. This has had an effect on the markets: underwriters have become more selective in their acceptance strategies and under-performing accounts are becoming harder to place. It appears as if the ever declining underwriting terms are finally finding their floor.

ARIG POSITION

2011 was a disastrous year for the industry, and especially reinsurers in Asia. In order to retain their ratings, most of our regional peers required fresh or contingent capital from outside parties. Owing to its technical underwriting approach, relatively better loss position and sufficient level of capital, Arig was in a position to continue without raising additional funds.

Just in time, it seems our Company has managed to shift its key performance to the underwriting area. Our non-life loss ratio improved to 57.9% (2011: 72%), generating a technical result[4] of US$ 27 million (2011: US$ 1.4 million). Investment income used to play a major role for Arig's profitability. While it still is highly important, there is a limit as to how much can be achieved with current market returns from less volatile asset classes. Investment returns of 3.3% are not sufficient to cover cost, or even generate a surplus. For that reason, the increased profitability of our reinsurance book in 2012 has been paramount for achieving a profit from operations that is broadly in line with the historical average. In other words, Arig managed to shift profitability from investments to reinsurance at a time when it really counted.

On the other hand, a sluggish world economy, lower demand for reinsurance and selective underwriting put a limitation on our growth prospects if we are to retain our profitability.
Regional markets have remained highly price competitive, making sacrifices on profitability. According to one study, *"overall, technical profitability across business segments has reduced by 10 points over the past four years across the GCC"*, while *"administrative and staff expenses have increased two times faster than business activity."*[5] In such environment, aggressive growth strategies can quickly erode profits. In addition, political disturbances in the region together with U.N. induced sanctions suspended or significantly reduced income from Iran, Syria and, at least temporarily, Libya. It is therefore no surprise that non-life GWP in 2012 reduced by 4% over the previous Financial Year, mostly owing to the effects of political turmoil, applied sanction measures and price competition. Some of this reduction may be regarded as temporary though it is clear that Arig will need to continue looking outside the MENA region for growth. After some restructuring in our Life portfolio, through which we managed to increase its profitability by 120% year-on-year, the share of long-term business has further declined, leading to a marginal increase in GWP of 0.1%.

Our cooperation with the Hardy Lloyd's syndicate is continuing through our very profitable joint venture HAIM. However, following large losses from the 2011 Thai floods in particular, our joint venture partner Hardy had put itself up for sale last year in an effort to protect the financial status of its shareholders. Interest in this established syndicate was keen and the company was eventually taken over by the Chicago based CNA Financial Group at an extraordinary 1.6 times book value. Arig, being the largest single shareholder at 7.1%, benefitted from the sale and was able to realize an extra US$ 1 million of investment income. But on the business side this meant that approximately US$ 51 million of premium income, or roughly 21% of the Company's GWP volume would eventually discontinue at the end of 2012. Fortunately, Arig's management team was successful in replacing Hardy and partnering with three new Lloyd's syndicates after a careful screening and selection process that took most of last year to complete. We are therefore pleased to announce that future premium income from the Apollo, Novae and Torus Lloyd's syndicates will even surpass Hardy's mark with an estimated premium income of just under US$ 60 million in 2013. In our selection, we focused on writing lower content of natural catastrophe exposed risks in favor of a higher spread between Specialty lines, which are currently showing the best profitability overall and where only limited income is available from our region. As we are writing a fixed quota of the total portfolio of the syndicates, our interest is firmly aligned with theirs, while we are also protected by the syndicates' own reinsurance programs. In addition, the quota shares allow Arig to participate in classes where it would be uneconomical and commercially risky to build our own infrastructure.

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[4] Technical result is defined as net earned premium less acquisition cost and claims

[5] A.T. Kearney, GCC insurers face crossroads as profitability declines, Business Intelligence Middle East, 2 July 2012; according to the same study, profits from investments declined 17.5% over the same period due to 'unsuitable investment strategies'.

Summarizing, we are pleased to say that while we slightly came out short of our growth target in 2012, Arig met its investment budget and achieved the highest technical return on net written premium since the early 1990s. Profits were supported by the low frequency of large claims, while our markets continued to be extremely challenging.

OUTLOOK

Ironically, it is the largest classes of insurance that are producing the poorest results in the Middle East: Motor, Medical and Property. Until very recently, this was of no particular concern to local insurance companies as they were successful in ceding the largest portion of these lines to their reinsurers and receiving attractive commissions in return. For foreign reinsurers, the region was attractive as it is perceived to be under-insured, and any business written here would help diversify risks written from larger markets. But there are signs that this comfortable arrangement may be changing. With investment income down and following a particularly painful 2011 underwriting year, the more aggressive reinsurers have been re-grouping, asking themselves why they should continue to subsidize their business written from under-performing markets. Insurers are now finding it increasingly difficult to place troubled accounts while at the same time their own profitability has been on a slide since 2008. As a result, Arig has been able to re-negotiate leader's terms in a number of cases during the recent 2013 treaty renewals. This is all the more remarkable since there continues to be considerable overcapacity on all fronts: among the local insurance industries, among regional reinsurance markets, and globally.

In its October Report[6], the IMF is forecasting a slight global growth for 2013 measured on constant prices, up from 3.3% to 3.6% in the current year (GCC: 3.7%). This corresponds to a projected increase from 5.3% to 5.6% for the emerging and developing markets, and growth of 7.2% for developing Asia (mostly China and India), but a decline from 5.3% to 3.6% for the MENA region. While oil prices are expected to decline slightly, challenges remain in the creation of private sector jobs, political stability and the rising level of government subsidies[7]. All growth figures continue to remain well below their 10-year averages, indicating that the world economy will still be short of an incentive spark in 2013, while the major economic zones are looking to pull themselves out of a slump.

Even though there is uncertainty around economic forecasts, it is safe to assume that the overcapacity in the reinsurance markets will prevail. It will continue to put downward pressure on prices, but the need to increase earnings is going to put a limit on how cheap well informed companies will be willing to sell reinsurance. This development has been apparent since the end of the 2008 Financial Crisis. Some markets have adjusted their underwriting approach, while others are still waiting for better times. Since 2007, Arig has been investing time and money into ways of increasing the profitability of its underwriting activities, which now need to make good for the shortfall in investment income. Volatility is the nature of our business; we believe we have done our homework ensuring that we can turn volatility into a profitable business across the business cycles, and thus become less dependent on the moods of the financial markets.

On behalf of the Board of Directors,



Khalid A. Al Bustani
Chairman
13 February 2013

[6] IMF, World Economic Outlook, October 2012
[7] IMF, Regional Economic Outlook: Middle East and Central Asia, November 2012

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
Arab Insurance Group (B.S.C.)
Kingdom of Bahrain

13 February 2013

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Arab Insurance Group B.S.C. ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

The board of directors of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

KPMG

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

(In thousands of U.S. Dollars)

	Note	2012	2011
ASSETS			
Cash and bank balances	5	**334,345**	343,844
Investments	6	**316,001**	305,728
Accrued income	8	**79,595**	94,583
Insurance receivables	9	**91,008**	89,404
Insurance deposits	10	**42,225**	48,938
Deferred policy acquisition costs		**23,876**	23,523
Reinsurers' share of technical provisions	11	**57,248**	53,889
Other assets	12	**27,959**	34,520
Property and equipment	14	**27,675**	27,657
		999,932	1,022,086
LIABILITIES			
Technical provisions	15	**600,990**	618,660
Insurance payables	18	**30,015**	27,703
Borrowings	19	**20,000**	40,000
Other liabilities	20	**45,513**	54,411
		696,518	740,774
EQUITY			
Attributable to shareholders of parent company	21		
Share capital		**220,000**	220,000
Treasury stock		**(14,793)**	(14,793)
Reserves		**41,977**	31,360
Accumulated deficit		**(104)**	(14,179)
		247,080	222,388
Non-controlling interests	22	**56,334**	58,924
		303,414	281,312
		999,932	1,022,086

These consolidated financial statements were approved by the Board of Directors on 13 February 2013 and signed by:

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kaiban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

(In thousands of U.S. Dollars)

	Note		2012	2011
Gross premiums written			**238,642**	247,463
Net earned premiums			**218,231**	222,869
Claims and related expenses			**(129,714)**	(167,797)
Policy acquisition costs			**(61,513)**	(55,444)
Investment income attributable to insurance funds	25		**11,740**	3,743
Operating expenses	26		**(18,863)**	(17,888)
Underwriting result	23		**19,881**	(14,517)
Investment income attributable to shareholders' funds	25		**9,631**	293
Operating expenses – non underwriting activities	26		**(9,638)**	(11,845)
Borrowing cost			**(407)**	(533)
Other income	27		**8,128**	8,469
Other expenses and provisions	28		**(15,210)**	(3,147)
Profit (loss) for the year			**12,385**	(21,280)
Attributable to:				
Non-controlling interests			**(2,875)**	(2,224)
Shareholders of Parent Company			**15,260**	(19,056)
			12,385	(21,280)
Earnings per share attributable to shareholders (basic and diluted):	29	US$	**0.08**	(0.10)

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(In thousands of U.S. Dollars)

	2012	2011
Profit (loss) for the year	**12,385**	(21,280)
Other comprehensive income		
Changes on remeasurement of available-for-sale investments	**3,936**	(3,783)
Transfers for recognition of losses on disposal of available-for-sale investments	**5,054**	278
Revaluation of property	**727**	-
Other comprehensive income for the year	**9,717**	(3,505)
Total comprehensive income for the year	**22,102**	(24,785)
Attributable to:		
Non-controlling interests	**(2,590)**	(1,885)
Shareholders of Parent Company	**24,692**	(22,900)
	22,102	(24,785)

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 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 (Note 14)	-	-	-	-	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 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

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

(In thousands of U.S. Dollars)

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

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

(In thousands of U.S. Dollars)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		**253,358**	245,688
Reinsurance premiums paid		**(35,654)**	(23,554)
Claims and acquisition costs paid		**(235,658)**	(239,628)
Reinsurance receipts in respect of claims		**30,783**	22,861
Investment income (loss)		**53**	(3,655)
Interest received		**5,304**	4,781
Dividends received		**1,138**	1,694
Operating expenses paid		**(25,194)**	(24,696)
Other income/expenses, net		**3,034**	1,055
Insurance deposits received		**6,901**	16,886
Purchase of trading investments		**(64,122)**	(90,328)
Sale of trading investments		**94,591**	115,812
Directors' remuneration paid		**-**	(846)
Net cash provided by operating activities	33	**34,534**	26,070
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity/sale of investments		**193,214**	135,043
Purchase of investments		**(222,068)**	(106,951)
Term deposit with bank		**22,371**	(49,694)
Interest received		**6,024**	5,773
Dividend received		**24**	243
Investment income received		**6,395**	(4,223)
Collateralised cash deposits paid		**(3,814)**	(6,206)
Purchase of property and equipment		**(150)**	(568)
Purchase of intangible assets		**(422)**	(171)
Investment in associate		**-**	(375)
Net cash provided by (used in) investing activities		**1,574**	(27,129)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings		**(20,000)**	27,294
Interest on borrowings		**(633)**	(601)
Dividends paid		**(2,501)**	(11,810)
Net cash (used in) provided by financing activities		**(23,134)**	14,883
Net increase in cash and cash equivalents		**12,974**	13,824
Effect of exchange rate on cash and cash equivalents		**(102)**	(231)
Cash and cash equivalents, beginning of year		**207,975**	194,382
Cash and cash equivalents, end of year		**220,847**	207,975
Term deposit with bank		**113,498**	135,869
Cash and bank balances, end of year		**334,345**	343,844

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board and are consistent with prevailing practice within the insurance industry.

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 consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and building and certain investment assets.

Comparative figures have been reclassified, where necessary, to conform to the current year's presentation.

The Group has adopted the following new and revised IFRS and interpretations which became effective in 2012:

- IFRS 7 - Financial Instruments: Disclosures (amended October 2010)
  The amendments to IFRS 7 introduce new disclosure requirements relating to transfer of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The Group has applied the standard prospectively from 1 January 2012. The adoption of this amendment had no material impact on the financial statements

- Improvements to IFRSs (2011)
  Improvements to IFRS issued in 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2012 with earlier adoption permitted. There were no material changes to the current accounting policies of the Group as a result of these amendments.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

The following standards and interpretations have been issued but not yet effective for the year ended 31 December 2012:

- IAS 1 - Presentation of items of other comprehensive income (amended June 2011)
  The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application. This amendment is not expected to have a material impact on the Group's financial statements.

- IAS 19 - Employee benefits (amended June 2011)
  The amendments mainly require recognition in other comprehensive income of any actuarial gains and losses resulting from increases or decreases in the present value of defined benefit obligations because of changes in actuarial assumptions and experience adjustments. Currently all change in the defined benefit obligations are recognised in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. However, it is not expected to have a significant impact on the Group's financial statements.

- IAS 28 – Investment in Associates and Joint Ventures (amended May 2011)
  The amended standard requires investments in joint ventures, determined on the basis of IFRS 11 - Joint Arrangements, to be accounted for using the equity method. The earlier standard applied only to investment in associates. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided the entire suite of consolidation standards namely, IFRS 10, IFRS 11 and IFRS 12, is adopted at the same time. This amendment will require the consolidation of the Group's joint venture Hardy Arig Insurance Management W.L.L. using the equity method instead of the proportionate method adopted at present. The change is not likely to have a material impact on the Group's financial statements.

- IFRS 7 - Financial Instruments: Disclosures (amended December 2011)
  Amendments to IFRS 7 introduce disclosures about the impact of netting arrangements on an entity's financial position requiring the Group to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The change is not likely to have a material impact on the Group's financial statements.

- IAS 32 – Financial Instruments Presentation (amended December 2011)
  The amendments clarify the offsetting criteria for financial assets and financial liabilities explaining when an entity has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted. This amendment is not expected to have a material impact on the Group's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- IFRS 9 'Financial Instruments'

  Standard issued November 2009 (IFRS9 (2009))

  IFRS 9 (2009) "Financial Instruments" is the first standard issued as part of a wider project to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

  Standard issued October 2010 (IFRS9 (2010))

  IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 *"reassessment of Embedded Derivatives"*

  The Group is yet to assess the impact of IFRS 9. However, initial indications are that it may affect the Group's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on debt investments not carried at amortised cost will therefore have to be recognised in profit or loss.

  While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. Prior periods need not be restated. Instead additional transition disclosures will be required on the effect of initial application of IFRS 9 on the classification and measurement of financial instruments.

- IFRS 10 - Consolidated financial statements
  IFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It defines the principle of control as, an investor controls an investee when it is exposed or has rights to variable returns from its involvement with that investee and has the ability to affect those returns through its power over that investee. Control is reassessed as facts and circumstances change. The standard supersedes IAS 27 Consolidated and Separate Financial Statements. The standard is effective for annual periods beginning on or after 1 January 2013. This amendment is not expected to have a material impact on the Group's financial statements.

- IFRS 11 – Joint Arrangements
  IFRS 11 requires classification of joint arrangements as joint operations or joint ventures by assessing the rights and obligations arising from the arrangement. It prescribes the equity method for consolidation of joint ventures and the proportionate method for consolidation of joint operations. IFRS 11 supersedes IAS 31 – Interests in Joint Ventures. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite of consolidation standards is all adopted at the same time. The standard will require the consolidation of the Group's joint venture Hardy Arig Insurance Management W.L.L. using the equity method instead of the proportionate method adopted at present. The change is not likely to have a material impact on the Group's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- IFRS 12 - Disclosures of interests in other entities
  IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the disclosure requirements for interests in subsidiaries, joint ventures and associates in comparison with existing disclosures. The standard is not likely to have a material impact on the Group's financial statements.

- IFRS 13 - Fair value measurement
  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption. The standard is not likely to have a material impact on the Group's financial statements.

The Group did not early-adopt new or amended standards in 2012.

The significant accounting policies of the Group are as follows:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries made up to 31 December 2012. It also includes the accounts of its joint venture Hardy Arig Insurance Management (HAIM), which has been consolidated using the proportionate consolidation method.

Subsidiaries are defined as companies that are controlled by the Group, namely companies in which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities, and thus generally include all companies in which the Group owns more than 50% of the voting shares. The purchase method is used to account for acquisitions.

Joint ventures are defined as entities that are jointly controlled by the Group. The joint control is established by a contractual agreement between the investors.

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated on consolidation. Where necessary, the accounts of subsidiaries have been restated to ensure consistency with the accounting policies adopted by the Group.

The Company's subsidiary, Takaful Re Limited, is an Operator of Islamic Reinsurance business. In accordance with applicable Shari'a principles, participants' (policyholders') funds are maintained distinct from the Operator's (shareholders') funds. Therefore, the participants' assets and liabilities including the fund balance are not shown separately in the consolidated statement of financial position. Takaful Participants' Fund Accounts comprising of statement of financial position and Statement of Participants' Revenue is set out in note 13.

A listing of the principal subsidiaries is set out in note 35. In the parent company, these investments are accounted under IAS 39, Financial Instruments: Recognition and Measurement.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

INSURANCE RECEIVABLES

Insurance receivables are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. In case of receivables not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

INSURANCE DEPOSITS

Insurance deposits comprise premium and claim deposits with cedants in accordance with policy terms and are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the deposits. In case of deposits not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Irrecoverable deposits are written off during the year in which they are identified. Irrecoverable deposits are identified on an analysis of the financial position of the counter party.

INTANGIBLE ASSETS

Expenditure on software, patents, present value of future profits on acquisition of portfolio and licenses are capitalised and amortised using the straight line basis over their expected useful lives, not exceeding a period of 5 years.

Costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and has a probable benefit exceeding the costs beyond one year, are recognised as intangible assets. Costs include staff costs of the development team and an appropriate portion of relevant overheads.

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

PROPERTY & EQUIPMENT AND RELATED DEPRECIATION

Property & equipment are stated at cost less accumulated depreciation except for land and building which are stated at fair value on date of valuation by independent external valuers, less accumulated depreciation on buildings. On revaluation, any increase in the carrying amount of the asset is carried in the shareholders' equity as Property Revaluation Reserve and any decrease is recognised as an expense, except to the extent that it reverses decreases or increases previously recognised through income or shareholders' equity. The balance in the Property Revaluation Reserve is transferred directly to Retained Earnings on sale of property and realization of surplus. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

The cost of additions and major improvements are capitalised; maintenance and repairs are charged to expense as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets, which are as follows:

Building	40	years
Electrical and mechanical	20	years
Information systems, furniture, equipment and others	3-5	years

Useful lives and residual values are reassessed at each reporting period and adjusted accordingly.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements are recognised when they accrue to employees, with a provision being carried for the estimated liability as a result of services rendered upto the statement of financial position date.

POST EMPLOYMENT OBLIGATIONS

The Group operates a number of defined benefit plans for its employees.

For defined benefit plans, the accounting cost is charged to the income statement so as to spread it over the expected service lives of employees. The accounting costs under these plans are measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

EMPLOYEE SHARE SCHEME

The Group operates a cash settled, share-based compensation scheme. The fair value of the employee services received in exchange for virtual shares is recognised as an expense.

The shares are awarded based on the performance during the financial year (scheme year) and is expensed over the scheme year and the vesting period of two years from the end of Scheme year.

At each statement of financial position date, the liability is revalued with reference to the book value of the virtual shares allocated and the impact of the revaluation is recognised in the income statement with a corresponding adjustment to the liability.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

TREASURY STOCK

Treasury stock representing shares purchased by the parent company or its consolidated subsidiaries are carried at cost with the exception of holdings as on the date of capital reduction, 4 July 2002, which are carried at nominal value. All treasury stock is presented as a deduction from shareholders' equity and gains and losses from sale of these shares are presented as a change in shareholders' equity.

RECOGNITION OF UNDERWRITING RESULT

Insurance business is accounted for in a manner consistent with prevailing practice within the insurance industry, more specifically, on an annual accounting basis. Specific accounting policies relating to individual items of insurance revenues and costs and technical provisions are explained below for each relevant item.

PREMIUMS

Gross premiums written comprise the total premiums in relation to contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Group at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. Unearned premiums are those proportions of the premiums accounted for, which relate to periods of risk that extend beyond the end of the financial year; they are calculated based on a time apportionment basis. A provision for unexpired risks is made for estimated amounts required over and above provisions for unearned premiums to meet future claims and related expenses on business in force at the statement of financial position date. Such provision, where necessary, is made on the basis of an assessment of segments in which policies with similar risk profile are grouped together.

CLAIMS AND RELATED EXPENSES

Claims and related expenses are accounted for based on reports received and subsequent review on an individual case basis. Provision is made to cover the estimated ultimate cost of settling claims arising out of events, which have occurred by the end of the financial year, including unreported losses, and claims handling expenses. Provision for unreported claims is established based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business.

POLICY ACQUISITION COSTS

Commissions, taxes, brokerages and other variable underwriting costs directly associated with acquiring business are amortised over the period in which the related premiums are earned. Policy acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred policy acquisition costs.

REINSURANCE ARRANGEMENTS

As part of managing its insurance risks, the Group enters into contracts with other reinsurers for compensation of losses on insurance contracts issued by the Group.

Compensations receivable from reinsurers are estimated in a manner consistent with the corresponding claim liability. The benefits and obligations arising under reinsurance contracts are recognised in income and the related assets and liabilities are recognised as accounts receivable, reinsurers' share of technical reserves and accounts payable.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

LIABILITY ADEQUACY TEST

At each statement of financial position date, liability adequacy tests are performed to ensure adequacy of the contractual liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual undiscounted cash flows and claims handling and administrative expenses are considered. The tests are performed on a portfolio basis where policies with similar risk profile are grouped together as a portfolio.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying its accounting policies, the Group makes estimates and judgements that have an impact on the amounts recognised and reported in the financial statements. These estimates and judgements are based on historical experience, observable market data, published information and other information including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant impact on the recognised amounts in the financial statements and the processes used to determine these estimates and judgements are described below:

i) Claims and related expenses

The estimate of ultimate losses arising from existing insurance contracts include unreported claims. Provisions for unreported claims are estimated based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business. The ultimate insurance liability also includes the costs to administer the claims.

ii) Ultimate premiums

The estimate of ultimate premiums is based on premium income estimates provided by cedants which is then adjusted to reflect underwriters' judgement taking into account market conditions and historical data. This estimate is subject to review by underwriters and actuaries.

4. MANAGEMENT OF INSURANCE RISKS

Risks under insurance contracts arise from uncertainty regarding the occurrence of the insured event and the amount of the resulting claim. In addition to underwriting risks, the Group is also exposed to other related risks such as credit, currency and liquidity risks.

The following is a summary of policies adopted to mitigate the key insurance risks facing the Group:

i) Underwriting risks

The group manages its underwriting risks principally through policies and guidelines for accepting risks and reinsurance arrangements.

Risks are accepted based on an evaluation of pricing and prior underwriting experience in accordance with underwriting guidelines that have been laid out for each line of business. Underwriting guidelines are constantly reviewed and updated to take account of market developments, performance and opportunities. Accumulation limits are set to control exposures to natural hazards and catastrophes. Various underwriting and approval limits are specified for accepting risks.

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the Marketing, Underwriting and Actuarial functions.

The reinsurance strategy of the Group is designed to protect exposures to individual and event risks based on current risk exposures through cost effective reinsurance arrangements.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practices involve the use of actuarial analysis and application of underwriting judgement. These are supplemented by periodical independent actuarial reviews for determining the adequacy of reserves.

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

ii) Credit risks

Credit risk under insurance contracts is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is controlled through terms of trade for receipt of premium and in certain cases enforcement of premium warranty conditions. Most of the counterparties are insurance companies that are generally not rated. However, there are no significant exposures from any one counterparty.

Reinsurance arrangements are effected with reinsurers whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria. Exposure to any single reinsurer generally does not exceed a maximum of 25% of total exposure and risks are generally placed with counterparties with minimum investment grade rating except for proportional treaty arrangements placed on reciprocal basis.

Credit risks relating to reinsurance arrangements are analysed as follows:

	US$ '000		
	2012		
	Receivables	**Share of technical provisions**	**Total**
Balance relating to reinsurers:			
- With investment grade rating	**2,136**	**28,146**	**30,282**
- Other	**21,594**	**13,850**	**35,444**
	23,730	**41,996**	**65,726**

	US$ '000		
	2011		
	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	8,670	29,998	38,668
- Other	22,101	13,601	35,702
	30,771	43,599	74,370

iii) Currency risks

As the Company writes business in various currencies, it is exposed to currency risk. Foreign exchange currency risks are hedged where exposures are significant and facility to hedge is available.

	US$ '000				
	Euro	**Pound Sterling**	**Indian Rupee**	**Canadian Dollar**	**Other**
2012					
Reinsurance Assets (Liabilities), net	**(3,930)**	**(451)**	**(10,778)**	**(610)**	**(97,363)**
Hedged	**(2,815)**	**(870)**	**-**	**(1,011)**	**-**

	US$ '000				
	Euro	Pound Sterling	Indian Rupee	Canadian Dollar	Other
2011					
Reinsurance Assets (Liabilities), net	(4,740)	(3,826)	(8,388)	(788)	(89,624)
Hedged	(4,771)	(3,215)	-	(988)	-

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

iv) Liquidity risks

Liquidity risk is the risk that cash may not be available to pay obligations when due. Limits have been specified in the investment policy and guidelines that requires a significant portion of investment funds representing insurance liabilities to be held in cash or readily marketable investment securities.

v) Sensitivity analysis

The sensitivity of the Group's income and equity to market risks is as follows:

	US$ '000	
	2012	2011
5% increase in loss ratio	**(10,445)**	(11,143)
5% decrease in loss ratio	**10,445**	11,143
10% increase in US Dollar exchange rate	**11,071**	10,180
10% decrease in US Dollar exchange rate	**(10,624)**	(9,581)

5. CASH AND BANK BALANCES

	US$ '000	
	2012	2011
Cash and bank balances	**73,322**	68,039
Deposits with maturity within 3 months	**147,525**	139,936
Deposits with maturity over 3 months	**113,498**	135,869
	334,345	343,844

Bank deposits amounting to US$ 24.8 million (2011: US$: 49.7 million) have been pledged against borrowings.

Details of significant terms and conditions, exposures to credit, interest rate and currency risks are as follows:

i) Credit risk:

Bank balances and deposits with short term maturities are held with leading financial institutions. The Group limits its concentration of time deposits with any one financial institution to a maximum of 10% of shareholders' equity.

ii) Interest rate risk:

	2012	2011
Interest receivable basis:		
- Bank balances	**Daily/Monthly**	Daily/Monthly
- Deposits with short term maturities	**On maturity**	On maturity
Effective rates	**0.125% to 2.50 %**	0.125% to 3.00%

As the deposits are short term maturities, there is no sensitivity to interest rate fluctuation.

iii) Currency risk:

	US$ '000	
	2012	2011
U.S. Dollar	**141,747**	132,568
UAE Dirham	**66,142**	69,829
Bahraini Dinar	**83,368**	75,999
Qatari Riyal	**32,941**	46,899
Other	**10,147**	18,549
	334,345	343,844

6. INVESTMENTS

	US$ '000	
	2012	2011
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	**45,476**	61,921
	45,476	61,921
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	**23,851**	21,931
- Other	**8,449**	6,835
	32,300	28,766
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	**36,975**	48,041
- Other investment grade	**26,045**	43,131
- Non OECD country government	**2,655**	2,656
	65,675	93,828
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	**21,995**	21,525
- Other investment grade	**73,104**	39,784
- Non-OECD country governments	**6,803**	5,427
- Other	**44,584**	14,598
Common stock of listed companies	**813**	11,521
Common stock of unlisted companies	**6,808**	8,613
Other	**18,164**	19,370
	172,271	120,838
Investment in associate	**279**	375
	316,001	305,728

Movements on the Group's provision for impaired available for sale investments are as follows:

	US$ '000	
	2012	2011
At 1 January	**17,460**	13,310
New provision:		
- Unlisted companies	**86**	1,344
- Others	**1,416**	2,806
Provision reversed on sale	**(302)**	-
At 31 December	**18,660**	17,460

Debt securities amounting to US$ 66.3 million (2011: US$ 67.1 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

Details of significant exposures to credit, interest rate and currency risks on investments are as follows:

i) Credit risk:

The Group limits its investment concentration in debt securities in any one investee and in any one industry group to 10% and 20% respectively, of the total debt securities portfolio.

The Group also limits its investment concentration in common stock of listed companies of any one issue and any one issuer to 5% and 10% respectively, of its total common stock portfolio.

6. INVESTMENTS (Contd.)

ii) Debt securities - interest rate risk:

	2012		
	Interest receivable basis	**Effective rates**	**Coupon rates**
Supra-nationals and OECD country government securities	**Monthly/Semi-annual/Annual**	**0.13% - 4.14%**	**0.125% - 4.25%**
Other investment grade debt securities	**Semi-annual/Annual**	**1.25% - 6.81%**	**1.25% - 7.38%**
Non-OECD country government securities	**Semi-annual/Annual**	**1.80 % - 4.30%**	**1.80% - 4.3%**
Other securities	**Monthly/Semi-Annual**	**2.08% - 4.02%**	**2.10% - 4.15%**

	2011		
	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/Annual	0.13% - 5.56%	0.125% - 6.00%
Other investment grade debt securities	Semi-annual/Annual	1.60% - 6.29%	1.60% - 7.25%
Non-OECD country government securities	Semi-annual/Annual	0.86% - 5.5%	0.86% - 5.5%
Other securities	Monthly/Semi-Annual	0.91% - 3.99%	0.90% - 4.07%

iii) Debt securities – currency risk :

	US$ '000				
	2012				
	U.S. Dollar	**Euro**	**Bahraini Dinar**	**Other**	**Total**
Supra-nationals and OECD country government securities	**58,969**	**-**	**-**	**-**	**58,969**
Other investment grade debt securities	**110,902**	**8,964**	**-**	**3,134**	**123,000**
Non-OECD country governments	**-**	**-**	**8,099**	**1,360**	**9,459**
Other debt securities	**53,033**	**-**	**-**	**-**	**53,033**
	222,904	**8,964**	**8,099**	**4,494**	**244,461**

	US$ '000				
	2011				
	U.S. Dollar	Euro	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	69,566	-	-	-	69,566
Other investment grade debt securities	95,553	7,829	-	1,464	104,846
Non-OECD country governments	-	-	6,794	1,289	8,083
Other debt securities	21,433	-	-	-	21,433
	186,552	7,829	6,794	2,753	203,928

6. INVESTMENTS (Contd.)

iv) Debt securities - remaining term to maturity:

The principal amount and book values of debt securities are shown in the table below by contractual maturity.

	US$ '000			
	2012		2011	
	Principal amount	**Book value**	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	**18,000**	**18,023**	17,025	17,075
- One to five years	**39,000**	**39,255**	51,000	51,089
- More than five years	**2,000**	**1,691**	1,290	1,402
	59,000	**58,969**	69,315	69,566
Debt securities of other investment grade issuers:				
- Due in one year or less	**10,200**	**10,420**	17,340	17,395
- One to five years	**85,343**	**90,658**	79,588	80,555
- More than five years	**20,488**	**21,922**	7,255	6,896
	116,031	**123,000**	104,183	104,846
Non-OECD country government securities:				
- Due in one year or less	**1,360**	**1,360**	1,490	1,485
- One to five years	**5,316**	**5,505**	6,676	6,598
- More than five years	**2,658**	**2,594**	-	-
	9,334	**9,459**	8,166	8,083
Other debt securities :				
- Due in one year or less	**1,000**	**999**	2,300	2,278
- One to five years	**36,139**	**36,085**	12,037	12,078
- More than five years	**15,975**	**15,949**	7,513	7,077
	53,114	**53,033**	21,850	21,433
	237,479	**244,461**	203,514	203,928

v) Common stock:

Common stock have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis.

The book value of common stock classified by currencies in which they are denominated are as follows:

	US$ '000	
	2012	2011
U.S. Dollar	**27,685**	46,170
Euro	**2,065**	2,864
Bahraini Dinar	**593**	843
Saudi Riyal	**7,117**	2,970
Pound Sterling	**2,777**	15,508
Japanese Yen	**2,168**	2,353
Other	**10,692**	11,347
	53,097	82,055

vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 6.4 million (2011: US$ 8.37 million).

7. SENSITIVITY ANALYSIS

The sensitivity of the Group's profit or loss and total equity to market risks on its cash and cash equivalents and investments is as follows:

	US$ '000			
	2012		2011	
	Income	**Equity**	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	**(859)**	**(4,233)**	(639)	(1,801)
– 100 basis points shift in yield curves- debt instruments	**888**	**3,972**	653	1,920
Currency risk				
10% increase in US Dollar exchange rate	**20,253**	**215**	21,755	204
10% decrease in US Dollar exchange rate	**(16,570)**	**(176)**	(17,784)	(160)
Equity price				
10% increase in equity prices	**4,614**	**212**	6,371	218
10% decrease in equity prices	**(4,614)**	**(212)**	(6,371)	(218)

8. ACCRUED INCOME

	US$ '000	
	2012	2011
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	**56,169**	72,602
- After 12 months	**20,355**	18,767
	76,524	91,369
Accrued interest		
- Expected to be received within 12 months	**3,071**	3,214
	79,595	94,583

9. INSURANCE RECEIVABLES

	US$ '000	
	2012	2011
Balances due :		
- Within 12 months	**90,660**	88,814
- After 12 months	**348**	590
	91,008	89,404

Movements on the Group's provision for impaired receivables are as follows:

	US$ '000	
	2012	2011
At 1 January	**18,398**	18,091
Provision for impairment	**1,740**	307
31 December	**20,138**	18,398

9. INSURANCE RECEIVABLES (Contd.)

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

	US$ '000	
	2012	2011
Over two years	**10,869**	10,849
	10,869	10,849

Receivables that are less than 12 months past due are not considered impaired. The ageing analysis of these receivables is as follows:

	US$ '000	
	2012	2011
Upto 6 months	**12,012**	12,704
6 to 12 months	**15,322**	14,018
	27,334	26,722

10. INSURANCE DEPOSITS

	US$ '000	
	2012	2011
Balances due :		
- Within 12 months	**29,086**	34,652
- After 12 months	**13,139**	14,286
	42,225	48,938

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

	US$ '000	
	2012	2011
At 1 January	**5,882**	6,232
Provision for impairment written back	**(1,242)**	(350)
31 December	**4,640**	5,882

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

	US$ '000	
	2012	2011
Under ten years	**891**	1,030
Over ten years	**6,278**	5,995
	7,169	7,025

10. INSURANCE DEPOSITS (Contd.)

Deposits that are less than 3 years past due are not considered impaired. The ageing analysis of these deposits is as follows:

	US$ '000	
	2012	2011
Up to 1 year	**6,596**	8,965
1 to 3 years	**26,267**	28,447
	32,863	37,412

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000	
	2012	2011
General insurance business		
- Claims outstanding	**41,550**	43,084
- Unreported claims	**12,137**	5,727
- Deferred retrocession premium reserve	**3,115**	4,563
	56,802	53,374
Life insurance business		
- Claims outstanding	**446**	515
	446	515
	57,248	53,889

12. OTHER ASSETS

	US$ '000	
	2012	2011
Intangible assets :		
- Computer software	**10,944**	10,522
	10,944	10,522
Less : accumulated amortisation	**(9,796)**	(9,434)
Net intangible assets	**1,148**	1,088
Other assets due within 12 months:		
- Collateralised cash deposits	**16,506**	12,692
- Prepayments and other receivables	**10,305**	20,740
	26,811	33,432
	27,959	34,520

	US$ '000	
	2012	2011
Movement in intangible assets :		
Net book value at 1 January	**1,088**	4,637
- Additions	**422**	171
- Write-off	**-**	(1,921)
- Amortisation charge	**(362)**	(1,799)
Net book value at 31 December	**1,148**	1,088

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

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000	
	2012	2011
ASSETS		
Cash & cash equivalents	**14,605**	16,090
Accrued income	**21,964**	26,617
Insurance receivable	**6,456**	8,464
Insurance deposits	**3,367**	2,540
Deferred acquisition costs	**4,117**	4,660
Reinsurers' share of Takaful Participants' fund	**2,044**	7,607
Deferred wakala fees	**1,724**	2,087
	54,277	68,065
LIABILITIES		
Accounts payable	**5,760**	12,540
	5,760	12,540
TAKAFUL PARTICIPANTS' FUND		
Unearned contributions	**15,307**	18,451
Outstanding claims	**27,924**	34,288
Unreported losses	**27,233**	28,979
	70,464	81,718
Accumulated deficit	**(21,947)**	(26,193)
	54,277	68,065

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$ 11.9 million (2011: US$ 14.1 million).

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000	
	2012	2011
Gross contributions	**37,875**	40,048
Outward reinsurance premiums	**(4,894)**	(2,385)
Unearned contributions	**3,506**	(3,674)
Net earned contributions	**36,487**	33,989
Reported losses	**(26,018)**	(23,556)
Provision for unreported losses	**2,379**	1,221
Claim and related expenses	**(23,639)**	(22,335)
Policy acquisition costs	**(8,749)**	(11,316)
Deferred policy acquisition costs	**(546)**	362
Policy acquisition costs	**(9,295)**	(10,954)
Fee payable to operator (Wakala fee)	**(4,109)**	(4,381)
Rebate on wakala fees of prior years	**5,936**	-
Investment income	**224**	261
Other expenses & provisions	**(1,358)**	56
Surplus (deficit) for the year	**4,246**	(3,364)

14. PROPERTY AND EQUIPMENT

	US$ '000	
	2012	2011
Land	**1,340**	1,340
Building	**7,221**	9,270
Work in progress – building	**19,058**	19,058
Information systems, furniture, equipment and other	**13,941**	13,902
	41,560	43,570
Less: accumulated depreciation	**(13,885)**	(15,913)
	27,675	27,657
Movements in property and equipment		
Net book value at 1 January	**27,657**	27,390
- Revaluation of property	**727**	-
- Additions	**150**	1,173
- Disposals	**(1)**	(2)
- Depreciation charge	**(858)**	(904)
Net book value at 31 December	**27,675**	27,657

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in March 2012 by independent external valuers. Based on open market valuation, the fair value of land remained unchanged at US$ 1,340,000. The fair value of the building has been determined at US$ 7,221,000 as against a carrying value of US$ 6,494,000. The increase in fair value of US$ 727,000 has been included in Property Revaluation Reserve. The carrying value of the property would have been US$ 1,972,000 had the asset been carried under the cost model.

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

15. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000	
	2012	2011
General insurance business		
Claims outstanding	**273,607**	267,709
Unreported losses	**148,430**	161,204
Unearned premiums	**95,211**	95,871
	517,248	524,784
Life insurance business		
Claims outstanding	**14,649**	17,375
Unreported losses	**63,905**	70,228
Unearned premiums	**5,188**	6,273
	83,742	93,876
	600,990	618,660

The mean term of reserves is 2.9 years and 2.7 years for non-life and life business respectively.

16. CLAIMS DEVELOPMENT

The table below shows the incurred gross and net claims including unreported losses computed with reference to earned premiums, compared with previous estimates for the last 5 years:

	US$ '000						
	Underwriting year						
	2007	2008	2009	2010	2011	2012	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	145,803	104,722	109,672	105,119	111,266	101,180	
- One year later	226,499	184,130	175,223	178,633	177,420		
- Two years later	225,636	186,828	176,852	198,703			
- Three years later	228,594	194,434	172,574				
- Four years later	230,843	192,761					
- Five years later	227,440						
Current estimate of incurred claims	227,440	192,761	172,574	198,703	177,420	101,180	**1,070,078**
Cumulative payments to date	(190,421)	(157,765)	(126,727)	(141,898)	(71,581)	(6,494)	**(694,886)**
Liability recognised	37,019	34,996	45,847	56,805	105,839	94,686	**375,192**
Liability in respect of prior years							**125,399**
Total liability included in the statement of financial position							**500,591**

	2007	2008	2009	2010	2011	2012	**Total**
Net							
Estimate of incurred claims costs:							
- At end of underwriting year	137,457	102,165	107,514	89,173	95,116	92,523	
- One year later	217,719	180,010	173,266	164,854	147,327		
- Two years later	218,690	182,613	172,923	164,174			
- Three years later	221,626	190,155	168,532				
- Four years later	223,969	188,568					
- Five years later	220,662						
Current estimate of incurred claims	220,662	188,568	168,532	164,174	147,327	92,523	**981,786**
Cumulative payments to date	(185,093)	(154,088)	(123,359)	(108,068)	(58,528)	(4,423)	**(633,559)**
Liability recognised	35,569	34,480	45,173	56,106	88,799	88,100	**348,227**
Liability in respect of prior years							**98,231**
Total liability included in the statement of financial position							**446,458**

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

	US$ '000		
2012	**Gross**	**Reinsurance**	**Net**
Claims			
Claims outstanding	**285,084**	**43,599**	**241,485**
Unreported losses	**231,432**	**5,727**	**225,705**
Total at beginning of year	**516,516**	**49,326**	**467,190**
Change in provision during the year	**160,926**	**31,637**	**129,289**
Claims settled during the year	**(176,851)**	**(26,830)**	**(150,021)**
Balance at end of year	**500,591**	**54,133**	**446,458**
Unearned premium			
At beginning of year	**102,144**	**4,563**	**97,581**
Change in provision during the year	**(1,745)**	**(1,448)**	**(297)**
Balance at end of year	**100,399**	**3,115**	**97,284**
Accrued insurance premium			
At beginning of year	**97,236**	**5,867**	**91,369**
Movement during the year	**(17,060)**	**(2,215)**	**(14,845)**
Balance at end of year	**80,176**	**3,652**	**76,524**
Deferred policy acquisitions costs			
At beginning of year	**23,816**	**293**	**23,523**
Movement during the year	**129**	**(224)**	**353**
Balance at end of year	**23,945**	**69**	**23,876**

	US$ '000		
2011	Gross	Reinsurance	Net
Claims			
Claims outstanding	306,384	45,391	260,993
Unreported losses	214,615	11,112	203,503
Total at beginning of year	520,999	56,503	464,496
Change in provision during the year	181,302	15,684	165,618
Claims settled during the year	(185,785)	(22,861)	(162,924)
Balance at end of year	516,516	49,326	467,190
Unearned premium			
At beginning of year	108,329	3,473	104,856
Change in provision during the year	(6,185)	1,090	(7,275)
Balance at end of year	102,144	4,563	97,581
Accrued insurance premium			
At beginning of year	124,636	5,932	118,704
Movement during the year	(27,400)	(65)	(27,335)
Balance at end of year	97,236	5,867	91,369
Deferred policy acquisitions costs			
At beginning of year	20,460	493	19,967
Movement during the year	3,356	(200)	3,556
Balance at end of year	23,816	293	23,523

18. INSURANCE PAYABLES

	US$ '000	
	2012	2011
Due Within 12 months	**30,315**	27,703
	30,315	27,703

19. BORROWINGS

	US$ '000	
	2012	2011
Balances Due:		
- Within 12 months	**20,000**	40,000
	20,000	40,000

Borrowings amounting to US$ 20 million (2011: US$ 40 million) are secured by bank deposits. The effective interest rate on the borrowings was 1.7% (2011: 2.2%).

20. OTHER LIABILITIES

	US$ '000	
	2012	2011
Post employment benefits (note 31)	**12,484**	14,696
Reinsurance premiums accrued	**8,619**	13,107
Dividends payable	**1,971**	4,468
Accrued expenses	**6,251**	5,433
Employee share scheme (note 30)	**2,480**	3,278
Other	**13,708**	13,429
	45,513	54,411
Balances due:		
- Within 12 months	**30,547**	36,437
- After 12 months	**14,966**	17,974
	45,513	54,411

21. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition:

	US$ '000	
	2012	2011
Authorised		
500 million ordinary shares of US$ 1 each	**500,000**	500,000
Issued, Subscribed & Fully Paid-up		
220 million (2011: 220 million) ordinary shares of US$ 1 each	**220,000**	220,000

21. SHAREHOLDERS' EQUITY (Contd.)

b) Major Shareholders

Shareholders who have an interest of 5% or more of the outstanding shares are as shown below:

Name	Nationality	No. of shares (in millions)		% of total outstanding shares	
		2012	2011	**2012**	2011
Central Bank of Libya	**Libya**	**31.8**	31.8	**16.1**	16.1
Emirates Investment Authority	**UAE**	**30.5**	30.5	**15.4**	15.4
General Pension & Social Security Authority	**UAE**	**27.5**	27.5	**13.9**	13.9
Kuwait Investment Authority	**Kuwait**	**20.0**	20.0	**10.1**	10.1
Real Estate Bank	**UAE**	**11.0**	11.0	**5.6**	5.6

c) Shareholding pattern

The shareholding pattern in the outstanding shares of the Company is as follows:

Shares	No. of shares (in millions)		No. of shareholders		% of total outstanding shares	
	2012	2011	**2012**	2011	**2012**	2011
Less than 1%	**46.3**	46.3	**4,779**	4,779	**23.4**	23.4
1% to 5%	**30.9**	30.9	**6**	6	**15.6**	15.6
5% to 10%	**11.0**	11.0	**1**	1	**5.6**	5.6
10% and above	**109.8**	109.8	**4**	4	**55.4**	55.4

ii) Treasury stock:

The company held 21,967,818 of its own shares at 31 December 2012 (2011: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2011: US$ 14,793,000)

iii) Legal reserve:

In accordance with applicable legal provisions, the Group is required to set aside 10% of net profits each year to build a Legal Reserve up to a maximum of 100% of the paid up value of its share capital.

iv) Investment revaluation reserve:

Investment Revaluation Reserve comprises gains or losses arising from remeasurement of available for sale investment assets. These gains or losses are carried in the reserve until the assets are disposed of, at which time the gains or losses are included in income.

v) Property revaluation reserve:

Property Revaluation Reserve represents the difference between the cost of buildings less accumulated depreciation and their fair values. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

21. SHAREHOLDERS' EQUITY (Contd.)

vi) Retained earnings:

Retained earnings include gains or losses on remeasurement of available for sale investment assets held at 1 January 2000, being the date of adoption of IAS 39. Movements during the year are as follows:

	US$ '000	
	2012	2011
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	-	(1)
Transfers on disposal	-	1
Balance at 31 December	-	-

vii) Capital management:

The Group's total capital comprises paid-up capital, legal reserve and retained earning less treasury shares. The Group's policy is to maintain a strong capital base so as to maintain client, investor and market confidence and to sustain future development of the business. The parent company is regulated by Central Bank of Bahrain, which sets and monitors capital requirement for the parent company. Central Bank of Bahrain requires the parent company to compute the solvency margin requirement in accordance with provision of the Rule Book. The Company is in compliance with the required margin of solvency.

Additionally, the Company manages its capital adequacy on an evaluation of its capital requirement through risk based capital models.

22. NON-CONTROLLING INTERESTS

	US$ '000	
	2012	2011
At 1 January	**58,924**	61,055
Share of comprehensive income	**(2,590)**	(1,885)
Acquisition of minority interest	**-**	(246)
At 31 December	**56,334**	58,924

23. SEGMENT INFORMATION

i) Analysis of revenue by primary business segment:

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

	US$ '000							
	Year ended 31 December 2012							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	**91,528**	**31,356**	**26,707**	**24,217**	**41,612**	**17,556**	**5,666**	**238,642**
Outward reinsurance premiums	**(14,594)**	**(1,291)**	**(788)**	**(2,208)**	**(3,073)**	**(292)**	**(11)**	**(22,257)**
Change in unearned premiums – gross	**2,133**	**1,926**	**112**	**(1,954)**	**(2,010)**	**1,354**	**(270)**	**1,291**
Change in unearned premiums - reinsurance	**(329)**	**(83)**	**(178)**	**151**	**994**	**-**	**-**	**555**
Net earned premiums	**78,738**	**31,908**	**25,853**	**20,206**	**37,523**	**18,618**	**5,385**	**218,231**
Investment income attributable to insurance funds	**2,655**	**1,312**	**707**	**1,883**	**2,574**	**970**	**1,639**	**11,740**
	81,393	**33,220**	**26,560**	**22,089**	**40,097**	**19,588**	**7,024**	**229,971**
COSTS AND EXPENSES :								
Gross claims paid	**(70,537)**	**(18,997)**	**(16,329)**	**(13,895)**	**(30,622)**	**(16,202)**	**(10,269)**	**(176,851)**
Claims recovered from reinsurers	**21,986**	**826**	**634**	**2,471**	**906**	**7**	**-**	**26,830**
Change in provision for outstanding claims - gross	**(12,098)**	**2,534**	**2,528**	**(2,589)**	**4,369**	**857**	**2,001**	**(2,398)**
Change in provision for outstanding claims - reinsurance	**(47)**	**(621)**	**(918)**	**350**	**(1,263)**	**(68)**	**(1)**	**(2,568)**
Change in provision for unreported losses – gross	**4,481**	**1,536**	**(1,934)**	**3,359**	**8,313**	**2,327**	**4,021**	**22,103**
Change in provision for unreported losses - reinsurance	**2,221**	**937**	**338**	**1,727**	**(2,039)**	**(7)**	**(7)**	**3,170**
Claims and related expenses	**(53,994)**	**(13,785)**	**(15,681)**	**(8,577)**	**(20,336)**	**(13,086)**	**(4,255)**	**(129,714)**
Policy acquisition costs	**(24,025)**	**(10,311)**	**(8,763)**	**(7,928)**	**(10,440)**	**(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	**(116)**	**(589)**	**(427)**	**596**	**1,937**	**136**	**55**	**1,592**
Change in deferred policy acquisition costs - reinsurance	**41**	**37**	**10**	**94**	**-**	**-**	**-**	**182**
Policy acquisition costs	**(24,090)**	**(10,636)**	**(8,867)**	**(7,158)**	**(8,504)**	**(2,538)**	**280**	**(61,513)**
Operating expenses	**(7,250)**	**(2,706)**	**(2,194)**	**(1,520)**	**(2,619)**	**(1,531)**	**(1,043)**	**(18,863)**
Underwriting result	**(3,941)**	**6,093**	**(182)**	**4,834**	**8,638**	**2,433**	**2,006**	**19,881**

23. SEGMENT INFORMATION (Contd.)

	US$ '000							
	Year ended 31 December 2011							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	107,524	33,834	22,615	26,467	34,073	20,022	2,928	247,463
Outward reinsurance premiums	(23,680)	(1,442)	(3,843)	(1,306)	(822)	(517)	(8)	(31,618)
Change in unearned premiums - gross	(9,770)	(208)	1,432	(2,309)	5,902	581	10,309	5,937
Change in unearned premiums - reinsurance	973	(189)	(327)	390	240	-	-	1,087
Net earned premiums	75,047	31,995	19,877	23,242	39,393	20,086	13,229	222,869
Investment income attributable to insurance funds	1,400	319	90	133	1,025	370	406	3,743
	76,447	32,314	19,967	23,375	40,418	20,456	13,635	226,612
COSTS AND EXPENSES :								
Gross claims paid	(60,182)	(19,236)	(14,372)	(11,820)	(50,530)	(19,094)	(10,551)	(185,785)
Claims recovered from reinsurers	17,797	1,077	2,813	620	549	4	1	22,861
Change in provision for outstanding claims - gross	(8,420)	9,052	603	2,192	17,347	331	(2,003)	19,102
Change in provision for outstanding claims - reinsurance	(241)	(664)	156	(499)	(498)	(5)	-	(1,751)
Change in provision for unreported losses - gross	(17,612)	(4,318)	117	435	4,531	7,235	(7,174)	(16,786)
Change in provision for unreported losses - reinsurance	(5,185)	(478)	465	(201)	(39)	-	-	(5,438)
Claims and related expenses	(73,843)	(14,567)	(10,218)	(9,273)	(28,640)	(11,529)	(19,727)	(167,797)
Policy acquisition costs	(27,787)	(10,642)	(5,861)	(9,090)	(7,110)	(169)	115	(60,544)
Policy acquisition costs recovered from reinsurers	169	231	855	257	1	(4)	(1)	1,508
Change in deferred policy acquisition costs - gross	3,706	187	(673)	477	(268)	(38)	-	3,391
Change in deferred policy acquisition costs - reinsurance	(17)	71	163	(16)	-	-	-	201
Policy acquisition costs	(23,929)	(10,153)	(5,516)	(8,372)	(7,377)	(211)	114	(55,444)
Operating expenses	(7,011)	(2,667)	(1,635)	(1,682)	(2,353)	(1,955)	(585)	(17,888)
Underwriting result	(28,336)	4,927	2,598	4,048	2,048	6,761	(6,563)	(14,517)

23. SEGMENT INFORMATION (Contd.)

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

	US$ '000			
	2012		2011	
	Premium	**Non-current assets**	Premium	Non-current assets
from:				
- Middle East	**94,168**	**42,868**	100,728	47,871
- Africa	**33,681**	**5,024**	34,286	4,932
- Asia	**55,684**	**8,305**	70,852	10,193
- Others	**55,109**	**8,817**	41,597	1,349
	238,642	**65,014**	247,463	64,345

iii) Analysis of segment assets and liabilities:

	US$ '000								
	2012								
	Non Life					Life		Corporate	Total
	Property	Engg.	Marine	Accident	Others	Short Term	Long term		
Reinsurance assets	103,993	48,350	32,974	28,819	61,306	10,031	5,408	-	290,881
Cash	41,580	22,891	16,786	6,722	36,132	9,336	23,074	177,824	334,345
Investments	44,000	24,578	18,332	7,341	40,114	10,024	24,775	146,837	316,001
Others	5,728	2,694	2,404	858	5,007	-	-	42,014	58,705
	195,301	98,513	70,496	43,740	142,559	29,391	53,257	366,675	999,932
Reinsurance liabilities	196,301	96,544	72,768	52,370	129,280	29,611	54,131	-	631,005
Others	2,958	1,391	1,241	443	2,586	-	-	56,894	65,513
	199,259	97,935	74,009	52,813	131,866	29,611	54,131	56,894	696,518

23. SEGMENT INFORMATION (Contd.)

iii) Analysis of segment assets and liabilities:

	US$ '000								
	2011								
	Non Life					Life		Corporate	Total
	Property	Engg.	Marine	Accident	Others	Short Term	Long Term		
Reinsurance assets	95,951	65,256	36,877	21,040	70,590	878	16,531	-	307,123
Cash	39,293	22,519	9,477	8,428	45,674	17,961	22,161	178,331	343,844
Investments	37,808	21,668	9,119	8,110	43,948	17,522	21,674	145,879	305,728
Others	3,543	1,954	1,158	541	4,348	983	487	52,377	65,391
	176,595	111,397	56,631	38,119	164,560	37,344	60,853	376,587	1,022,086
Reinsurance liabilities	173,942	110,797	57,893	31,435	174,115	36,903	61,278	-	646,363
Others	4,023	2,218	1,315	615	4,936	734	364	80,206	94,411
	177,965	113,015	59,208	32,050	179,051	37,637	61,642	80,206	740,774

24. OUTWARD REINSURANCE PREMIUMS

	US$ '000			
	2012			
	Treaty	**Facultative**	**Life**	**Total**
Proportional retrocession premium	**4,270**	**-**	**-**	**4,270**
Protection premium	**3,858**	**13,826**	**303**	**17,987**
Reinstatement premium	**-**	**-**	**-**	**-**
	8,128	**13,826**	**303**	**22,257**

	US$ '000			
	2011			
	Treaty	Facultative	Life	Total
Proportional retrocession premium	19,660	130	-	19,790
Protection premium	1,615	9,664	525	11,804
Reinstatement premium	-	24	-	24
	21,275	9,818	525	31,618

25. INVESTMENT INCOME

	US$ '000		
	2012		
	Insurance funds	**Shareholders' funds**	**Total**
Interest income			
- Investments designated at fair value through profit or loss	**546**	**333**	**879**
- Others	**5,522**	**5,041**	**10,563**
Dividends	**622**	**539**	**1,161**
Realised gains			
- Trading investments	**843**	**428**	**1,271**
- Investment designated at fair value through profit or loss	**482**	**293**	**775**
- Available-for-sale	**2,528**	**2,357**	**4,885**
Gain on remeasurement of investments at fair value through profit & loss			
- Trading investments	**2,172**	**2,224**	**4,396**
- Investments designated at fair value through profit or loss	**20**	**12**	**32**
Impairment loss – available-for-sale	**(354)**	**(1,148)**	**(1,502)**
Other	**(641)**	**(448)**	**(1,089)**
	11,740	**9,631**	**21,371**

25. INVESTMENT INCOME (Contd.)

	US$ '000		
	2011		
	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or loss	705	485	1,190
- Others	5,092	5,286	10,378
Dividends	1,152	1,055	2,207
Realised gains (loss)			
- Trading investments	502	(300)	202
- Investment designated at fair value through profit or loss	139	98	237
- Available-for-sale	2,449	1,965	4,414
Loss on remeasurement of investments at fair value through profit & loss			
- Trading investments	(3,781)	(4,237)	(8,018)
- Investments designated at fair value through profit or loss	(361)	(254)	(615)
Impairment loss – available-for-sale	(1,139)	(3,010)	(4,149)
Other	(1,015)	(795)	(1,810)
	3,743	293	4,036

26. OPERATING EXPENSES

	US$ '000			
	2012			2011
	Underwriting	**Non-Underwriting**	**Total**	
Salaries and benefits	**13,563**	**6,614**	**20,177**	21,932
General and administration	**5,300**	**3,024**	**8,324**	7,801
	18,863	**9,638**	**28,501**	29,733

27. OTHER INCOME

	US$ '000	
	2012	2011
Fees on managing Islamic reinsurance operations	**4,109**	4,381
Software sales and related services	**2,176**	2,049
Third party administration services	**1,338**	1,655
Other	**505**	384
	8,128	8,469

28. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2012	2011
Foreign exchange loss (gain)	**3,998**	(2,359)
Amortisation / impairment of Intangible assets	**-**	3,422
Provision for doubtful receivables and deposits	**3,469**	1,801
Rebate of fees on managing Islamic reinsurance operations	**5,936**	-
Other	**1,807**	283
	15,210	3,147

29. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2012	2011
Weighted average number of shares outstanding	'000	**198,032**	198,032
Net profit (loss)	US$'000	**15,260**	(19,056)
Earnings per share	US$	**0.08**	(0.10)

30. EMPLOYEE SHARE SCHEME

The Group operates a cash-settled, share based compensation scheme. Awards under the scheme are subject to the Company achieving specified minimum rates of return to shareholders and are determined based on an evaluation of employee performance against objectives agreed in advance. Virtual shares are allocated at the end of the financial year, being the allotment date, based on the book value of the Company's shares at the beginning of the financial year. These virtual shares will vest in the employees after two years from the allotment date.

The effect of the Scheme on the consolidated financial statements is presented below:

	US$ '000	
	2012	2011
Liability	**2,480**	3,278
Expense	**1,809**	81

31. POST EMPLOYMENT BENEFITS

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

The principal assumptions used for accounting purposes were:

	2012	2011
Discount rate	2.0%	1.1%
Expected return on assets	2.0%	1.1%
Future salary increases	3.3%	3.3%

31. POST EMPLOYMENT BENEFITS (Contd.)

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

	US$ '000	
	2012	2011
Balance at 1 January	**14,696**	15,319
Accruals for the year	**962**	1,722
Payments during the year	**(3,174)**	(2,345)
Balance at 31 December	**12,484**	14,696

32. FORWARD FOREIGN EXCHANGE CONTRACTS

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

i. Forward foreign exchange contracts – by currency:

	US$ '000			
	2012		2011	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Euro	**2,815**	**10,606**	8,296	14,242
Pound Sterling	**5,565**	**10,599**	3,461	19,411
Japanese yen	**-**	**2,026**	-	2,143
Other	**1,011**	**1,728**	988	2,696
	9,391	**24,959**	12,745	38,492

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposures.

ii. Forward foreign exchange contracts - remaining term to maturity:

All of the forward foreign exchange contracts outstanding are due in one year or less.

iii. Forward foreign exchange contracts – unrealised gains and losses:

The following table summarises the fair value of the Group's hedging portfolio of forward foreign exchange contracts at the statement of financial position date, segregating the items between those that are in an unrealised gain position from those that are in an unrealised loss position.

	US$ '000			
	2012		2011	
	Purchases	**Sales**	Purchases	Sales
Unrealised gains	**277**	**91**	29	1,147
Unrealised losses	**(3)**	**(607)**	(487)	(41)
	274	**(516)**	(458)	1,106

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

	US$ '000	
	2012	2011
Profit (loss) for the year	**12,385**	(21,280)
(Decrease) increase in insurance funds	**(14,669)**	8,561
Change in insurance receivable/payable, net	**708**	(20,223)
Change in accrued insurance premiums	**15,115**	27,335
Change in other assets/liabilities, net	**20,995**	31,677
Net cash provided by operating activities	**34,534**	26,070

34. FAIR VALUE DISCLOSURE

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

	US$ '000						
	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	-	**334,345**	-	-	-	**334,345**	**334,345**
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	-	**26,811**	-	-	-	**26,811**	**26,811**
LIABILITIES							
Insurance payables	-	-	-	-	**30,015**	**30,015**	**30,015**
Borrowings	-	-	-	-	**20,000**	**20,000**	**20,000**
Other liabilities	-	-	-	-	**39,269**	**39,269**	**39,269**

	US$ '000						
	2011						
	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	-	343,844	-	-	-	343,844	343,844
Investments	90,687	-	93,828	120,838	-	305,353	307,994
Accrued income	-	1,491	92,688	404	-	94,583	94,583
Insurance receivables	-	89,404	-	-	-	89,404	89,404
Insurance deposits	-	48,938	-	-	-	48,938	48,938
Other assets	-	33,432	-	-	-	33,432	33,432
LIABILITIES							
Insurance payables	-	-	-	-	27,703	27,703	27,703
Borrowings	-	-	-	-	40,000	40,000	40,000
Other liabilities	-	-	-	-	48,978	48,978	48,978

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

34. FAIR VALUE DISCLOSURE (Contd.)

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.

34. 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:

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**

2011	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	61,921	-	-	61,921
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	21,931	-	-	21,931
- Other	6,835	-	-	6,835
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	21,525			21,525
- Other investment grade	39,784	-	-	39,784
- Non-OECD country governments	3,941	-	-	3,941
- Other	14,598	-	-	14,598
Common stock of listed companies	11,521	-	-	11,521
Common stock of unlisted companies	-	2,540	6,073	8,613
Other	-	2,478	16,892	19,370
	182,056	5,018	22,965	210,039

34. FAIR VALUE DISCLOSURE (Contd.)

Investments amounting to US$ nil (2011: US$ 1.5 million) is being carried at cost as it's fair value cannot be ascertained.

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

	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)**
Change in value due to exchange rate movements	**-**	**-**	**-**
Balance at 31 December 2012	**5,087**	**15,536**	**20,623**

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 year ended December 31, 2012, there were no transfers in and out of level 1, level 2 and level 3 (2011: 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.

vi. Fair value less than carrying amounts:

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

35. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

At 31 December 2012, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2011. The Company also 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

36. RELATED PARTY DISCLOSURES

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

The following is the summary of transactions with related parties.

i) **Subsidiary companies:**

	US$ '000	
	2012	2011
a) Gross premium retroceded by subsidiary to parent company	**31,433**	21,126
b) Service fees for administration services provided by parent company	**6,014**	5,244
c) Balances outstanding		
- Receivables	**12,468**	14,077
- Payables	**-**	1,518
d) Software royalty fees	**114**	129
e) Sale/purchase of intangible assets between subsidiaries	**250**	-

ii) **Joint Venture**:

	US$ '000	
	2012	2011
a) Service fees for administration services provided	**74**	66
b) Balances receivable	**64**	115

36. RELATED PARTY DISCLOSURES (Contd.)

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

	US$ '000	
	2012	2011
a) Directors		
- Allowances	**108**	97
b) Key management compensation		
- Salaries and other short-term employee benefits	**1,525**	2,033
- Post-employment benefits	**261**	221
- Share-based compensation	**404**	30
c) Balances payable (net)		
Key management		
- Maximum balance	**4,496**	4,867
- Closing balance	**4,496**	4,867

All transactions with related parties are conducted on an arm's length basis. All outstanding balances from related parties are expected to be settled within 12 months. No provisions have been required in 2012 and 2011 for any outstanding amounts due from related parties.

37. PARENT COMPANY

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

	US$ '000	
	2012	2011
ASSETS		
Cash and bank balances	**260,336**	277,590
Investments	**279,525**	267,102
Accrued income	**103,205**	94,449
Insurance receivables	**63,780**	74,119
Insurance deposits	**42,225**	48,938
Deferred policy acquisition costs	**18,233**	23,171
Reinsurers' share of technical provisions	**40,004**	49,550
Other assets	**35,861**	31,552
Investment in subsidiaries and associates	**64,025**	70,172
Property and equipment	**8,566**	8,504
	915,760	945,147
LIABILITIES		
Technical provisions	**584,875**	612,488
Insurance payables	**24,430**	27,252
Borrowings	**20,000**	40,000
Other liabilities	**39,375**	43,019
	668,680	722,759
SHAREHOLDERS' EQUITY (note 21)		
Share capital	**220,000**	220,000
Treasury stock	**(14,793)**	(14,793)
Reserves	**41,360**	31,116
Retained earnings (accumulated deficit)	**513**	(13,935)
	247,080	222,388
	915,760	945,147

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 31-December-2012		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	81,993	252,352	**334,345**
Total Cash & Cash Equivalents	**81,993**	**252,352**	**334,345**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	2,343	43,133	**45,476**
	2,343	**43,133**	**45,476**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	23,851	**23,851**
- Other	-	8,449	**8,449**
	-	**32,300**	**32,300**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	36,975	**36,975**
- Other Investment grade	5,001	21,044	**26,045**
- Non-OECD country government	-	2,655	**2,655**
	5,001	**60,674**	**65,675**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	21,995	**21,995**
- Other Investment grade	11,201	61,903	**73,104**
- Non-OECD country governments	1,360	5,443	**6,803**
- Other	11,080	33,504	**44,584**
Common stock of listed companies	-	813	**813**
Common stock of unlisted companies	-	6,808	**6,808**
Other (see note)	1,962	16,202	**18,164**
	25,603	**146,668**	**172,271**
Investment in Associate	-	279	**279**
	-	**279**	**279**
Total Investments	**32,947**	**283,054**	**316,001**

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