Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the three months ended 31 March 2010

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Independent auditors' report on review of condensed consolidated interim financial statements

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

12 May 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 31 March 2010, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended (condensed consolidated interim financial statements). The Board of Directors of the Company is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements 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 condensed consolidated interim financial statements 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 condensed consolidated interim financial statements are 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 31 MARCH 2010

(In thousands of U.S. Dollars)

	Note	31 March 2010 (reviewed)	31 December 2009 (audited)	31 March 2009 (reviewed)
ASSETS				
Cash and cash equivalents		**315,366**	354,313	376,534
Investments	4	**333,996**	306,103	268,008
Accrued income	5	**168,205**	127,712	139,996
Insurance receivables		**72,780**	75,960	64,720
Insurance deposits		**69,925**	68,395	62,556
Deferred policy acquisition costs		**41,042**	22,296	36,910
Reinsurers' share of technical provisions	6	**76,594**	57,709	64,673
Other assets	7	**34,545**	26,423	19,211
Takaful participants' assets	8	**75,521**	65,745	50,960
Property & equipment		**27,593**	27,627	27,491
		1,215,567	1,132,283	1,111,059
LIABILITIES				
Technical provisions	9	**705,836**	647,551	645,921
Insurance payables		**35,276**	27,425	30,994
Borrowings		**12,706**	12,706	37,823
Other liabilities	10	**69,757**	50,917	48,646
Takaful fund and participants' liabilities	8	**75,521**	65,745	50,960
		899,096	804,344	814,344
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(8,163)**	(8,163)	(7,889)
Reserves		**40,345**	41,052	32,937
Retained earnings (accumulated deficit)		**5,015**	14,456	(3,999)
		257,197	267,345	241,049
Non-controlling interests		**59,274**	60,594	55,666
		316,471	327,939	296,715
		1,215,567	1,132,283	1,111,059

These consolidated interim condensed financial statements were approved by the Board of Directors on 12 May 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 THREE MONTH PERIOD ENDED 31 MARCH 2010

(In thousands of U.S. Dollars)

	Note		For the financial year-to-date 31 March 2010 (reviewed)	For the financial year-to-date 31 March 2009 (reviewed)	For the year ended 31 December 2009 (audited)
Gross premiums written			**141,684**	111,812	279,355
Net earned premiums			**62,462**	59,722	264,023
Claims and related expenses			**(45,157)**	(40,993)	(194,357)
Policy acquisition costs			**(11,617)**	(10,153)	(53,150)
Investment income (loss) attributable to insurance funds	12		**2,893**	(44)	14,602
Operating expenses	13		**(6,175)**	(4,854)	(20,488)
Underwriting result	11		**2,406**	3,678	10,630
Investment income (loss) attributable to shareholders' funds	12		**3,611**	(229)	19,086
Operating expenses – non underwriting activities	13		**(3,995)**	(3,618)	(14,214)
Borrowing cost			**-**	(475)	(923)
Other income	14		**4,070**	3,118	16,427
Other expenses and provisions	15		**(661)**	(1,031)	(4,600)
Profit for the period			**5,431**	1,443	26,406
Attributable to:					
Non-controlling interests			**925**	(44)	4,553
Shareholders of Parent Company			**4,506**	1,487	21,853
			5,431	1,443	26,406
Earnings per share attributable to shareholders :	16	US$	**0.02**	0.01	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 THREE MONTH PERIOD ENDED 31 MARCH 2010

(In thousands of U.S. Dollars)

	For the financial year-to-date 31 March 2010 (reviewed)	For the financial year-to-date 31 March 2009 (reviewed)	For the year ended 31 December 2009 (audited)
Profit for the period	**5,431**	1,443	26,406
Other comprehensive income			
Changes on remeasurement of available for sale assets	**(663)**	297	5,090
Transfers for recognition of losses/(gains) on disposal of available for sale assets	**89**	(219)	1,523
Other comprehensive (loss) income for the period	**(574)**	78	6,613
Total comprehensive income for the period	**4,857**	1,521	33,019
Attributable to:			
Non-controlling interests	**967**	51	4,979
Shareholders of Parent Company	**3,890**	1,470	28,040
	4,857	1,521	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.)

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

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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 THREE MONTH PERIOD ENDED 31 MARCH 2009

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				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	-	-	-	-	-	-	1,487	1,487	(44)	1,443
Changes on remeasurement of available for sale investments	-	-	-	199	-	199	-	199	98	297
Transfers for recognition of gains on disposal of available for sale investment	-	-	-	(216)	-	(216)	-	(216)	(3)	(219)
Total comprehensive (loss) income for the period	-	-	-	(17)	-	(17)	1,487	1,470	51	1,521
Transfer of net depreciation on revalued property	-	-	-	-	(91)	(91)	91	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 March 2009	220,000	(7,889)	23,813	1,631	7,493	32,937	(3,999)	241,049	55,666	296,715

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 THREE MONTH PERIOD ENDED 31 MARCH 2010

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 31 March 2010 (reviewed)	For the financial year-to-date 31 March 2009 (reviewed)	For the year ended 31 December 2009 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**84,066**	106,791	241,083
Reinsurance premiums paid		**(1,784)**	(2,780)	(8,640)
Claims paid		**(86,117)**	(102,986)	(207,147)
Reinsurance receipts in respect of claims		**410**	1,283	8,562
Investment income (loss)		**566**	15	(6,681)
Interest received		**1,231**	1,738	8,501
Dividends received		**1,580**	306	1,470
Interest paid		**-**	(1,036)	(1,601)
Operating expenses paid		**(6,678)**	(4,108)	(24,954)
Other income/expenses, net		**2,189**	3,075	678
Insurance deposits paid		**(1,342)**	(182)	(6,098)
Purchase of trading investments		**(16,967)**	(13,811)	(98,667)
Sale of trading investments		**6,763**	23,810	100,788
Net cash (used in) provided by operating activities	17	**(16,083)**	12,115	7,294
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**35,576**	33,700	179,602
Purchase of investments		**(51,202)**	(42,125)	(187,472)
Interest received		**1,283**	2,056	7,040
Dividend received		**37**	91	744
Investment income received		**542**	55	2,823
Collateralised cash deposits (paid) received		**(8,895)**	(22)	232
Purchase of property & equipment		**(180)**	(1,651)	(2,405)
Purchase of intangible assets		**(78)**	(1)	(360)
Net cash (used in) provided by investing activities		**(22,917)**	(7,897)	204
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**-**	(16)	(31)
Purchase of treasury shares		**-**	-	(274)
Net borrowings		**-**	(30,437)	(55,678)
Net cash used in financing activities		**-**	(30,453)	(55,983)
Net decrease in cash and cash equivalents		**(39,000)**	(26,235)	(48,485)
Effect of exchange rate on cash and cash equivalents		**53**	(180)	(151)
Cash and cash equivalents, beginning of period		**354,313**	402,949	402,949
Cash and cash equivalents, end of period		**315,366**	376,534	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 THREE MONTH PERIOD ENDED 31 MARCH 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		
	31 March 2010	31 December 2009	31 March 2009
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**66,959**	53,953	47,204
	66,959	53,953	47,204
Designated at fair value on initial recognition			
Debt securities			
- Other Investment grade	**29,822**	30,484	-
- Other	**5,681**	5,101	10,440
	35,503	35,585	10,440
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**72,333**	64,412	57,410
- Other investment grade	**58,385**	54,425	37,091
	130,718	118,837	94,501
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**10,756**	7,766	34,414
- Other investment grade	**30,332**	30,235	27,200
- Non-OECD country governments	**2,652**	3,546	3,895
- Other	**14,044**	13,455	12,722
Common stock of listed companies	**1,576**	1,814	1,888
Common stock of unlisted companies	**19,404**	19,383	13,106
Other	**22,052**	21,529	22,638
	100,816	97,728	115,863
	333,996	306,103	268,008

Debt securities amounting to US$ 60 million (31 December 2009 US$ 45.0 million; 31 March 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; 31 March 2009: 32.1 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	31 March 2010	31 December 2009	31 March 2009
Accrued insurance premiums	**165,254**	124,442	136,901
Accrued interest	**2,951**	3,270	3,095
	168,205	127,712	139,996

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	31 March 2010	31 December 2009	31 March 2009
General insurance business			
- Claims outstanding	**53,156**	53,504	56,856
- Unreported general insurance claims	**4,484**	2,838	5,317
- Deferred retrocession premium reserve	**18,872**	847	2,360
	76,512	57,189	64,533
Life insurance business			
- Life insurance claims outstanding	**82**	520	140
	82	520	140
	76,594	57,709	64,673

7. OTHER ASSETS

	US$ '000		
	31 March 2010	31 December 2009	31 March 2009
Intangible assets :			
- Goodwill	**1,893**	1,893	1,893
- Present value of future profits (PVFP)	**5,000**	5,000	5,000
- Computer software	**10,025**	10,267	10,004
	16,918	17,160	16,897
Less: accumulated amortisation	**(11,702)**	(11,404)	(10,557)
Net intangible assets	**5,216**	5,756	6,340
Other assets :			
- Collateralised cash deposits	**13,218**	4,323	4,577
- Prepayments and other receivables	**16,111**	16,344	8,294
	29,329	20,667	12,871
	34,545	26,423	19,211

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000		
	31 March 2010	31 December 2009	31 March 2009
ASSETS			
Cash & cash equivalents	**9,405**	9,483	6,094
Accrued income	**30,780**	30,428	20,226
Insurance receivable	**9,794**	8,019	6,536
Insurance deposits	**13,682**	9,810	7,720
Deferred acquisition costs	**7,233**	3,625	6,174
Deferred Wakala fees	**4,627**	4,380	4,210
	75,521	65,745	50,960
LIABILITIES			
Accounts payable	**13078**	13,881	10,067
Other liabilities	**50**	85	63
	13,128	13,966	10,130
TAKAFUL FUND			
Unearned contributions	**26,697**	21,904	21,019
Outstanding claims	**19,706**	12,757	9,494
Unreported losses	**28,181**	26,805	14,314
	74,584	61,466	44,827
Accumulated deficit	**(12,191)**	(9,687)	(3,997)
	75,521	65,745	50,960

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 31 March 2010	Year ended 31 December 2009	Year-to-date 31 March 2009
Gross contributions	**19,259**	48,669	13,900
Outward reinsurance premiums	**(161)**	(1,491)	(290)
Unearned contributions	**(4,810)**	(6,261)	(5,423)
Net earned contributions	**14,288**	40,917	8,187
Reported losses	**(9,333)**	(18,319)	(5,136)
Provision for unreported losses	**(1,477)**	(14,117)	(1,060)
Claim and related expenses	**(10,810)**	(32,436)	(6,196)
Policy acquisition costs	**(6,676)**	(6,815)	(3,686)
Deferred policy acquisition costs	**3,610**	(202)	2,350
Policy acquisition costs	**(3,066)**	(7,017)	(1,336)
Fee payable to operator (Wakala fee)	**(2,773)**	(8,481)	(1,696)
Investment income	**61**	83	19
Other expenses & provisions	**(202)**	(141)	(363)
Deficit for the period	**(2,502)**	(7,075)	(1,385)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	31 March 2010	31 December 2009	31 March 2009
General insurance business			
Claims outstanding	**279,173**	283,257	265,154
Unreported losses	**145,001**	151,859	139,870
Unearned premiums	**176,766**	108,998	150,755
	600,940	544,114	555,779
Life insurance business			
Claims outstanding	**18,673**	22,162	13,499
Unreported losses	**71,426**	74,069	67,542
Unearned premiums	**14,797**	7,206	9,101
	104,896	103,437	90,142
	705,836	647,551	645,921

10. OTHER LIABILITIES

	US$ '000		
	31 March 2010	31 December 2009	31 March 2009
Accrued expenses	**5,859**	5,451	4,584
Post employment benefits	**14,639**	14,290	13,307
Accrual for scheme of arrangement fees	**3,231**	3,231	3,231
Reinsurance premiums accrued	**11,179**	11,179	11,733
Employee share scheme	**1,367**	1,370	622
Dividends payable	**16,388**	906	922
Other	**17,094**	14,490	14,247
	69,757	50,917	48,646

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

i) 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 2010							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engineering	Medical	Others				
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	457	237	181	717	742	221	338	2,893
	11,325	5,728	11,824	18,285	9,419	3,794	4,980	65,355
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	(2,035)	1,206	(635)	1,927	1,701	422	(180)	2,406

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

	US$ '000							
	Year ended 31 December 2009							
	Non-life					Life		
	Treaty				Facultative	Short term	Long term	Total
	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 31 March 2009							
	Non-life					Life		
	Treaty				Facultative			Total
	Property	Engineering	Medical	Others		Short term	Long term	
REVENUES :								
Gross premiums written	28,326	17,271	7,315	35,200	6,339	16,772	589	111,812
Outward reinsurance premiums	(908)	(863)	-	(366)	(404)	(225)	(3)	(2,769)
Change in unearned premiums - gross	(18,088)	(10,507)	(1,235)	(21,790)	1,080	535	(1)	(50,006)
Change in unearned premiums - reinsurance	170	342	-	175	(2)	-	-	685
Net earned premiums	9,500	6,243	6,080	13,219	7,013	17,082	585	59,722
Investment loss attributable to insurance funds	(7)	(4)	(3)	(11)	(13)	(3)	(3)	(44)
	9,493	6,239	6,077	13,208	7,000	17,079	582	59,678
COSTS AND EXPENSES :								
Gross claims paid	(6,765)	(2,205)	(3,708)	(4,548)	(7,721)	(6,253)	(2,844)	(34,044)
Claims recovered from reinsurers	460	219	-	222	395	(13)	-	1,283
Change in provision for outstanding claims – gross	640	(692)	(22)	331	8,398	(1,149)	1,598	9,104
Change in provision for outstanding claims - reinsurance	(195)	84	-	(131)	(798)	62	-	(978)
Change in provision for unreported losses – gross	(620)	(1,366)	(1,179)	(789)	(3,029)	(7,077)	6	(14,054)
Change in provision for unreported losses - reinsurance	(114)	(69)	-	(2,950)	769	-	-	(2,364)
Claims and related expenses	(6,594)	(4,029)	(4,909)	(7,865)	(1,986)	(14,430)	(1,240)	(41,053)
Policy acquisition costs	(9,697)	(5,645)	(1,335)	(9,589)	(1,326)	(706)	4	(28,294)
Policy acquisition costs recovered from reinsurers	366	334	-	832	6	-	-	1,538
Change in deferred policy acquisition costs - gross	6,312	3,727	786	6,405	(267)	(142)	11	16,832
Change in deferred policy acquisition costs - reinsurance	(58)	(114)	-	(57)	-	-	-	(229)
Policy acquisition costs	(3,077)	(1,698)	(549)	(2,409)	(1,587)	(848)	15	(10,153)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	60	60
Operating expenses	(825)	(647)	(334)	(1,365)	(822)	(452)	(409)	(4,854)
Underwriting result	(1,003)	(135)	285	1,569	2,605	1,349	(992)	3,678

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 31 March 2010			Financial year-to-date 31 March 2009	Year ended 31 December 2009
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	226	179	405	322	775
- Others	1,531	1,739	3,270	3,314	15,021
Dividends	142	143	285	397	2,214
Realised gains (loss)					
- Trading investments	385	291	676	(3,596)	(7,325)
- Investment designated at fair value through profit or loss	540	429	969	(2,168)	(4,703)
- Available for sale	99	57	156	379	3,408
(Loss) gain on remeasurement					
- Trading investments	498	1,058	1,556	(684)	18,833
- Investments designated at fair value through profit or loss	(456)	(362)	(818)	2,974	8,678
Impairment loss-available for sale	-	-	-	(717)	(3,599)
Other	(72)	77	5	(494)	386
	2,893	3,611	6,504	(273)	33,688

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 31 March 2010			Financial year-to-date 31 March 2009	Year ended 31 December 2009
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**4,982**	**2,818**	**7,800**	6,878	26,886
General and administration	**1,193**	**1,177**	**2,370**	1,594	7,816
	6,175	**3,995**	**10,170**	8,472	34,702

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 31 March 2010	Financial year-to-date 31 March 2009	Year ended 31 December 2009
Third party administration services	**1,106**	1,224	6,105
Fees on managing Islamic reinsurance operations	**2,773**	1,696	8,481
Software sales and related services	**165**	208	1,293
Other	**26**	(10)	548
	4,070	3,118	16,427

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 31 March 2010	Financial year-to-date 31 March 2009	Year ended 31 December 2009
Provision for doubtful receivable & deposits	**-**	90	337
Intangible asset amortised	**250**	250	1,000
Foreign exchange loss	**68**	756	2,886
Other	**343**	(65)	377
	661	1,031	4,600

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 31 March 2010	Financial year-to-date 31 March 2009	Year ended 31 December 2009
Weighted average number of shares outstanding	'000	**210,790**	211,292	211,186
Net profit	US$'000	**4,506**	1,487	21,853
Earnings per share	US$	**0.02**	0.01	0.10

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

	US$ '000		
	Financial year-to-date 31 March 2010	Financial year-to-date 31 March 2009	Year ended 31 December 2009
Profit before minority interests	**5,431**	1,443	26,406
Increase in insurance funds	**19,124**	39,684	57,053
Change in insurance receivable/ payable, net	**11,031**	(5,003)	(18,745)
Change in accrued income	**(40,493)**	(37,129)	(24,845)
Change in other assets/liabilities, net	**(11,176)**	13,120	(32,575)
Net cash provided by operating activities	**(16,083)**	12,115	7,294

18. PRINCIPAL SUBSIDIARIES

At 31 March 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 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 paid to directors and key management personnel are as follows:

	US$ '000		
	Financial year-to-date 31 Mach 2010	Financial year-to-date 31 Mach 2009	Year ended 31 December 2009
i) Directors			
- Remuneration	864	-	-
- Allowances	29	31	99
ii) Key management compensation			
- Salaries and other short-term employee benefits	371	265	1,206
- Post employment benefits	53	43	638
- Share-based compensation	109	100	268
iii) Balances payable (net)			
Key management			
- Maximum balance	3,736	2,477	3,250
- Closing balance	3,736	2,477	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$ 7 million (31 December 2009: US$ 7.7 million; 31 March 2009: US$ 7.4 million). The Group also has commitments of US$ 15.8 million (31 December 2009: US$ 15.8 million; 31 March 2009: US$ 15.8 million) towards purchase of property.

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 31-March-2010		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	62,459	252,907	**315,366**
Total Cash & Cash Equivalents	**62,459**	**252,907**	**315,366**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	3,509	63,450	**66,959**
	3,509	**63,450**	**66,959**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	29,822	**29,822**
- Other	-	5,681	**5,681**
	-	**35,503**	**35,503**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	72,333	**72,333**
- Other Investment grade	5,009	53,376	**58,385**
	5,009	**125,709**	**130,718**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	10,756	**10,756**
- Other Investment grade	3,047	27,285	**30,332**
- Non-OECD country governments	1,166	1,486	**2,652**
- Other	5,808	8,236	**14,044**
Common stock of listed companies	-	1,576	**1,576**
Common stock of unlisted companies	-	19,404	**19,404**
Other (see note)	2,216	19,836	**22,052**
	12,237	**88,579**	**100,816**
Total Investments	**20,755**	**313,241**	**333,996**

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$ 3,950,000 (in U.A.E.: NIL).