Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the nine months ended 30 September 2008

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Independent Auditors' report on review of interim financial information

To
The Board of Directors
Arab Insurance Group BSC
Manama
Kingdom of Bahrain

12 November 2008

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Arab Insurance Group (B.S.C.) (the "Company") and its subsidiaries (together the "Group") as at 30 September 2008, and the related condensed consolidated statements of income, changes in equity and cash flows for the nine-month period then ended (the "interim financial information"). The Board of Directors of the Company is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

KPMG

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2008

(In thousands of U.S. Dollars)

	Note	30 September 2008 (reviewed)	31 December 2007 (audited)	30 September 2007 (reviewed)
ASSETS				
Cash and cash equivalents		**401,274**	386,293	347,041
Investments	4	**289,439**	319,366	345,928
Accrued income	5	**118,658**	73,154	97,412
Insurance receivables		**67,908**	56,354	53,128
Insurance deposits		**59,129**	54,945	54,018
Deferred policy acquisition costs		**28,554**	17,212	23,994
Reinsurers' share of technical provisions	6	**71,664**	75,755	80,677
Other assets	7	**25,507**	26,680	31,407
Takaful participants' assets	8	**51,763**	29,694	30,219
Fixed assets		**26,264**	10,355	9,508
		1,140,160	1,049,808	1,073,332
LIABILITIES				
Technical provisions	9	**621,882**	534,859	564,656
Insurance payables		**27,518**	32,589	30,249
Borrowings		**67,872**	45,802	56,204
Other liabilities	10	**50,896**	43,702	45,434
Takaful fund and participants' liabilities	8	**51,763**	29,694	30,219
		819,931	686,646	726,762
EQUITY				
Shareholders' equity				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(7,665)**	(6,548)	(5,622)
Reserves		**36,976**	44,974	40,991
Retained earnings		**12,062**	40,012	28,916
		261,373	298,438	284,285
Minority interests		**58,856**	64,724	62,285
		320,229	363,162	346,570
		1,140,160	1,049,808	1,073,332

These consolidated interim condensed financial statements were approved by the Board of Directors on 12 November 2008 and signed by:

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

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2008

(In thousands of U.S. Dollars)

	Note		For the three months ended 30 September 2008 (reviewed)	For the financial year-to-date 30 September 2008 (reviewed)	For the three months ended 30 September 2007 (reviewed)	For the financial year-to-date 30 September 2007 (reviewed)	For the year ended 31 December 2007 (audited)
Gross premiums written			**55,124**	**239,098**	82,521	214,978	249,968
Net earned premiums			**59,127**	**182,350**	64,285	141,147	210,759
Claims and related expenses			**(47,761)**	**(140,924)**	(60,095)	(115,114)	(172,006)
Policy acquisition costs			**(10,563)**	**(34,186)**	(12,601)	(30,588)	(41,752)
Investment income attributable to insurance funds	12		**(6,768)**	**(181)**	2,438	12,936	19,542
Operating expenses	13		**(5,437)**	**(14,749)**	(4,657)	(12,057)	(16,273)
Underwriting result	11		**(11,402)**	**(7,690)**	(10,630)	(3,676)	270
Investment income attributable to shareholders' funds	12		**(15,052)**	**(6,300)**	4,803	21,751	34,151
Operating expenses – non underwriting activities	13		**(3,415)**	**(10,977)**	(3,419)	(8,499)	(12,897)
Borrowing cost			**(516)**	**(1,638)**	(820)	(2,279)	(3,079)
Other income	14		**4,692**	**14,246**	5,238	9,214	14,668
Other expenses and provisions	15		**(352)**	**(850)**	(2,182)	(2,509)	(3,442)
(Loss) profit for the period			**(26,045)**	**(13,209)**	(7,010)	14,002	29,671
Minority interests			**3,772**	**2,375**	(1,295)	(3,716)	(6,016)
Net (loss) profit attributable to shareholders			**(22,273)**	**(10,834)**	(8,305)	10,286	23,655
Earnings per share attributable to shareholders :	16	US$		**(0.05)**		0.05	0.11

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2008

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Shareholders' equity	Minority interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Changes on remeasurement of available for sale assets	-	-	-	(6,171)	-	(6,171)	-	(6,171)	(46)	(6,217)
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	(1,554)	-	(1,554)	(441)	(1,995)	(164)	(2,159)
Transfer of net depreciation on revalued property	-	-	-	-	(273)	(273)	273	-	-	-
Net expense recognised directly in equity	-	-	-	(7,725)	(273)	(7,998)	(168)	(8,166)	(210)	(8,376)
Net loss for the period	-	-	-	-	-	-	(10,834)	(10,834)	(2,375)	(13,209)
Total recognised expense	-	-	-	(7,725)	(273)	(7,998)	(11,002)	(19,000)	(2,585)	(21,585)
Purchase of treasury shares	-	(1,117)	-	-	-	-	-	(1,117)	-	(1,117)
Dividends paid	-	-	-	-	-	-	(15,922)	(15,922)	-	(15,922)
Directors' remuneration paid	-	-	-	-	-	-	(1,026)	(1,026)	-	(1,026)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(3,283)	(3,283)
Balances at 30 September 2008	220,000	(7,665)	23,813	5,488	7,675	36,976	12,062	261,373	58,856	320,229

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Shareholders' equity	Minority interests	Total Equity (audited)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2006	220,000	(4,293)	21,414	7,456	7,872	36,742	40,947	293,396	58,964	352,360
Revaluation of property	-	-	-	-	431	431	-	431	-	431
Changes on remeasurement of available for sale assets	-	-	-	6,020	-	6,020	-	6,020	84	6,104
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	(263)	-	(263)	(1)	(264)	-	(264)
Transfer of net depreciation on revalued property	-	-	-	-	(355)	(355)	355	-	-	-
Net income recognised directly in equity	-	-	-	5,757	76	5,833	354	6,187	84	6,271
Net profit for the year	-	-	-	-	-	-	23,655	23,655	6,016	29,671
Total recognised income	-	-	-	5,757	76	5,833	24,009	29,842	6,100	35,942
Purchase of treasury shares	-	(2,255)	-	-	-	-	-	(2,255)	-	(2,255)
Dividends paid	-	-	-	-	-	-	(21,465)	(21,465)	-	(21,465)
Directors' remuneration paid	-	-	-	-	-	-	(1,080)	(1,080)	-	(1,080)
Transfer to legal reserves	-	-	2,399	-	-	2,399	(2,399)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2007

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Shareholders' equity	Minority interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2006	220,000	(4,293)	21,414	7,456	7,872	36,742	40,947	293,396	58,964	352,360
Changes on remeasurement of available for sale assets	-	-	-	3,888	-	3,888	-	3,888	(53)	3,835
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	592	-	592	(3)	589	(2)	587
Transfer of net depreciation on revalued property	-	-	-	-	(264)	(264)	264	-	-	-
Net income (expense) recognised directly in equity	-	-	-	4,480	(264)	4,216	261	4,477	(55)	4,422
Net profit for the period	-	-	-	-	-	-	10,286	10,286	3,716	14,002
Total recognised income (expense)	-	-	-	4,480	(264)	4,216	10,547	14,763	3,661	18,424
Purchase of treasury shares	-	(1,329)	-	-	-	-	-	(1,329)	-	(1,329)
Dividends paid	-	-	-	-	-	-	(21,465)	(21,465)	-	(21,465)
Directors' remuneration paid	-	-	-	-	-	-	(1,080)	(1,080)	-	(1,080)
Transfer to legal reserves	-	-	33	-	-	33	(33)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 30 September 2007	220,000	(5,622)	21,447	11,936	7,608	40,991	28,916	284,285	62,285	346,570

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2008

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2008 (reviewed)	For the financial year-to-date 30 September 2007 (reviewed)	For the year ended 31 December 2007 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**184,360**	262,548	297,178
Reinsurance premiums paid		**(10,793)**	(11,267)	(14,760)
Claims paid		**(151,373)**	(220,157)	(257,446)
Reinsurance receipts in respect of claims		**6,232**	6,145	14,083
Investment income received		**285**	10,756	15,000
Interest received		**18,199**	20,344	27,120
Dividends received		**2,979**	1,784	2,223
Interest paid		**(2,276)**	(2,004)	(3,206)
Operating expenses paid		**(26,710)**	(20,807)	(26,227)
Other income/expenses, net		**8,259**	(1,680)	2,098
Insurance deposits paid		**(4,503)**	(2,911)	(3,891)
Purchase of trading investments		**(179,590)**	(189,013)	(243,932)
Sale of trading investments		**201,441**	180,641	260,633
Directors' remuneration paid		**(1,026)**	(1,080)	(1,080)
Net cash provided by operating activities	17	**45,484**	33,299	67,793
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of portfolio		**-**	-	6,621
Maturity/sale of investments		**52,653**	59,883	76,025
Purchase of investments		**(76,936)**	(30,128)	(39,368)
Collateralised cash deposits received		**595**	59	263
Purchase of fixed assets		**(13,584)**	(696)	(1,009)
Purchase of intangible assets		**(248)**	-	(108)
Net cash (used in) provided by investing activities		**(37,520)**	29,118	42,424
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**(15,788)**	(21,688)	(21,747)
Purchase of treasury shares		**(1,117)**	(1,329)	(2,255)
Net borrowings		**22,070**	275	(10,127)
Net cash provided by (used in) financing activities		**5,165**	(22,742)	(34,129)
Net increase in cash and cash equivalents		**13,129**	39,675	76,088
Effect of exchange rate on cash and cash equivalents		**1,852**	2,825	5,664
Cash and cash equivalents, beginning of period		**386,293**	304,541	304,541
Cash and cash equivalents, end of period		**401,274**	347,041	386,293

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

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2008

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim condensed financial statements have been prepared in compliance with International Accounting Standard IAS 34, Interim Financial Reporting. The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2007 that were prepared in accordance with International Financial Reporting Standards (IFRS). Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

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

The consolidated interim condensed financial statements include the accounts of the parent company and all of its subsidiaries.

The Company's subsidiary, Takaful Re Limited, is an Operator of Islamic Reinsurance (Takaful) business. In accordance with applicable Shari'a principles, Participants' (policyholders') funds are maintained distinct from the Operator's (shareholders') funds. Accordingly, the participants' assets and liabilities including the fund balance are shown separately as 'takaful participants' assets' and 'takaful fund and participants' liabilities' respectively in the consolidated balance sheet. Takaful Participants' Fund Accounts comprising of Balance Sheet and Statement of Participants' Revenue is set out in note 8.

3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group registers approximately 50% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

4. INVESTMENTS

	US$ '000		
	30 September 2008	31 December 2007	30 September 2007
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**67,559**	107,264	109,950
	67,559	107,264	109,950
Designated at fair value on initial recognition			
Debt Securities			
- Other	**20,755**	26,966	35,081
	20,755	26,966	35,081
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**45,971**	33,918	33,831
- Other investment grade	**42,991**	44,942	54,937
	88,962	78,860	88,768
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**32,486**	26,441	28,159
- Other investment grade	**17,279**	9,063	8,967
- Non-OECD country governments	**5,243**	6,138	4,654
- Other	**14,639**	16,134	25,247
Common stock of listed companies	**2,595**	2,047	2,035
Common stock of unlisted companies	**16,092**	22,511	19,827
Other	**23,829**	23,942	23,240
	112,163	106,276	112,129
	289,439	319,366	345,928

Debt securities amounting to US$ 47.0 million (31 December 2007: US$ 48.5 million; 30 September 2007: US$ 58.9 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 64.4 million (31 December 2007: US$ 54.0 million; 30 September 2007: 63.9 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	30 September 2008	31 December 2007	30 September 2007
Accrued insurance premiums	**114,636**	67,155	91,986
Accrued interest	**4,022**	5,999	5,426
	118,658	73,154	97,412

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 September 2008	31 December 2007	30 September 2007
General insurance business			
- Claims outstanding	**60,077**	63,372	65,161
- Unreported general insurance claims	**7,305**	10,160	12,403
- Deferred retrocession premium reserve	**3,794**	1,497	2,419
	71,176	75,029	79,983
Life insurance business			
- Life insurance claims outstanding	**140**	296	296
- Life insurance unreported losses	**348**	430	398
	488	726	694
	71,664	75,755	80,677

7. OTHER ASSETS

	US$ '000		
	30 September 2008	31 December 2007	30 September 2007
Intangible assets :			
- Goodwill	**1,893**	1,893	1,893
- Present value of future profits (PVFP)	**5,000**	5,000	5,000
- Computer software	**9,798**	9,538	9,333
	16,691	16,431	16,226
Less: accumulated amortisation	**(9,971)**	(9,088)	(8,815)
Net intangible assets	**6,720**	7,343	7,411
Other assets :			
- Collateralised cash deposits	**3,376**	3,971	4,175
- Prepayments and other receivables	**15,411**	15,366	19,821
	18,787	19,337	23,996
	25,507	26,680	31,407

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000		
	30 September 2008	31 December 2007	30 September 2007
ASSETS			
Cash & cash equivalents	**8,835**	3,721	2,070
Accrued income	**19,755**	11,354	15,887
Insurance receivable	**6,296**	6,018	2,055
Insurance deposits	**5,276**	2,711	1,797
Deferred acquisition costs	**7,059**	3,609	4,792
Deferred wakala fees	**4,542**	2,281	3,170
Other assets	**-**	-	448
	51,763	29,694	30,219
LIABILITIES			
Accounts payable	**12,072**	7,434	6,873
TAKAFUL FUND			
Unearned contributions	**22,822**	11,418	15,851
Outstanding claims	**5,897**	5,077	2,485
Unreported losses	**12,264**	6,968	5,639
	40,983	23,463	23,975
Accumulated deficit	**(1,292)**	(1,203)	(629)
	51,763	29,694	30,219

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 30 September 2008	Year ended 31 December 2007	Year-to-date 30 September 2007
Gross contributions	**34,462**	20,339	18,903
Outward reinsurance premiums	**(594)**	(694)	(503)
Unearned contributions	**(11,456)**	(2,440)	(6,884)
Net earned contributions	**22,412**	17,205	11,516
Reported losses	**(7,668)**	(5,062)	(2,625)
Provision for unreported losses	**(5,314)**	(4,632)	(3,466)
Claim and related expenses	**(12,982)**	(9,694)	(6,091)
Policy acquisition costs	**(8,523)**	(6,545)	(6,211)
Deferred policy acquisition costs	**3,455**	1,376	2,559
Policy acquisition costs	**(5,068)**	(5,169)	(3,652)
Fee payable to operator (Wakala fee)	**(4,658)**	(3,579)	(2,356)
Investment income	**117**	41	6
Other income	**90**	45	-
Deficit for the period	**(89)**	(1,151)	(577)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 September 2008	31 December 2007	30 September 2007
General insurance business			
Claims outstanding	**282,503**	288,513	285,637
Unreported losses	**128,532**	104,125	110,156
Unearned premiums	**133,689**	83,712	110,581
	544,724	476,350	506,374
Life insurance business			
Claims outstanding	**12,683**	10,007	11,545
Unreported losses	**54,227**	36,062	22,212
Unearned premiums	**10,248**	12,440	24,525
	77,158	58,509	58,282
	621,882	534,859	564,656

10. OTHER LIABILITIES

	US$ '000		
	30 September 2008	31 December 2007	30 September 2007
Accrued expenses	**3,547**	3,218	2,506
Post employment benefits	**13,200**	12,337	12,121
Accrual for scheme of arrangement fees	**3,231**	3,231	3,043
Reinsurance premiums accrued	**11,902**	11,861	9,700
Employee share scheme	**2,137**	1,287	1,054
Dividends payable	**1,032**	522	570
Other	**15,847**	11,246	16,440
	50,896	43,702	45,434

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

The Group's non-life reinsurance business consists of two main business segments, treaty and facultative mainly involving underwriting of property and marine 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								
	Financial year-to-date 30 September 2008					Financial year-to-date 30 September 2007			
	Non-life		Life		Total				
	Treaty	Facultative	Short term	Long term		Treaty	Facultative	Life	Total
REVENUES :									
Gross premiums written	162,130	30,038	29,044	17,886	239,098	149,126	26,746	39,106	214,978
Outward reinsurance premiums	(9,125)	(1,583)	(107)	21	(10,794)	(8,297)	(2,914)	(75)	(11,286)
Change in unearned premiums - gross	(45,620)	(4,824)	2,190	-	(48,254)	(40,532)	(4,092)	(16,113)	(60,737)
Change in unearned premiums - reinsurance	2,335	(35)	-	-	2,300	(1,769)	(39)	-	(1,808)
Net earned premiums	109,720	23,596	31,127	17,907	182,350	98,528	19,701	22,918	141,147
Investment income attributable to insurance funds	(100)	(57)	(14)	(10)	(181)	7,901	4,588	447	12,936
	109,620	23,539	31,113	17,897	182,169	106,429	24,289	23,365	154,083
COSTS AND EXPENSES :									
Gross claims paid	(58,237)	(15,254)	(13,479)	(9,131)	(96,101)	(63,388)	(17,583)	(16,356)	(97,327)
Claims recovered from reinsurers	4,581	1,297	354	-	6,232	3,378	2,616	-	5,994
Change in provision for outstanding claims – gross	(4,879)	5,295	(936)	(1,743)	(2,263)	(5,726)	(2,598)	(97)	(8,421)
Change in provision for outstanding claims - reinsurance	(2,075)	(882)	(156)	-	(3,113)	4,863	1,358	(61)	6,160
Change in provision for unreported losses - gross	(19,055)	(5,510)	(11,742)	416	(35,891)	(21,583)	950	4,798	(15,835)
Change in provision for unreported losses - reinsurance	(2,255)	(598)	158	-	(2,695)	2,817	(859)	4	1,962
Change in life insurance business technical provisions, net of reinsurance	-	-	-	(7,093)	(7,093)	-	-	(7,647)	(7,647)
Claims and related expenses	(81,920)	(15,652)	(25,801)	(17,551)	(140,924)	(79,639)	(16,116)	(19,359)	(115,114)
Policy acquisition costs	(41,141)	(5,081)	(1,389)	(461)	(48,072)	(37,284)	(5,623)	(1,842)	(44,749)
Policy acquisition costs recovered from reinsurers	2,235	240	-	-	2,475	2,028	258	-	2,286
Change in deferred policy acquisition costs -gross	12,378	630	(579)	(290)	12,139	9,303	892	1,037	11,232
Change in deferred policy acquisition costs - reinsurance	(727)	(1)	-	-	(728)	643	-	-	643
Policy acquisition costs	(27,255)	(4,212)	(1,968)	(751)	(34,186)	(25,310)	(4,473)	(805)	(30,588)
Operating expenses	(9,107)	(2,640)	(1,567)	(1,179)	(14,493)	(7,466)	(1,615)	(1,404)	(10,485)
Segment underwriting result	(8,662)	1,035	1,777	(1,584)	(7,434)	(5,986)	2,085	1,797	(2,104)
Operating expenses – unallocated #					(256)				(1,572)
Underwriting result					(7,690)				(3,676)

 # Unallocated operating expenses represent corporate expenses.

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

	Year ended 31 December 2007				
	Non-life		Life		Total
	Treaty	Facultative	Short term	Long term	
REVENUES :					
Gross premiums written	163,747	34,881	21,678	29,662	249,968
Outward reinsurance premiums	(10,635)	(3,983)	(110)	(33)	(14,761)
Change in unearned premiums - gross	(14,733)	(3,109)	(2,217)	(1,659)	(21,718)
Change in unearned premiums - reinsurance	(2,719)	(11)	-	-	(2,730)
Net earned premiums	135,660	27,778	19,351	27,970	210,759
Investment income attributable to insurance funds	11,566	7,145	312	519	19,542
	147,226	34,923	19,663	28,489	230,301
COSTS AND EXPENSES :					
Gross claims paid	(90,391)	(33,707)	(17,504)	(10,268)	(151,870)
Claims recovered from reinsurers	7,706	6,246	-	12	13,964
Change in provision for outstanding claims - gross	(18,168)	10,776	2,227	(1,390)	(6,555)
Change in provision for outstanding claims - reinsurance	4,592	(623)	(61)	99	4,007
Change in provision for unreported losses – gross	(15,902)	1,215	(893)	810	(14,770)
Change in provision for unreported losses - reinsurance	858	(1,143)	3	-	(282)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	(16,500)	(16,500)
Claims and related expenses	(111,305)	(17,236)	(16,228)	(27,237)	(172,006)
Policy acquisition costs	(40,949)	(7,381)	(477)	(1,284)	(50,091)
Policy acquisition costs recovered from reinsurers	2,990	275	-	(3)	3,262
Change in deferred policy acquisition costs - gross	2,474	841	485	293	4,093
Change in deferred policy acquisition costs - reinsurance	984	-	-	-	984
Policy acquisition costs	(34,501)	(6,265)	8	(994)	(41,752)
Operating expenses	(10,732)	(2,386)	(1,054)	(1,442)	(15,614)
Segment underwriting result	(9,312)	9,036	2,389	(1,184)	929
Operating expenses – unallocated #					(659)
Underwriting result					270

 # Unallocated operating expenses represent corporate expenses.

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 September 2008			Financial year-to-date 30 September 2007	Year ended 31 December 2007
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**654**	**590**	**1,244**	850	1,174
- Others	**7,208**	**8,155**	**15,363**	16,184	23,160
Dividends	**1,283**	**1,696**	**2,979**	1,784	2,223
Realised gains					
- Trading investments	**(470)**	**(470)**	**(940)**	8,684	12,149
- Investment designated at fair value through profit or loss	**261**	**235**	**496**	2,033	845
- Available for sale investments	**1,164**	**1,585**	**2,749**	2,320	4,029
(Loss) gain on remeasurement of investments at fair value through profit or loss					
- Trading investments	**(8,375)**	**(15,931)**	**(24,306)**	3,132	7,742
- Investments designated at fair value through profit or loss	**(1,898)**	**(1,713)**	**(3,611)**	(2,757)	(2,047)
Impairment loss	**(797)**	**(1,034)**	**(1,831)**	(215)	(715)
Other	**789**	**587**	**1,376**	2,672	5,133
	(181)	**(6,300)**	**(6,481)**	34,687	53,693

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 September 2008			Financial year-to-date 30 September 2007	Year ended 31 December 2007
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**11,877**	**7,751**	**19,628**	14,498	20,584
General and administration	**2,872**	**3,226**	**6,098**	6,058	8,586
	14,749	**10,977**	**25,726**	20,556	29,170

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 September 2008	Financial year-to-date 30 September 2007	Year ended 31 December 2007
Third party administration services	**6,029**	5,575	9,141
Fees on managing Islamic reinsurance operations	**4,633**	2,404	3,580
Foreign exchange gain (loss)	**2,129**	195	(937)
Software sales and related services	**1,226**	551	955
Interest on cash balances	**69**	137	200
Other	**160**	352	1,729
	14,246	9,214	14,668

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 September 2008	Financial year-to-date 30 September 2007	Year ended 31 December 2007
Provision for doubtful receivable & deposits	**(6)**	(91)	285
Scheme of arrangement fee	**-**	84	188
Intangible asset amortised	**750**	250	500
Other	**106**	2,266	2,469
	850	2,509	3,442

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 30 September 2008	Financial year-to-date 30 September 2007	Year ended 31 December 2007
Weighted average number of shares outstanding	'000	**212,146**	214,513	213,939
Net (loss) profit	US$'000	**(10,834)**	10,286	23,655
Earnings per share	US$	**(0.05)**	0.05	0.11

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

	US$ '000		
	Financial year-to-date 30 September 2008	Financial year-to-date 30 September 2007	Year ended 31 December 2007
(Loss) profit before minority interests	**(13,209)**	14,002	29,671
Increase in insurance funds	**75,588**	108,179	89,159
Change in insurance receivable/payable, net	**(16,584)**	(3,715)	(4,601)
Change in accrued income	**(45,504)**	(54,348)	(30,090)
Change in other assets/liabilities, net	**45,193**	(30,819)	(16,346)
Net cash provided by operating activities	**45,484**	33,299	67,793

18. PRINCIPAL SUBSIDIARIES

At 30 September 2008, the principal subsidiaries of the Company were:

	Country of incorporation	Ownership
Arig Insurance Company Limited	United Kingdom	100.0%
Arima Insurance Software W.L.L.	Bahrain	100.0%
Gulf Warranties W.L.L.	Bahrain	66.0%
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 2007.

19. RELATED-PARTY TRANSACTIONS

Compensation paid to directors and key management personnel are as follows:

	US$ '000		
	Financial year-to-date 30 September 2008	Financial year-to-date 30 September 2007	Year ended 31 December 2007
i) Directors			
- Remuneration paid	1,026	1,130	1,080
- Allowances	49	67	104
ii) Key management compensation			
- Salaries and other short-term employee benefits	785	733	992
- Post employment benefits	-	-	288
- Share-based compensation	-	-	94

20. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in investee companies held as part of its investment portfolios amounting to US$ 7.9 million (31 December 2007: US$ 7.1 million; 30 September 2007: US$ 10.3 million). The Group also has commitments of US$ 15.8 million (31 December 2007: US$ 28.6 million; 30 September 2007: nil) towards purchase of property.

21. EVENTS AFTER THE BALANCE SHEET DATE

As set out in note 4, the Group holds investments in common stocks of listed companies and debt securities classified either as 'At fair value through profit or loss' or 'Available for sale'. Significant volatility in the market values of these investments has been witnessed subsequent to the balance sheet date. The effect of these movements upto 31 October 2008 would negatively impact the subsequent earnings and investment revaluation reserves in shareholders' equity by US$ 14,492,000 and US$ 4,552,000 respectively.

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS PER CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2007

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. 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. Non-derivative 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 balance sheet date. 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. Property values are based on recent valuations carried out by qualified professional valuers in accordance with recognised valuation principles.

Investments in non-financial assets such as land and buildings are included in investments if such assets are not for the Group's own use.

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 balance sheet date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment is recognised in income. Impairment recognised is not reversed subsequently except in case of debt instruments.

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 equity. When available for sale investments are disposed of or are impaired, the related fair value adjustments are included in the income statement. Gains and losses arising from changes in the fair value of investment properties are included in the income statement for the period in which they arise.

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. Assets and liabilities denominated in currencies other than U.S. Dollars are translated at year-end exchange rates.

Unrealised gains or losses on translation of investments denominated in foreign currencies 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, net of translation adjustments relating to hedging liabilities, if any, are included in the Shareholders' 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.

Covered call and put options are written and bought by the Group as part of its investment portfolio. The premium received and paid is initially recorded as liability and asset respectively and the changes in fair value of these options are taken to the statement of income and the corresponding asset or liability adjusted.

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 30-September-2008		
	Investments in U.A.E.	Investments outside U.A.E.	Total
a. Cash & Cash Equivalents	68,774	332,500	**401,274**
Total Cash & Cash Equivalents	**68,774**	**332,500**	**401,274**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	5,491	62,068	**67,559**
	5,491	**62,068**	**67,559**
Designated at fair value on initial recognition			
Debt Securities			
- Other	-	20,755	**20,755**
	-	**20,755**	**20,755**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	45,971	**45,971**
- Other investment grade	3,021	39,970	**42,991**
	3,021	**85,941**	**88,962**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	32,486	**32,486**
- Other investment grade	2,047	15,232	**17,279**
- Non-OECD country governments	1,335	3,908	**5,243**
- Other	7,225	7,414	**14,639**
Common stock of listed companies	-	2,595	**2,595**
Common stock of unlisted companies	511	15,581	**16,092**
Other (see note)	1,681	22,148	**23,829**
	12,800	**99,363**	**112,163**
Total Investments	**21,312**	**268,127**	**289,439**

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$ 6,134,000 (in U.A.E.: US$ 107,000).