Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the six months ended 30 June 2010

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Independent auditors' report on review of interim financial information

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

21 July 2010

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arab Insurance Group (B.S.C.) (the "Company") and its subsidiaries (together the "Group") as at 30 June 2010, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended (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 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

(In thousands of U.S. Dollars)

	Note	30 June 2010 (reviewed)	31 December 2009 (audited)	30 June 2009 (reviewed)
ASSETS				
Cash and cash equivalents		**289,876**	354,313	349,440
Investments	4	**342,200**	306,103	314,084
Accrued income	5	**154,893**	127,712	135,345
Insurance receivables		**73,381**	75,960	66,504
Insurance deposits		**68,389**	68,395	67,734
Deferred policy acquisition costs		**34,677**	22,296	33,343
Reinsurers' share of technical provisions	6	**67,781**	57,709	62,462
Other assets	7	**21,975**	26,423	20,570
Takaful participants' assets	8	**68,610**	65,745	43,232
Property & equipment		**27,430**	27,627	27,492
		1,149,212	1,132,283	1,120,206
LIABILITIES				
Technical provisions	9	**688,668**	647,551	654,352
Insurance payables		**25,802**	27,425	25,695
Borrowings		**12,706**	12,706	38,105
Other liabilities	10	**49,444**	50,917	51,135
Takaful fund and participants' liabilities	8	**68,610**	65,745	43,232
		845,230	804,344	812,519
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(11,025)**	(8,163)	(7,889)
Reserves		**38,553**	41,052	34,805
(Accumulated deficit) retained earnings		**(2,163)**	14,456	3,432
		245,365	267,345	250,348
Non-controlling interests		**58,617**	60,594	57,339
		303,982	327,939	307,687
		1,149,212	1,132,283	1,120,206

These consolidated interim condensed financial statements were approved by the Board of Directors on 21 July 2010 and signed by:

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 20 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2010

(In thousands of U.S. Dollars)

	Note		For the three months ended 30 June 2010 (reviewed)	For the three months ended 30 June 2009 (reviewed)	For the financial year-to-date 30 June 2010 (reviewed)	For the financial year-to-date 30 June 2009 (reviewed)	For the year ended 31 December 2009 (audited)
Gross premiums written			**35,421**	51,205	**177,105**	163,017	279,355
Net earned premiums			**50,038**	60,797	**112,500**	120,519	264,023
Claims and related expenses			**(40,915)**	(47,524)	**(86,072)**	(88,517)	(194,357)
Policy acquisition costs			**(9,798)**	(12,540)	**(21,415)**	(22,693)	(53,150)
Investment income (loss) attributable to insurance funds	12		**(26)**	7,197	**2,867**	7,153	14,602
Operating expenses	13		**(5,781)**	(5,392)	**(11,956)**	(10,246)	(20,488)
Underwriting result	11		**(6,482)**	2,538	**(4,076)**	6,216	10,630
Investment income (loss) attributable to shareholders' funds	12		**(952)**	8,455	**2,659**	8,226	19,086
Operating expenses – non underwriting activities	13		**(3,122)**	(3,806)	**(7,117)**	(7,424)	(14,214)
Borrowing cost			**-**	(285)	**-**	(760)	(923)
Other income	14		**3,443**	2,234	**7,513**	4,596	13,541
Other expenses and provisions	15		**(781)**	(242)	**(1,442)**	(517)	(1,714)
(Loss) profit for the period			**(7,894)**	8,894	**(2,463)**	10,337	26,406
Attributable to:							
Non-controlling interests			**(624)**	1,554	**301**	1,510	4,553
Shareholders of Parent Company			**(7,270)**	7,340	**(2,764)**	8,827	21,853
			(7,894)	8,894	**(2,463)**	10,337	26,406
Earnings per share attributable to shareholders :	16	US$			**(0.01)**	0.04	0.10

The accompanying notes 1 to 20 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2010

(In thousands of U.S. Dollars)

	For the three months ended 30 June 2010 (reviewed)	For the three months ended 30 June 2009 (reviewed)	**For the financial year-to-date 30 June 2010 (reviewed)**	For the financial year-to-date 30 June 2009 (reviewed)	For the year ended 31 December 2009 (audited)
(Loss) profit for the period	**(7,894)**	8,894	**(2,463)**	10,337	26,406
Other comprehensive income					
Changes on remeasurement of available for sale investments	**(1,593)**	1,991	**(2,256)**	2,288	5,090
Transfers for recognition of (gains) losses on disposal of available for sale investments	**(140)**	87	**(51)**	(132)	1,523
Other comprehensive income for the period	**(1,733)**	2,078	**(2,307)**	2,156	6,613
Total comprehensive income for the period	**(9,627)**	10,972	**(4,770)**	12,493	33,019
Attributable to:					
Non-Controlling interests	**(657)**	1,673	**310**	1,724	4,979
Shareholders of Parent Company	**(8,970)**	9,299	**(5,080)**	10,769	28,040
	(9,627)	10,972	**(4,770)**	12,493	33,019

The accompanying notes 1 to 20 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 SIX MONTH PERIOD ENDED 30 JUNE 2010

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings (accumulated deficit)	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2009	220,000	(8,163)	25,998	7,833	7,221	41,052	14,456	267,345	60,594	327,939
Net loss for the period	-	-	-	-	-	-	(2,764)	(2,764)	301	(2,463)
Changes on remeasurement of available for sale investments	-	-	-	(2,243)	-	(2,243)	-	(2,243)	(13)	(2,256)
Transfers for recognition of losses/(gains) on disposal of available for sale investment	-	-	-	(74)	-	(74)	1	(73)	22	(51)
Total comprehensive income for the period	-	-	-	(2,317)	-	(2,317)	(2,763)	(5,080)	310	(4,770)
Transfer of net depreciation on revalued property	-	-	-	-	(182)	(182)	182	-	-	-
Purchase of treasury stock	-	(2,862)	-	-	-	-	-	(2,862)	-	(2,862)
Dividend	-	-	-	-	-	-	(13,174)	(13,174)	-	(13,174)
Directors remuneration	-	-	-	-	-	-	(864)	(864)	-	(864)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(2,287)	(2,287)
Balances at 30 June 2010	220,000	(11,025)	25,998	5,516	7,039	38,553	(2,163)	245,365	58,617	303,982

The accompanying notes 1 to 20 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings (accumulated deficit)	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (audited)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2008	220,000	(7,889)	23,813	1,648	7,584	33,045	(5,577)	239,579	55,955	295,534
Net profit for the year	-	-	-	-	-	-	21,853	21,853	4,553	26,406
Changes on remeasurement of available for sale investments	-	-	-	4,659	-	4,659	-	4,659	431	5,090
Transfers for recognition of losses/(gains) on disposal of available for sale investment	-	-	-	1,526	-	1,526	2	1,528	(5)	1,523
Total comprehensive income for the year	-	-	-	6,185	-	6,185	21,855	28,040	4,979	33,019
Transfer of net depreciation on revalued property	-	-	-	-	(363)	(363)	363	-	-	-
Purchase of treasury stock	-	(274)	-	-	-	-	-	(274)	-	(274)
Transfer to legal reserves	-	-	2,185	-	-	2,185	(2,185)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 December 2009	220,000	(8,163)	25,998	7,833	7,221	41,052	14,456	267,345	60,594	327,939
Parent company balances at 31 December 2009	220,000	(8,163)	25,932	8,106	7,221	41,259	14,249	267,345	-	267,345

The accompanying notes 1 to 20 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 SIX MONTH PERIOD ENDED 30 JUNE 2009

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings (accumulated deficit)	Shareholders' equity	Non-controlling interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2008	220,000	(7,889)	23,813	1,648	7,584	33,045	(5,577)	239,579	55,955	295,534
Net profit for the period	-	-	-	-	-	-	8,827	8,827	1,510	10,337
Changes on remeasurement of available for sale investments	-	-	-	2,060	-	2,060	-	2,060	228	2,288
Transfers for recognition of gains on disposal of available for sale investment	-	-	-	(118)	-	(118)	-	(118)	(14)	(132)
Total comprehensive income for the period	-	-	-	1,942	-	1,942	8,827	10,769	1,724	12,493
Transfer of net depreciation on revalued property	-	-	-	-	(182)	(182)	182	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 30 June 2009	220,000	(7,889)	23,813	3,590	7,402	34,805	3,432	250,348	57,339	307,687

The accompanying notes 1 to 20 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 SIX MONTH PERIOD ENDED 30 JUNE 2010

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 June 2010 (reviewed)	For the financial year-to-date 30 June 2009 (reviewed)	For the year ended 31 December 2009 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**153,401**	125,898	241,083
Reinsurance premiums paid		**(25,264)**	(5,133)	(8,640)
Claims paid		**(138,216)**	(107,044)	(207,147)
Reinsurance receipts in respect of claims		**8,408**	3,721	8,562
Investment (loss) income		**(418)**	260	(6,681)
Interest received		**2,900**	3,345	8,501
Dividends received		**2,320**	1,170	1,470
Interest paid		**-**	(1,040)	(1,601)
Operating expenses paid		**(16,723)**	(10,251)	(24,954)
Other income/expenses, net		**3,387**	2,146	678
Insurance deposits paid		**194**	(5,446)	(6,098)
Purchase of trading investments		**(85,150)**	(70,306)	(98,667)
Sale of trading investments		**62,232**	44,963	100,788
Directors' remuneration paid		**(864)**	-	-
Net cash (used in) provided by operating activities	17	**(33,793)**	(17,717)	7,294
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**86,423**	78,414	179,602
Purchase of investments		**(105,552)**	(85,715)	(187,472)
Interest received		**3,182**	3,743	7,040
Dividends Received		**105**	299	744
Investment income received		**849**	172	2,823
Collateralised cash deposits released (paid)		**205**	(306)	232
Purchase of property and equipment		**(233)**	(1,921)	(2,405)
Purchase of intangible assets		**(203)**	(146)	(360)
Net cash (used in) provided by investing activities		**(15,224)**	(5,460)	204
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**(12,545)**	(26)	(31)
Purchase of treasury shares		**(2,862)**	-	(274)
Net borrowings		**-**	(30,155)	(55,678)
Net cash used in financing activities		**(15,407)**	(30,181)	(55,983)
Net decrease in cash and cash equivalents		**(64,424)**	(53,358)	(48,485)
Effect of exchange rate on cash and cash equivalents		**(13)**	(151)	(151)
Cash and cash equivalents, beginning of period		**354,313**	402,949	402,949
Cash and cash equivalents, end of period		**289,876**	349,440	354,313

The accompanying notes 1 to 20 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 SIX MONTH PERIOD ENDED 30 JUNE 2010

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial information to be prepared in condensed form. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2009 that were prepared in accordance with International Financial Reporting Standards (IFRS). Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

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

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2010, including IFRS 2 Share Based Payments; IFRS 3, Business Combination; IAS 27, Consolidated and Separate Financial Statements. The adoption of these Standards and interpretation does not have any material impact on the Financial Statements.

There were no other changes to the accounting policies and risk management framework as set out in the consolidated financial statements for the year ended 31 December 2009. The Group's financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2009.

The consolidated interim condensed financial statements include the accounts of the parent company and all of its subsidiaries. It also includes the account of its Joint Venture, Hardy Arig Management (HAIM), which has been consolidated using the proportionate consolidation method.

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 Statement of Financial Position. Takaful Participants' Fund Accounts comprising of Statement of Financial Position 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 40% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

4. INVESTMENTS

	US$ '000		
	30 June 2010	31 December 2009	30 June 2009
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**70,128**	53,953	63,060
	70,128	53,953	63,060
Designated at fair value on initial recognition			
Debt Securities			
- Other investment grade	**32,513**	30,484	30,478
- Other	**6,342**	5,101	8,740
	38,855	35,585	39,218
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**75,282**	64,412	59,388
- Other investment grade	**56,012**	54,425	43,695
	131,294	118,837	103,083
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**15,828**	7,766	15,112
- Other investment grade	**28,288**	30,235	38,213
- Non-OECD country governments	**2,660**	3,546	4,019
- Other	**14,287**	13,455	13,001
Common stock of listed companies	**1,352**	1,814	2,074
Common stock of unlisted companies	**17,113**	19,383	14,787
Other	**22,395**	21,529	21,517
	101,923	97,728	108,723
	342,200	306,103	314,084

Debt securities amounting to US$ 51 million (31 December 2009 US$ 45.0 million; 30 June 2009 US$ 46.0 Million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ Nil (31 December 2009: US$ Nil; 30 June 2009: 27.8 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	30 June 2010	31 December 2009	30 June 2009
Accrued insurance premiums	**151,497**	124,442	131,653
Accrued interest	**3,396**	3,270	3,692
	154,893	127,712	135,345

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 June 2010	31 December 2009	30 June 2009
General insurance business			
- Claims outstanding	**45,475**	53,504	54,993
- Unreported claims	**6,122**	2,838	4,697
- Deferred retrocession premium reserve	**16,102**	847	2,632
	67,699	57,189	62,322
Life insurance business			
- Claims outstanding	**82**	520	140
	82	520	140
	67,781	57,709	62,462

7. OTHER ASSETS

	US$ '000		
	30 June 2010	31 December 2009	30 June 2009
Intangible assets :			
- Present value of future profits (PVFP)	**5,000**	5,000	5,000
- Computer software	**10,150**	10,267	10,168
	15,150	15,267	15,168
Less: accumulated amortisation	**(11,999)**	(11,404)	(10,806)
	3,151	3,863	4,362
- Goodwill	**1,893**	1,893	1,893
Net intangible assets	**5,044**	5,756	6,255
Other assets :			
- Collateralised cash deposits	**4,118**	4,323	4,861
- Prepayments and other receivables	**12,813**	16,344	9,454
	16,931	20,667	14,315
	21,975	26,423	20,570

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000		
	30 June 2010	31 December 2009	30 June 2009
ASSETS			
Cash & cash equivalents	**9,486**	9,483	4,311
Accrued income	**25,934**	30,428	16,257
Insurance receivable	**7,947**	8,019	7,025
Insurance deposits	**16,091**	9,810	8,102
Deferred acquisition costs	**6,022**	3,625	4,453
Deferred Wakala fees	**3,130**	4,380	3,101
Other assets	**-**	-	(17)
	68,610	65,745	43,232
LIABILITIES			
Accounts payable	**9,961**	13,881	6,810
Other liabilities	**(23)**	85	-
	9,938	13,966	6,810
TAKAFUL FUND			
Unearned contributions	**20,810**	21,904	15,498
Outstanding claims	**23,726**	12,757	10,282
Unreported losses	**27,611**	26,805	15,854
	72,147	61,466	41,634
Accumulated deficit	**(13,475)**	(9,687)	(5,212)
	68,610	65,745	43,232

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 30 June 2010	Year ended 31 December 2009	Year-to-date 30 June 2009
Gross contributions	**22,603**	48,669	15,108
Outward reinsurance premiums	**(817)**	(1,491)	(812)
Unearned contributions	**1,067**	(6,261)	131
Net earned contributions	**22,853**	40,917	14,427
Reported losses	**(17,393)**	(18,319)	(8,547)
Provision for unreported losses	**(950)**	(14,117)	(2,882)
Claim and related expenses	**(18,343)**	(32,436)	(11,429)
Policy acquisition costs	**(7,019)**	(6,815)	(2,977)
Deferred policy acquisition costs	**2,400**	(202)	625
Policy acquisition costs	**(4,619)**	(7,017)	(2,352)
Fee payable to operator (Wakala fee)	**(3,607)**	(8,481)	(3,032)
Investment income	**129**	83	55
Other expenses & provisions	**(198)**	(141)	(269)
Deficit for the period	**(3,785)**	(7,075)	(2,600)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 June 2010	31 December 2009	30 June 2009
General insurance business			
Claims outstanding	**278,378**	283,257	279,966
Unreported losses	**153,914**	151,859	142,196
Unearned premiums	**158,695**	108,998	143,300
	590,987	544,114	565,462
Life insurance business			
Claims outstanding	**18,864**	22,162	16,549
Unreported losses	**67,159**	74,069	67,034
Unearned premiums	**11,658**	7,206	5,307
	97,681	103,437	88,890
	688,668	647,551	654,352

10. OTHER LIABILITIES

	US$ '000		
	30 June 2010	31 December 2009	30 June 2009
Accrued expenses	**4,208**	5,451	4,438
Post employment benefits	**14,849**	14,290	13,984
Accrual for scheme of arrangement fees	**3,231**	3,231	3,043
Reinsurance premiums accrued	**8,754**	11,179	11,733
Employee share scheme	**2,653**	1,370	891
Dividends payable	**1,764**	906	912
Other	**13,985**	14,490	16,134
	49,444	50,917	51,135

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. Treaty business primarily consists of Property, Engineering, Medical, Marine & other classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies.

	US$ '000							
	Period ended 30 June 2010							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engineering	Medical	Others				
REVENUES :								
Gross premiums written	41,238	17,995	3,481	79,802	20,055	8,646	5,888	177,105
Outward reinsurance premiums	(1,774)	(1,508)	-	(22,129)	52	116	(21)	(25,264)
Change in unearned premiums - gross	(18,886)	(6,083)	16,431	(38,141)	(3,457)	(4,460)	-	(54,596)
Change in unearned premiums - reinsurance	188	574	-	14,481	12	-	-	15,255
Net earned premiums	20,766	10,978	19,912	34,013	16,662	4,302	5,867	112,500
Investment income attributable to insurance funds	453	235	180	711	735	218	335	2,867
	21,219	11,213	20,092	34,724	17,397	4,520	6,202	115,367
COSTS AND EXPENSES :								
Gross claims paid	(15,124)	(4,500)	(11,154)	(18,871)	(23,620)	(8,581)	(11,873)	(93,723)
Claims recovered from reinsurers	508	339	-	853	6,708	-	-	8,408
Change in provision for outstanding claims – gross	897	(2,733)	(9,934)	511	7,809	335	2,355	(760)
Change in provision for outstanding claims - reinsurance	(480)	167	-	(155)	(7,214)	-	-	(7,682)
Change in provision for unreported losses – gross	(3,358)	9	2,873	(6,753)	5,578	-	-	(1,651)
Change in provision for unreported losses - reinsurance	41	(306)	-	2,846	(139)	4,307	227	6,976
Claims and related expenses	(17,516)	(7,024)	(18,215)	(21,569)	(10,878)	(3,939)	(9,291)	(88,432)
Policy acquisition costs	(11,050)	(6,170)	(1,254)	(14,546)	(3,095)	851	847	(34,417)
Policy acquisition costs recovered from reinsurers	35	422	-	180	(71)	-	-	566
Change in deferred policy acquisition costs - gross	5,435	2,284	(764)	6,654	(63)	(349)	-	13,197
Change in deferred policy acquisition costs - reinsurance	(73)	(235)	-	(454)	1	-	-	(761)
Policy acquisition costs	(5,653)	(3,699)	(2,018)	(8,166)	(3,228)	502	847	(21,415)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	2,360	2,360
Operating expenses	(2,045)	(1,230)	(1,416)	(3,245)	(1,917)	(1,218)	(885)	(11,956)
Underwriting result	(3,995)	(740)	(1,557)	1,744	1,374	(135)	(767)	(4,076)

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

	US$ '000							
	Year ended 31 December 2009							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engineering	Medical	Others				
REVENUES :								
Gross premiums written	49,122	29,687	49,192	66,736	34,455	30,460	19,703	279,355
Outward reinsurance premiums	(1,899)	(2,454)	-	(1,593)	(2,210)	(459)	(27)	(8,642)
Change in unearned premiums - gross	1,163	(791)	(11,886)	639	2,561	2,451	-	(5,863)
Change in unearned premiums - reinsurance	(629)	(133)	-	(66)	1	-	-	(827)
Net earned premiums	47,757	26,309	37,306	65,716	34,807	32,452	19,676	264,023
Investment income attributable to insurance funds	2,435	1,260	965	3,823	3,587	1,120	1,412	14,602
	50,192	27,569	38,271	69,539	38,394	33,572	21,088	278,625
COSTS AND EXPENSES :								
Gross claims paid	(35,706)	(9,216)	(23,205)	(32,152)	(23,762)	(21,648)	(7,482)	(153,171)
Claims recovered from reinsurers	2,457	945	-	1,181	3,979	(13)	13	8,562
Change in provision for outstanding claims – gross	2,287	(4,954)	(90)	(9,459)	12,259	(1,709)	(6,027)	(7,693)
Change in provision for outstanding claims - reinsurance	(1,411)	565	-	(53)	(4,257)	62	(58)	(5,152)
Change in provision for unreported losses – gross	4,851	(3,080)	(15,049)	2,306	(9,801)	(8,578)	527	(28,824)
Change in provision for unreported losses - reinsurance	(991)	(309)	(1)	(972)	(331)	-	-	(2,604)
Claims and related expenses	(28,513)	(16,049)	(38,345)	(39,149)	(21,913)	(31,886)	(13,027)	(188,882)
Policy acquisition costs	(15,948)	(10,170)	(4,803)	(17,460)	(7,341)	(555)	(1,108)	(57,385)
Policy acquisition costs recovered from reinsurers	379	773	-	1,093	64	109	(115)	2,303
Change in deferred policy acquisition costs - gross	494	144	1,053	587	(672)	(36)	(15)	1,555
Change in deferred policy acquisition costs - reinsurance	219	50	-	108	-	-	-	377
Policy acquisition costs	(14,856)	(9,203)	(3,750)	(15,672)	(7,949)	(482)	(1,238)	(53,150)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	(5,475)	(5,475)
Operating expenses	(3,269)	(2,200)	(2,339)	(5,194)	(3,600)	(2,253)	(1,633)	(20,488)
Underwriting result	3,554	117	(6,163)	9,524	4,932	(1,049)	(285)	10,630

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

	US$ '000							
	Period ended 30 June 2009							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engineering	Medical	Others				
REVENUES :								
Gross premiums written	28,326	17,271	7,315	73,259	13,856	18,407	4,583	163,017
Outward reinsurance premiums	(908)	(863)	-	(2,303)	(716)	(304)	(20)	(5,114)
Change in unearned premiums - gross	(18,088)	(10,507)	(1,235)	(14,836)	1,971	4,354	-	(38,341)
Change in unearned premiums - reinsurance	170	342	-	447	(2)	-	-	957
Net earned premiums	9,500	6,243	6,080	56,567	15,109	22,457	4,563	120,519
Investment income attributable to insurance funds	1,193	617	473	1,695	2,197	514	464	7,153
	10,693	6,860	6,553	58,262	17,306	22,971	5,027	127,672
COSTS AND EXPENSES :								
Gross claims paid	(6,765)	(2,205)	(3,708)	(26,480)	(13,991)	(9,964)	(5,391)	(68,504)
Claims recovered from reinsurers	460	219	-	1,499	1,557	(13)	-	3,722
Change in provision for outstanding claims – gross	640	(692)	(22)	(6,600)	7,045	69	(2,253)	(1,813)
Change in provision for outstanding claims - reinsurance	(195)	84	-	(652)	(2,435)	62	-	(3,136)
Change in provision for unreported losses – gross	(620)	(1,366)	(1,179)	(4,232)	(1,911)	(8,835)	-	(18,143)
Change in provision for unreported losses - reinsurance	(114)	(69)	-	(2,562)	(239)	-	-	(2,984)
Claims and related expenses	(6,594)	(4,029)	(4,909)	(39,027)	(9,974)	(18,681)	(7,644)	(90,858)
Policy acquisition costs	(9,697)	(5,645)	(1,335)	(16,997)	(3,021)	(771)	(133)	(37,599)
Policy acquisition costs recovered from reinsurers	366	334	-	1,234	-	-	-	1,934
Change in deferred policy acquisition costs – gross	6,312	3,727	786	3,181	(433)	(478)	19	13,114
Change in deferred policy acquisition costs - reinsurance	(58)	(114)	-	30	-	-	-	(142)
Policy acquisition costs	(3,077)	(1,698)	(549)	(12,552)	(3,454)	(1,249)	(114)	(22,693)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	2,341	2,341
Operating expenses	(1,884)	(1,364)	(669)	(2,751)	(1,727)	(972)	(879)	(10,246)
Underwriting result	(862)	(231)	426	3,932	2,151	2,069	(1,269)	6,216

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 June 2010			Financial year-to-date 30 June 2009	Year ended 31 December 2009
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**339**	**267**	**606**	543	775
- Others	**2,996**	**3,671**	**6,667**	6,982	15,021
Dividends	**602**	**658**	**1,260**	1,469	2,214
Realised (loss) gains					
- Trading investments	**1,324**	**902**	**2,226**	(4,018)	(7,325)
- Investment designated at fair value through profit or loss	**1,464**	**1,152**	**2,616**	(2,639)	(4,703)
- Available for sale	**1,142**	**887**	**2,029**	(158)	3,408
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	**(3,182)**	**(3,570)**	**(6,752)**	10,020	18,833
- Investments designated at fair value through profit or loss	**(1,214)**	**(955)**	**(2,169)**	4,558	8,678
Impairment loss-available for sale	**(304)**	**(239)**	**(543)**	(2,194)	(3,599)
Other	**(300)**	**(114)**	**(414)**	816	386
	2,867	**2,659**	**5,526**	15,379	33,688

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 June 2010			Financial year-to-date 30 June 2009	Year ended 31 December 2009
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**9,879**	**4,635**	**14,514**	14,086	26,886
General and administration	**2,077**	**2,482**	**4,559**	3,584	7,816
	11,956	**7,117**	**19,073**	17,670	34,702

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 June 2010	Financial year-to-date 30 June 2009	Year ended 31 December 2009
Third party administration services	**2,429**	3,028	6,105
Fees on managing Islamic reinsurance operations	**3,607**	3,048	8,481
Foreign exchange gain (loss)	**831**	(2,521)	(2,886)
Software sales and related services	**354**	796	1,293
Other	**292**	245	548
	7,513	4,596	13,541

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 June 20010	Financial year-to-date 30 June 2009	Year ended 31 December 2009
Intangible asset amortised	**500**	500	1,000
Provision for doubtful receivable & deposits	**-**	35	337
Other	**942**	(18)	377
	1,442	517	1,714

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic (loss) profit per share has been computed as follows:

		Financial year-to-date 30 June 2010	Financial year-to-date 30 June 2009	Year ended 31 December 2009
Weighted average number of shares outstanding	'000	**209,869**	211,292	211,186
Net (loss) profit	US$'000	**(2,764)**	8,827	21,853
(Loss) earnings per share	US$	**(0.01)**	0.04	0.10

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

	US$ '000		
	Financial year-to-date 30 June 2010	Financial year-to-date 30 June 2009	Year ended 31 December 2009
(Loss) profit before non-controlling interests	**(2,463)**	10,337	26,406
Increase in insurance funds	**18,670**	48,715	57,053
Change in insurance receivable/ payable, net	**956**	(12,085)	(18,745)
Change in accrued income	**(27,181)**	(32,478)	(24,845)
Change in other assets/liabilities, net	**(23,775)**	(32,206)	(32,575)
Net cash (used in) provided by operating activities	**(33,793)**	(17,717)	7,294

18. PRINCIPAL SUBSIDIARIES

At 30 June 2010, 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.	Kingdom of Bahrain	100.0%
Gulf Warranties W.L.L.	Kingdom of 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 2009. It also continues to hold 50% of the Joint Venture Hardy Arig Insurance Management WLL which is incorporated in the Kingdom of Bahrain

19. RELATED-PARTY TRANSACTIONS

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

The consolidated financial statements include the effect of the following transactions with related parties.

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

	US$ '000		
	Financial year-to-date 30 June 2010	Financial year-to-date 30 June 2009	Year ended 31 December 2009
i) Directors			
- Remuneration paid	864	-	-
- Allowances	57	43	99
ii) Key management compensation			
- Salaries and other short-term employee benefits	741	567	1,206
- Post employment benefits	105	465	638
- Share-based compensation	741	200	268
iii) Balances payable (net)			
Key management			
- Maximum balance	4,441	2,423	3,250
- Closing balance	4,441	2,423	3,250

20. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in investee companies held as part of its investment portfolios amounting to US$ 6.4 million (31 December 2009: US$ 7.7 million; 30 June 2009: US$ 6.2 million). The Group also has commitments of US$ 15.8 million (31 December 2009: US$ 15.8 million; 30 June 2009: US$ 15.8 million) towards purchase of property.

The Subsidiary, Takaful Re Limited has a commitment to provide an interest free loan to the extent of the accumulated deficit in the participant's fund. The Group's share of the commitment is US$ 7.3 million (31 December 2009: US$ 5.2 million; 30 June 2009: US$ 2.8 million).

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS PER CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2009

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 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 considering among other factors significant or prolonged decline in market

values and financial difficulties of the issues. Impairment recognised is not reversed subsequently except in case of debt instruments.

INVESTMENT 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, net of translation adjustments relating to hedging liabilities, if any, 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.

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-June-2010		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	77,915	211,961	**289,876**
Total Cash & Cash Equivalents	**77,915**	**211,961**	**289,876**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	3,171	66,957	**70,128**
	3,171	**66,957**	**70,128**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	32,513	**32,513**
- Other	-	6,342	**6,342**
	-	**38,855**	**38,855**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	75,282	**75,282**
- Other Investment grade	5,008	51,004	**56,012**
	5,008	**126,286**	**131,294**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	15,828	**15,828**
- Other Investment grade	7,032	21,256	**28,288**
- Non-OECD country governments	1,174	1,486	**2,660**
- Other	6,405	7,882	**14,287**
Common stock of listed companies	-	1,352	**1,352**
Common stock of unlisted companies	-	17,113	**17,113**
Other (see note)	2,164	20,231	**22,395**
	16,775	**85,148**	**101,923**
Total Investments	**24,954**	**317,246**	**342,200**

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$ 3,593,000 (in U.A.E.: NIL).