Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the three months ended 31 March 2011

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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

12 May 2011

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 31 March 2011, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-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.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

(In thousands of U.S. Dollars)

	Note	31 March 2011 (reviewed)	31 December 2010 (audited)	31 March 2010 (reviewed)
ASSETS				
Cash and cash equivalents		**328,755**	280,557	315,366
Investments	4	**356,806**	363,520	333,996
Accrued income	5	**168,889**	121,515	168,205
Insurance receivables		**79,292**	75,246	72,780
Insurance deposits		**63,684**	65,636	69,925
Deferred policy acquisition costs		**39,519**	19,967	41,042
Reinsurers' share of technical provisions	6	**78,248**	59,976	76,594
Other assets	7	**28,678**	24,630	34,545
Takaful participants' assets	8	**84,028**	61,821	75,521
Property and equipment		**27,563**	27,390	27,593
		1,255,462	1,100,258	1,215,567
LIABILITIES				
Technical provisions	9	**719,739**	629,328	705,836
Insurance payables		**24,550**	28,760	35,276
Borrowings		**52,706**	12,706	12,706
Other liabilities	10	**67,159**	46,448	69,757
Takaful fund and participants' liabilities	8	**84,028**	61,821	75,521
		948,182	779,063	899,096
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(8,163)
Reserves		**35,341**	35,535	40,345
Retained earnings		**5,281**	19,398	5,015
		245,829	260,140	257,197
Non-controlling interests		**61,451**	61,055	59,274
		307,280	321,195	316,471
		1,255,462	1,100,258	1,215,567

These consolidated interim condensed financial statements were approved by the Board of Directors on 12 May 2011 and signed by:

Khalid A. Al Bustani	Khalid J. Bin Kalban	Yassir Albaharna
Chairman	Vice Chairman	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.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2011

(In thousands of U.S. Dollars)

	Note		For the financial year-to-date 31 March 2011 (reviewed)	For the financial year-to-date 31 March 2010 (reviewed)	For the year ended 31 December 2010 (audited)
Gross premiums written			**132,084**	141,684	239,530
Net earned premiums			**47,171**	62,462	222,329
Claims and related expenses			**(35,620)**	(45,157)	(160,232)
Policy acquisition costs			**(7,734)**	(11,617)	(45,886)
Investment income attributable to insurance funds	12		**2,670**	3,231	17,588
Operating expenses	13		**(4,967)**	(6,175)	(21,558)
Underwriting result	11		**1,520**	2,744	12,241
Investment income attributable to shareholders' funds	12		**2,781**	3,273	16,444
Operating expenses – non underwriting activities	13		**(3,554)**	(3,995)	(13,936)
Other income	14		**2,235**	4,070	12,794
Other expenses and provisions	15		**(2,040)**	(661)	(4,039)
Borrowing cost			**(62)**	-	-
Profit for the period			**880**	5,431	23,504
Attributable to:					
Non-controlling interests			**235**	925	2,732
Shareholders of Parent Company			**645**	4,506	20,772
			880	5,431	23,504
Earnings per share attributable to shareholders (basic and diluted)	16	US$	**0.00**	0.02	0.10

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

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ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2011

(In thousands of U.S. Dollars)

	For the financial year-to-date 31 March 2011 (reviewed)	For the financial year-to-date 31 March 2010 (reviewed)	For the year ended 31 December 2010 (audited)
Profit for the period	**880**	5,431	23,504
Other comprehensive income			
Changes on remeasurement of available for sale investments	**119**	(663)	(5,161)
Transfers for recognition of (gains)/losses on disposal of available for sale investments	**(61)**	89	(2,136)
Other comprehensive income for the period	**58**	(574)	(7,297)
Total comprehensive income for the period	**938**	4,857	16,207
Attributable to:			
Non-controlling interests	**396**	967	2,748
Shareholders of Parent Company	**542**	3,890	13,459
	938	4,857	16,207

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2011

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (reviewed)
			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 profit for the period	-	-	-	-	-	-	645	645	235	880
Changes on remeasurement of available-for-sale investments	-	-	-	(39)	-	(39)	-	(39)	158	119
Transfers for recognition of losses/(gains) on disposal of available-for-sale investment	-	-	-	(64)	-	(64)	-	(64)	3	(61)
Total comprehensive income for the period	-	-	-	(103)	-	(103)	645	542	396	938
Transfer of net depreciation on revalued property	-	-	-	-	(91)	(91)	91	-	-	-
Dividend	-	-	-	-	-	-	(14,853)	(14,853)	-	(14,853)
Balances at 31 March 2011	220,000	(14,793)	28,160	415	6,766	35,341	5,281	245,829	61,451	307,280

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ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			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 profit for the year	-	-	-	-	-	-	20,772	20,772	2,732	23,504
Changes on remeasurement of available for sale investments	-	-	-	(5,192)	-	(5,192)	-	(5,192)	31	(5,161)
Transfers for recognition of (gains)/losses on disposal of available for sale investments	-	-	-	(2,123)	-	(2,123)	2	(2,121)	(15)	(2,136)
Total comprehensive income for the year	-	-	-	(7,315)	-	(7,315)	20,774	13,459	2,748	16,207
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Purchase of treasury stock	-	(6,630)	-	-	-	-	-	(6,630)	-	(6,630)
Transfer to legal reserves	-	-	2,162	-	-	2,162	(2,162)	-	-	-
Dividend	-	-	-	-	-	-	(13,170)	(13,170)	-	(13,170)
Directors' remuneration	-	-	-	-	-	-	(864)	(864)	-	(864)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(2,287)	(2,287)
Balances at 31 December 2010	220,000	(14,793)	28,160	518	6,857	35,535	19,398	260,140	61,055	321,195

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2010

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	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 profit for the period	-	-	-	-	-	-	4,506	4,506	925	5,431
Changes on remeasurement of available for sale investments	-	-	-	(682)	-	(682)	-	(682)	19	(663)
Transfers for recognition of losses on disposal of available for sale investment	-	-	-	66	-	66	-	66	23	89
Total comprehensive income for the period	-	-	-	(616)	-	(616)	4,506	3,890	967	4,857
Transfer of net depreciation on revalued property	-	-	-	-	(91)	(91)	91	-	-	-
Dividend	-	-	-	-	-		(13,174)	(13,174)	-	(13,174)
Directors remuneration	-	-	-	-	-	-	(864)	(864)	-	(864)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(2,287)	(2,287)
Balances at 31 March 2010	220,000	(8,163)	25,998	7,217	7,130	40,345	5,015	257,197	59,274	316,471

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2011

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 31 March 2011 (reviewed)	For the financial year-to-date 31 March 2010 (reviewed)	For the year ended 31 December 2010 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**63,759**	84,066	246,356
Reinsurance premiums paid		**(1,717)**	(1,784)	(27,669)
Claims paid		**(65,514)**	(86,117)	(228,853)
Reinsurance receipts in respect of claims		**6,281**	410	16,289
Investment income		**508**	566	1,358
Interest received		**1,490**	1,231	8,181
Dividends received		**683**	1,580	1,617
Operating expenses paid		**(8,365)**	(6,678)	(30,186)
Other income/expenses, net		**(354)**	2,189	1,486
Insurance deposits received (paid)		**2,140**	(1,342)	2,947
Purchase of trading investments		**(30,852)**	(16,967)	(184,976)
Sale of trading investments		**26,458**	6,763	152,752
Directors' remuneration paid		**-**	-	(864)
Net cash used in operating activities	17	**(5,483)**	(16,083)	(41,562)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**14,998**	35,576	182,425
Purchase of investments		**(2,373)**	(51,202)	(203,677)
Interest received		**1,870**	1,283	6,553
Dividends Received		**36**	37	515
Investment income received		**2**	542	4,705
Collateralised cash deposits received (paid)		**37**	(8,895)	(2,163)
Purchase of property and equipment		**(468)**	(180)	(829)
Purchase of intangible assets		**(28)**	(78)	(254)
Investment in associate		**(375)**	-	-
Net cash provided by (used in) investing activities		**13,699**	(22,917)	(12,725)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings		**40,000**	-	-
Dividends paid		**-**	-	(12,819)
Purchase of treasury shares		**-**	-	(6,630)
Net cash provided by (used in) financing activities		**40,000**	-	(19,449)
Net increase (decrease) in cash and cash equivalents		**48,216**	(39,000)	(73,736)
Effect of exchange rate on cash and cash equivalents		**(18)**	53	(20)
Cash and cash equivalents, beginning of period		**280,557**	354,313	354,313
Cash and cash equivalents, end of period		**328,755**	315,366	280,557

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 THREE MONTHS ENDED 31 MARCH 2011

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 2010.

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2010 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 2011, including IAS 24 (Revised) Related Party Disclosures and Improvement to IFRS (2010). The adoption of these Standards and interpretation does not have any material impact on the Financial Statements.

The following standards and interpretations have been issued but not yet effective for 2011:

IFRS 9 'Financial Instruments'

Standard issued November 2009 (IFRS 9 (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 (IFRS 9 (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 available-for-sale debt investments will therefore have to be recognised in profit or loss.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

The Group did not early-adopt new or amended standards in 2011.

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 2010. 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 2010.

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 55% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

4. INVESTMENTS

	US$ '000		
	31 March 2011	31 December 2010	31 March 2010
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**102,482**	102,271	66,959
	102,482	102,271	66,959
Designated at fair value on initial recognition			
Debt Securities			
- Other investment grade	**23,405**	24,497	29,822
- Other	**6,084**	5,821	5,681
	29,489	30,318	35,503
Held-to-maturity			
Debt securities			
- Supra-Nationals and OECD country Governments	**59,194**	59,225	72,333
- Other investment grade	**46,572**	53,606	58,385
- Non OECD country government	**2,657**	2,658	-
	108,423	115,489	130,718
Available-for-sale			
Debt securities			
- Supra-nationals and OECD country governments	**25,401**	27,440	10,756
- Other investment grade	**35,980**	39,211	30,332
- Non-OECD country governments	**2,763**	2,736	2,652
- Other	**10,950**	11,280	14,044
Common stock of listed companies	**8,054**	718	1,576
Common stock of unlisted companies	**10,810**	12,530	19,404
Other	**22,079**	21,527	22,052
	116,037	115,442	100,816
Investment in associate	**375**	-	-
	356,806	363,520	333,996

Debt securities amounting to US$ 68.2 million (31 December 2010 US$ 66.3 million; 31 March 2010 US$ 60.0 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 49.7 million (2010: Nil) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	31 March 2011	31 December 2010	31 March 2010
Accrued insurance premiums	**166,743**	118,704	165,254
Accrued interest	**2,146**	2,811	2,951
	168,889	121,515	168,205

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	31 March 2011	31 December 2010	31 March 2010
General insurance business			
- Claims outstanding	**44,316**	44,871	52,718
- Unreported claims	**18,984**	11,112	4,484
- Deferred retrocession premium reserve	**14,428**	3,473	18,872
	77,728	59,456	76,074
Life insurance business			
- Claims outstanding	**520**	520	520
	520	520	520
	78,248	59,976	76,594

7. OTHER ASSETS

	US$ '000		
	31 March 2011	31 December 2010	31 March 2010
Intangible assets :			
- Present value of future profits (PVFP)	**5,000**	5,000	5,000
- Computer software	**10,396**	10,366	10,025
- Goodwill	**1,893**	1,893	1,893
	17,289	17,259	16,918
Less: accumulated amortisation/ impairment	**(13,941)**	(12,622)	(11,702)
Net intangible assets	**3,348**	4,637	5,216
Other assets :			
- Collateralised cash deposits	**6,449**	6,486	13,218
- Prepayments and other receivables	**18,881**	13,507	16,111
	25,330	19,993	29,329
	28,678	24,630	34,545

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000		
	31 March 2011	31 December 2010	31 March 2010
ASSETS			
Cash & cash equivalents	**11,572**	11,884	9,405
Accrued income	**36,184**	20,620	30,780
Insurance receivable	**9,651**	9,725	9,794
Insurance deposits	**12,904**	12,886	13,682
Deferred acquisition costs	**8,582**	4,583	7,233
Deferred Wakala fees	**5,135**	2,123	4,627
	84,028	61,821	75,521
LIABILITIES			
Accounts payable	**14,228**	9,809	13,078
Other liabilities	**2**	2	50
	14,230	9,811	13,128
TAKAFUL FUND			
Unearned contributions	**32,472**	14,602	26,697
Outstanding claims	**31,514**	30,288	19,706
Unreported losses	**28,637**	29,949	28,181
	92,623	74,839	74,584
Accumulated deficit	**(22,825)**	(22,829)	(12,191)
	84,028	61,821	75,521

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 31 March 2011	Year ended 31 December 2010	Year-to-date 31 March 2010
Gross contributions	**26,897**	36,164	19,259
Outward reinsurance premiums	**(1,349)**	(1,523)	(161)
Unearned contributions	**(17,875)**	7,301	(4,810)
Net earned contributions	**7,673**	41,942	14,288
Reported losses	**(5,512)**	(35,941)	(9,333)
Provision for unreported losses	**1,312**	(3,430)	(1,477)
Claim and related expenses	**(4,200)**	(39,371)	(10,810)
Policy acquisition costs	**(6,015)**	(10,376)	(6,676)
Deferred policy acquisition costs	**3,999**	959	3,610
Policy acquisition costs	**(2,016)**	(9,417)	(3,066)
Fee payable to operator (Wakala fee)	**(1,326)**	(6,400)	(2,773)
Investment income	**81**	272	61
Other expenses & provisions	**(208)**	(168)	(202)
Surplus (deficit) for the period	**4**	(13,142)	(2,502)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	31 March 2011	31 December 2010	31 March 2010
General insurance business			
Claims outstanding	**288,896**	290,671	279,173
Unreported losses	**158,208**	144,304	145,001
Unearned premiums	**164,804**	91,167	176,766
	611,908	526,142	600,940
Life insurance business			
Claims outstanding	**16,947**	15,713	18,673
Unreported losses	**70,365**	70,311	71,426
Unearned premiums	**20,519**	17,162	14,797
	107,831	103,186	104,896
	719,739	629,328	705,836

10. OTHER LIABILITIES

	US$ '000		
	31 March 2011	31 December 2010	31 March 2010
Dividends payable	**16,106**	1,260	16,388
Post employment benefits	**15,563**	15,319	14,639
Reinsurance premiums accrued	**10,944**	8,619	11,179
Accrued expenses	**5,366**	4,995	5,859
Employee share scheme	**3,812**	3,386	1,367
Accrual for scheme of arrangement fees	**538**	2,231	3,231
Other	**14,830**	10,638	17,094
	67,159	46,448	69,757

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 31 March 2011							
	Non-life					Life		Total
	Treaty				Facultative			
	Property	Engineering	Medical	Others		Short term	Long term	
REVENUES :								
Gross premiums written	59,769	13,511	2,814	32,637	10,107	12,477	769	132,084
Outward reinsurance premiums	(15,446)	(547)	-	(2,841)	(379)	292	(8)	(18,929)
Change in unearned premiums – gross	(44,871)	(9,945)	(730)	(16,146)	(1,900)	(6,027)	2,679	(76,940)
Change in unearned premiums – reinsurance	10,178	276	-	503	(1)	-	-	10,956
Net earned premiums	9,630	3,295	2,084	14,153	7,827	6,742	3,440	47,171
Investment income attributable to insurance funds	407	223	154	708	663	232	283	2,670
	10,037	3,518	2,238	14,861	8,490	6,974	3,723	49,841
COSTS AND EXPENSES :								
Gross claims paid	(9,616)	(2,222)	(3,127)	(9,530)	(4,270)	(6,849)	(1,772)	(37,386)
Claims recovered from reinsurers	4,127	116	7	1,615	416	-	-	6,281
Change in provision for outstanding claims - gross	1,916	1,007	(1,551)	1,093	931	239	(1,298)	2,337
Change in provision for outstanding claims - reinsurance	(149)	-	-	(137)	(359)	-	-	(645)
Change in provision for unreported losses – gross	(2,644)	(1,042)	2,964	(11,048)	(1,853)	223	-	(13,400)
Change in provision for unreported losses - reinsurance	420	295	-	6,880	(5)	-	-	7,590
Claims and related expenses	(5,946)	(1,846)	(1,707)	(11,127)	(5,140)	(6,387)	(3,070)	(35,223)
Policy acquisition costs	(12,260)	(4,977)	(1,199)	(7,606)	(2,008)	72	18	(27,960)
Policy acquisition costs recovered from reinsurers	112	157	-	385	28	-	-	682
Change in deferred policy acquisition costs – gross	10,060	3,645	356	5,061	583	(36)	13	19,682
Change in deferred policy acquisition costs - reinsurance	(163)	(109)	-	134	-	-	-	(138)
Policy acquisition costs	(2,251)	(1,284)	(843)	(2,026)	(1,397)	36	31	(7,734)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	(397)	(397)
Operating expenses	(1,314)	(466)	(273)	(1,210)	(910)	(573)	(221)	(4,967)
Underwriting result	526	(78)	(585)	498	1,043	50	66	1,520

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

	US$ '000							
	Year ended 31 December 2010							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engg.	Medical	Others				
REVENUES :								
Gross premiums written	76,546	26,211	14,324	57,082	32,854	25,733	6,780	239,530
Outward reinsurance premiums	(2,157)	(2,059)	-	(21,504)	(1,888)	(939)	879	(27,668)
Change in unearned premiums - gross	(3,804)	(883)	16,269	5,440	777	637	(10,594)	7,842
Change in unearned premiums - reinsurance	(8)	141	-	2,492	-	-	-	2,625
Net earned premiums	70,577	23,410	30,593	43,510	31,743	25,431	(2,935)	222,329
Investment income attributable to insurance funds	2,681	1,472	1,015	4,555	4,367	1,637	1,861	17,588
	73,258	24,882	31,608	48,065	36,110	27,068	(1,074)	239,917
COSTS AND EXPENSES :								
Gross claims paid	(39,056)	(9,787)	(26,341)	(38,441)	(35,334)	(25,128)	(9,594)	(183,681)
Claims recovered from reinsurers	642	652	-	7,994	7,001	703	(703)	16,289
Change in provision for outstanding claims – gross	2,623	(4,908)	(11,766)	(1,255)	5,184	(655)	6,870	(3,907)
Change in provision for outstanding claims - reinsurance	(637)	246	(218)	104	(7,585)	-	-	(8,090)
Change in provision for unreported losses – gross	(3,272)	3,886	11,611	(9,172)	5,299	188	1,314	9,854
Change in provision for unreported losses - reinsurance	(44)	(582)	-	7,764	(100)	-	-	7,038
Claims and related expenses	(39,744)	(10,493)	(26,714)	(33,006)	(25,535)	(24,892)	(2,113)	(162,497)
Policy acquisition costs	(14,622)	(8,979)	(1,636)	(15,032)	(5,688)	(48)	1,499	(44,506)
Policy acquisition costs recovered from reinsurers	194	542	-	281	(71)	(5)	5	946
Change in deferred policy acquisition costs - gross	(24)	410	(1,404)	(43)	(646)	(381)	9	(2,079)
Change in deferred policy acquisition costs - reinsurance	2	(65)	-	(184)	-	-	-	(247)
Policy acquisition costs	(14,450)	(8,092)	(3,040)	(14,978)	(6,405)	(434)	1,513	(45,886)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	2,265	2,265
Operating expenses	(5,749)	(2,081)	(1,238)	(5,329)	(3,815)	(2,455)	(891)	(21,558)
Underwriting result	13,315	4,216	616	(5,248)	355	(713)	(300)	12,241

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

	US$ '000							
	Period ended 31 March 2010							
	Non-life					Life		Total
	Treaty				Facultative			
	Property	Engineering	Medical	Others		Short term	Long term	
REVENUES :								
Gross premiums written	34,051	16,365	2,442	61,578	11,628	10,968	4,652	141,684
Outward reinsurance premiums	(719)	(1,238)	-	(19,694)	(321)	198	(10)	(21,784)
Change in unearned premiums - gross	(22,760)	(10,409)	9,201	(41,249)	(2,651)	(7,593)	-	(75,461)
Change in unearned premiums - reinsurance	296	773	-	16,933	21	-	-	18,023
Net earned premiums	10,868	5,491	11,643	17,568	8,677	3,573	4,642	62,462
Investment income attributable to insurance funds	523	271	207	822	849	221	338	3,231
	11,391	5,762	11,850	18,390	9,526	3,794	4,980	65,693
COSTS AND EXPENSES :								
Gross claims paid	(7,816)	(2,000)	(7,858)	(9,854)	(20,024)	(4,103)	(9,063)	(60,718)
Claims recovered from reinsurers	224	170	-	711	(532)	-	-	573
Change in provision for outstanding claims – gross	(1,081)	(1,051)	(5,298)	(143)	8,863	(332)	3,553	4,511
Change in provision for outstanding claims - reinsurance	(166)	108	-	(26)	(140)	-	-	(224)
Change in provision for unreported losses – gross	(1,151)	1,124	2,719	(2,890)	7,176	1,586	201	8,765
Change in provision for unreported losses - reinsurance	9	(314)	-	1,560	(167)	-	-	1,088
Claims and related expenses	(9,981)	(1,963)	(10,437)	(10,642)	(4,824)	(2,849)	(5,309)	(46,005)
Policy acquisition costs	(10,237)	(5,993)	(2,229)	(11,042)	(1,951)	426	(196)	(31,222)
Policy acquisition costs recovered from reinsurers	181	450	-	211	3	-	-	845
Change in deferred policy acquisition costs - gross	7,736	3,851	971	7,198	210	(221)	15	19,760
Change in deferred policy acquisition costs - reinsurance	(121)	(312)	-	(567)	-	-	-	(1,000)
Policy acquisition costs	(2,441)	(2,004)	(1,258)	(4,200)	(1,738)	205	(181)	(11,617)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	848	848
Operating expenses	(938)	(555)	(764)	(1,516)	(1,156)	(728)	(518)	(6,175)
Underwriting result	(1,969)	1,240	(609)	2,032	1,808	422	(180)	2,744

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 31 Mach 2011			Financial year-to-date 31 March 2010	Year ended 31 December 2010
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**197**	**120**	**317**	405	1,304
- Others	**1,365**	**1,392**	**2,757**	3,270	13,128
Dividends	**380**	**321**	**701**	285	2,137
Realised gains (loss)					
- Trading investments	**1,010**	**655**	**1,665**	676	2,500
- Investment designated at fair value through profit or loss	**55**	**33**	**88**	969	1,922
- Available-for-sale	**760**	**463**	**1,223**	156	7,664
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	**(541)**	**259**	**(282)**	1,556	9,252
- Investments designated at fair value through profit or loss	**(99)**	**(60)**	**(159)**	(818)	(1,310)
Impairment loss					
- available-for-sale	**(282)**	**(291)**	**(573)**	-	(1,408)
Other	**(175)**	**(111)**	**(286)**	5	(1,157)
	2,670	**2,781**	**5,451**	6,504	34,032

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 31 March 2011			Financial year-to-date 31 March 2010	Year ended 31 December 2010
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**4,132**	**2,502**	**6,634**	7,800	27,614
General and administration	**835**	**1,052**	**1,887**	2,370	7,880
	4,967	**3,554**	**8,521**	10,170	35,494

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 31 March 2011	Financial year-to-date 31 March 2010	Year ended 31 December 2010
Fees on managing Islamic reinsurance operations	**1,312**	2,773	6,400
Third party administration services	**429**	1,106	4,468
Software sales and related services	**258**	165	1,180
Other	**236**	26	746
	2,235	4,070	12,794

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 31 March 2011	Financial year-to-date 31 March 2010	Year ended 31 December 2010
Amortisation / impairment of intangible assets	**1,250**	250	1,000
Provision for doubtful receivable & deposits	**-**	-	1,446
Foreign exchange (gain) loss	**(59)**	68	1,355
Other	**849**	343	238
	2,040	661	4,039

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 31 March 2011	Financial year-to-date 31 March 2010	Year ended 31 December 2010
Weighted average number of shares outstanding	'000	**198,032**	210,790	206,900
Net profit	US$'000	**645**	4,506	20,772
Earnings per share	US$	**0.00**	0.02	0.10

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

	US$ '000		
	Financial year-to-date 31 March 2011	Financial year-to-date 31 March 2010	Year ended 31 December 2010
Profit for the period	**880**	5,431	23,504
Increase (decrease) in insurance funds	**20,013**	19,124	(15,402)
Change in insurance receivable/ payable, net	**(17,238)**	11,031	2,049
Change in accrued income	**(684)**	(40,493)	6,197
Change in other assets/liabilities, net	**(8,454)**	(11,176)	(57,910)
Net cash used in operating activities	**(5,483)**	(16,083)	(41,562)

18. PRINCIPAL SUBSIDIARIES & JOINT VENTURES

At 31 March 2011, 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	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 2010. The Company continues to hold 50% of the Joint Venture Hardy Arig Insurance Management W.L.L. which is incorporated in the Kingdom of Bahrain.

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 to directors and key management personnel are as follows:

	US$ '000		
	Financial year-to-date 31 March 2011	Financial year-to-date 31 March 2010	Year ended 31 December 2010
i) Directors			
- Remuneration	**-**	-	846
- Allowances	**27**	29	96
ii) Key management compensation			
- Salaries and other short-term employee benefits	**371**	530	2,093
- Post employment benefits	**51**	53	209
- Share-based compensation	**161**	109	1,018
iii) Balances payable (net)			
Key management			
- Maximum balance	**4,861**	3,504	4,618
- Closing balance	**4,861**	3,504	4,618

20. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in investee companies held as part of its investment portfolios amounting to US$ 7.2 million (31 December 2010: US$ 7.5 million; 31 March 2010: US$ 7 million). The Group also has commitments of US$ 15.8 million (31 December 2010: US$ 15.8 million; 31 March 2010: 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$ 12.3 million (31 December 2010: US$ 12.3 million; 31 March 2010: US$ 6.8 million).

APPENDIX I

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS PER CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010

INVESTMENTS

Investment securities are classified as 'at fair value through profit or loss', which includes financial assets held for trading and those designated at fair value on initial recognition, 'available for sale', 'held to maturity' or 'loans and receivables'. Management determines the appropriate classification of investments at the time of purchase.

Securities are classified as at fair value through profit or loss if they are acquired for the purpose of generating a profit from short-term fluctuations in price or if so designated by management. Derivative financial instruments that are not designated as accounting hedge are classified as at fair value through profit or loss. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables. Securities intended to be held for an indefinite period of time and those that are not classified as at fair value through profit or loss, held to maturity or loans and receivables, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale.

All purchases and sales of investments are recognised at the settlement date. All investment assets are recognised initially at cost. After initial recognition, investments are valued using principles described below.

Investments at fair value through profit or loss and investments available for sale are carried at fair value. Held to maturity investments and loans and receivables are carried at amortised cost, less any adjustment necessary for impairment.

The fair value of publicly traded investments is based on quoted market values at the statement of financial position date. Fair value of managed funds is based on net asset value quoted by the fund manager and fair values of other investments are estimated at realisable values. Where it is not possible to estimate the fair value, the asset is carried at cost less impairment, if any.

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

A provision is made in respect of a financial asset that is impaired if its carrying amount is greater than its estimated recoverable amount.

Provisions for assets carried at amortised cost are calculated as the difference between the carrying amount of the assets and the present value of expected future cash flows discounted at their original effective interest rate. By comparison, the recoverable amount of an instrument carried at cost is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

In the case of available for sale financial assets, the Group assesses at each statement of financial position date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment is recognised in income. Evidence of impairment considers among other factors significant or prolonged decline in market values and financial difficulties of the issues. Impairment recognised is not reversed subsequently except in case of debt instruments.

INVESTMENT IN ASSOCIATED COMPANIES

Investments in associated companies are accounted for using the equity method. Associated companies are defined as those companies over which the Group is able to exercise significant influence, being the power to participate in the financial and operating policy decisions of the company, but not the power to control such policy decisions. Generally, these are companies in which the Group owns 20% to 50% of the voting shares.

INVESTMENT INCOME

Investment income comprises interest and dividend receivable for the financial year. Gains and losses arising from changes in the fair value of investments at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale investments are recognised in other comprehensive income and carried in investment revaluation income as part of equity. When available for sale investments are disposed or are impaired, the related fair value adjustments are included in the income statement.

Investment income arising from insurance business investment assets are allocated to the underwriting results of insurance businesses based on the proportion of their respective insurance funds to shareholders' funds during the financial year.

FOREIGN CURRENCY TRANSLATION

Transactions denominated in currencies other than U.S. Dollars are recorded at the rates ruling at the date of the transaction. All monetary and non-monetary assets carried at fair value denominated in currencies other than U.S. Dollars are translated at year-end exchange rates.

Unrealised gains or losses on translation are taken to income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

Unrealised gains and losses on translation of financial statements of subsidiaries are included in equity. Other foreign currency gains and losses are taken to income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

In the ordinary course of its business, the Group uses forward foreign exchange contracts as fair value hedges to protect its exposures in respect of foreign currency denominated investments and insurance liabilities and these contracts are carried at fair value.

Where a fair value hedge meets the conditions prescribed by International Financial Reporting Standards for qualifying as an effective hedge, gains or losses from remeasuring forward foreign exchange contracts and gains or losses on hedged assets attributable to the hedged risk are recognised in income.

Where the hedge is not effective, gains or losses from remeasuring forward foreign exchange contracts are recognised in income. Gains or losses on hedged assets are recognised in income except in respect of non-monetary available for sale investments, which are taken to equity until they are disposed.

The gain or losses from remeasuring insurance liabilities and related foreign exchange contracts are recognised in income.

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 31-March-2011		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	102,594	226,161	**328,755**
Total Cash & Cash Equivalents	**102,594**	**226,161**	**328,755**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	2,535	99,947	**102,482**
	2,535	**99,947**	**102,482**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	23,405	**23,405**
- Other	-	6,084	**6,084**
	-	**29,489**	**29,489**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	59,194	**59,194**
- Other Investment grade	5,006	41,566	**46,572**
- Non-OECD country government	-	2,657	**2,657**
	5,006	**103,417**	**108,423**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	25,401	**25,401**
- Other Investment grade	4,985	30,995	**35,980**
- Non-OECD country governments	1,278	1,485	**2,763**
- Other	3,483	7,467	**10,950**
Common stock of listed companies	-	8,054	**8,054**
Common stock of unlisted companies	-	10,810	**10,810**
Other (see note)	2,032	20,047	**22,079**
	11,778	104,259	**116,037**
Investment in Associate	-	375	**375**
	-	**375**	**375**
Total Investments	**19,319**	**337,487**	**356,806**

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$ 3,452,000 (in U.A.E.: US$ 3,000).