Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the three months ended 31 March 2009

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Independent auditors' report on review of interim financial information

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

13 May 2009

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 2009, 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 are 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 31 MARCH 2009

(In thousands of U.S. Dollars)

	Note	31 March 2009 (reviewed)	31 December 2008 (audited)	31 March 2008 (reviewed)
ASSETS				
Cash and cash equivalents		**376,534**	402,949	391,703
Investments	4	**268,008**	271,948	317,906
Accrued income	5	**139,996**	102,867	119,542
Insurance receivables		**64,720**	63,646	71,320
Insurance deposits		**62,556**	62,341	56,976
Deferred policy acquisition costs		**36,910**	20,296	31,821
Reinsurers' share of technical provisions	6	**64,673**	67,577	75,152
Other assets	7	**19,211**	19,851	18,383
Takaful participants' assets	8	**50,960**	42,160	40,311
Fixed assets		**27,491**	26,126	19,686
		1,111,059	1,079,761	1,142,800
LIABILITIES				
Technical provisions	9	**645,921**	592,312	611,463
Insurance payables		**30,994**	34,922	32,287
Borrowings		**37,823**	68,384	51,465
Other liabilities	10	**48,646**	46,449	64,480
Takaful fund and participants' liabilities	8	**50,960**	42,160	40,311
		814,344	784,227	800,006
EQUITY				
Shareholders' equity				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(7,889)**	(7,889)	(6,885)
Reserves		**32,936**	33,045	42,645
(Accumulated deficit) retained earnings		**(3,998)**	(5,577)	26,113
		241,049	239,579	281,873
Non-controlling interests		**55,666**	55,955	60,921
		296,715	295,534	342,794
		1,111,059	1,079,761	1,142,800

These consolidated interim condensed financial statements were approved by the Board of Directors on 13 May 2009 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 2009

(In thousands of U.S. Dollars)

	Note		For the financial year-to-date 31 March 2009 (reviewed)	For the financial year-to-date 31 March 2008 (reviewed)	For the year ended 31 December 2008 (audited)
Gross premiums written			111,812	130,730	280,694
Net earned premiums			59,722	69,771	255,042
Claims and related expenses			(40,993)	(53,936)	(194,072)
Policy acquisition costs			(10,153)	(12,538)	(51,385)
Investment (loss) income attributable to insurance funds	12		(44)	1,885	(7,588)
Operating expenses	13		(4,854)	(4,188)	(17,864)
Underwriting result	11		3,678	994	(15,867)
Investment (loss) income attributable to shareholders' funds	12		(229)	1,308	(18,541)
Operating expenses – non underwriting activities	13		(3,618)	(3,992)	(14,530)
Borrowing cost			(475)	(650)	(2,151)
Other income	14		2,362	5,371	20,901
Other expenses and provisions	15		(275)	(434)	(3,104)
Profit (loss) for the period			1,443	2,597	(33,292)
Attributable to:					
Non-controlling interests			(44)	(359)	(4,724)
Shareholders of Parent Company			1,487	2,956	(28,568)
			1,443	2,597	(33,292)
Earnings (loss) per share attributable to shareholders :	16	US$	0.01	0.01	(0.13)

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 2009

(In thousands of U.S. Dollars)

	For the financial year-to-date 31 March 2009 (reviewed)	For the financial year-to-date 31 March 2008 (reviewed)	For the year ended 31 December 2008 (audited)
Profit (loss) for the period	1,443	2,597	(33,292)
Other comprehensive income			
Changes on remeasurement of available for sale assets	(137)	(2,399)	(10,708)
Transfers for recognition of gains / losses on disposal of available for sale assets	215	2	(2,055)
Other comprehensive income (loss) for the period	78	(2,397)	(12,763)
Total comprehensive income (loss) for the period	1,521	200	(46,055)
Attributable to:			
Non-controlling interests	51	(520)	(5,485)
Shareholders of Parent Company	1,470	720	(40,570)
	1,521	200	(46,055)

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
Total comprehensive (loss) income for the period	-	-	-	(18)	-	(18)	1,488	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	1,630	7,493	32,936	(3,998)	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 CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Accumulated deficit	Shareholders' equity	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Total comprehensive loss for the year	-	-	-	(11,565)	-	(11,565)	(29,005)	(40,570)	(5,485)	(46,055)
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Purchase of treasury shares	-	(1,341)	-	-	-	-	-	(1,341)	-	(1,341)
Dividends paid	-	-	-	-	-	-	(15,922)	(15,922)	-	(15,922)
Directors' remuneration paid	-	-	-	-	-	-	(1,026)	(1,026)	-	(1,026)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(3,284)	(3,284)
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
Parent company balances at 31 December 2008	220,000	(7,889)	23,747	2,423	7,584	33,754	(6,286)	239,579	-	239,579

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 2008
(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Shareholders' equity	Non-controlling interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Total comprehensive (loss) income for the period	-	-	-	(2,238)	-	(2,238)	2,958	720	(520)	200
Transfer of net depreciation on revalued property	-	-	-	-	(91)	(91)	91	-	-	-
Purchase of treasury shares	-	(337)	-	-	-	-	-	(337)	-	(337)
Dividends payable	-	-	-	-	-	-	(15,922)	(15,922)	-	(15,922)
Directors' remuneration payable	-	-	-	-	-	-	(1,026)	(1,026)	-	(1,026)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(3,283)	(3,283)
Balances at 31 March 2008	220,000	(6,885)	23,813	10,975	7,857	42,645	26,113	281,873	60,921	342,794

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 2009

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 31 March 2009 (reviewed)	For the financial year-to-date 31 March 2008 (reviewed)	For the year ended 31 December 2008 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**106,791**	150,678	247,141
Reinsurance premiums paid		**(2,780)**	(6,952)	(11,487)
Claims paid		**(102,986)**	(138,824)	(203,290)
Reinsurance receipts in respect of claims		**1,283**	3,479	8,443
Investment income received		**15**	850	4,325
Interest received		**1,738**	5,857	16,993
Dividends received		**306**	168	1,851
Interest paid		**(1,036)**	(1,339)	(2,275)
Operating expenses paid		**(4,108)**	(5,996)	(27,700)
Other income/expenses, net		**3,075**	2,805	7,168
Insurance deposits paid		**(182)**	(1,897)	(7,936)
Purchase of trading investments		**(13,811)**	(70,489)	(207,727)
Sale of trading investments		**23,810**	69,481	223,000
Directors' remuneration paid		**-**	-	(1,026)
Net cash provided by operating activities	17	**12,115**	7,821	47,480
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**33,700**	13,019	90,716
Purchase of investments		**(42,125)**	(20,586)	(123,124)
Interest received		**2,056**	2,116	6,544
Dividend Received		**91**	31	1,595
Investment income received		**55**	641	1,127
Collateralised cash deposits (paid) received		**(22)**	38	(584)
Purchase of fixed assets		**(1,651)**	(6,468)	(13,554)
Purchase of intangible assets		**(1)**	-	(281)
Net cash used in investing activities		**(7,897)**	(11,209)	(37,561)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**(16)**	-	(15,507)
Purchase of treasury shares		**-**	(337)	(1,341)
Net borrowings		**(30,437)**	7,001	22,706
Net cash (used in) provided by financing activities		**(30,453)**	6,664	5,858
Net (decrease) increase in cash and cash equivalents		**(26,235)**	3,276	15,777
Effect of exchange rate on cash and cash equivalents		**(180)**	2,134	879
Cash and cash equivalents, beginning of period		**402,949**	386,293	386,293
Cash and cash equivalents, end of period		**376,534**	391,703	402,949

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 NINE MONTH PERIOD ENDED 31 MARCH 2009

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim condensed financial statements have been prepared in compliance with International Accounting Standard IAS 34, Interim Financial Reporting. The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2008 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 2009, including Revised IAS 1, Presentation of Financial Statements and IFRS 8 Operating Segments.

IAS 1 requires total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners, be presented in either a single statement of comprehensive income or in an income statement and a separate statement of comprehensive income. The Group has opted to present the total comprehensive income in two separate statements – an income statement and a separate statement of comprehensive income. The adoption of revised IAS 1 had no impact on the reported profits or the financial position of the Group.

IFRS 8 introduces the "management approach" to segment reporting which requires a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. The Group's current basis of segmentation is substantially in line with the requirements of the revised standard.

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 2008. 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 2008.

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

2. SIGNIFICANT ACCOUNTING POLICIES (*CONTD.*)

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

3. SEASONALITY OF INTERIM OPERATIONS

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

4. INVESTMENTS

	US$ '000		
	31 March 2009	31 December 2008	31 March 2008
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**47,204**	51,401	101,729
	47,204	51,401	101,729
Designated at fair value on initial recognition			
Debt Securities			
- Other	**10,440**	17,771	25,785
	10,440	17,771	25,785
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**57,410**	50,393	31,923
- Other investment grade	**37,091**	40,446	38,947
	94,501	90,839	70,870
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**34,414**	38,525	39,474
- Other investment grade	**27,200**	18,232	15,396
- Non-OECD country governments	**3,895**	4,227	6,144
- Other	**12,722**	12,850	11,818
Common stock of listed companies	**1,888**	3,286	2,332
Common stock of unlisted companies	**13,106**	11,405	20,498
Other	**22,638**	23,412	23,860
	115,863	111,937	119,522
	268,008	271,948	317,906

Debt securities amounting to US$ 46.0 million (31 December 2008 US$ 41.1 million; 31 March 2008 US$ 47.4 Million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 32.1 million (31 December 2008: US$ 65.3 million; 31 March 2008: 53.4 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	31 March 2009	31 December 2008	31 March 2008
Accrued insurance premiums	**136,901**	99,257	114,812
Accrued interest	**3,095**	3,610	4,730
	139,996	102,867	119,542

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	31 March 2009	31 December 2008	31 March 2008
General insurance business			
- Claims outstanding	**56,856**	57,990	61,565
- Unreported general insurance claims	**5,317**	7,681	7,672
- Deferred retrocession premium reserve	**2,360**	1,674	5,674
	64,533	67,345	74,911
Life insurance business			
- Life insurance claims outstanding	**140**	78	83
- Life insurance unreported losses	**-**	154	158
	140	232	241
	64,673	67,577	75,152

7. OTHER ASSETS

	US$ '000		
	31 March 2009	31 December 2008	31 March 2008
Intangible assets :			
- Goodwill	**1,893**	1,893	1,893
- Present value of future profits (PVFP)	**5,000**	5,000	5,000
- Computer software	**10,004**	9,933	9,634
	16,897	16,826	16,527
Less: accumulated amortisation	**(10,557)**	(10,266)	(9,364)
Net intangible assets	**6,340**	6,560	7,163
Other assets .			
- Collateralised cash deposits	**4,577**	4,555	3,933
- Prepayments and other receivables	**8,294**	8,736	7,287
	12,871	13,291	11,220
	19,211	19,851	18,383

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000		
	31 March 2009	31 December 2008	31 March 2008
ASSETS			
Cash & cash equivalents	6,094	6,186	4,379
Accrued income	20,226	17,016	15,129
Insurance receivable	6,536	5,607	7,994
Insurance deposits	7,720	6,403	3,529
Deferred acquisition costs	6,174	3,821	5,805
Deferred Wakala fees	4,210	3,127	3,475
	50,960	42,160	40,311
LIABILITIES			
Accounts payable	10,067	8,853	9,833
Other liabilities	63	51	-
	10,130	8,904	9,833
TAKAFUL FUND			
Unearned contributions	21,019	15,585	17,394
Outstanding claims	9,494	6,966	5,832
Unreported losses	14,314	13,317	8,521
	44,827	35,868	31,747
Accumulated deficit	(3,997)	(2,612)	(1,269)
	50,960	42,160	40,311

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 31 March 2009	Year ended 31 December 2008	Year-to-date 31 March 2008
Gross contributions	13,900	34,033	11,675
Outward reinsurance premiums	(290)	(747)	(187)
Unearned contributions	(5,423)	(4,224)	(5,972)
Net earned contributions	8,187	29,062	5,516
Reported losses	(5,136)	(12,495)	(1,625)
Provision for unreported losses	(1,060)	(6,417)	(1,844)
Claim and related expenses	(6,196)	(18,912)	(3,469)
Policy acquisition costs	(3,686)	(5,944)	(3,232)
Deferred policy acquisition costs	2,350	219	2,196
Policy acquisition costs	(1,336)	(5,725)	(1,036)
Fee payable to operator (Wakala fee)	(1,696)	(5,962)	(1,141)
Investment income	19	159	39
Other income	-	86	25
Other expenses & provisions	(363)	(117)	-
Deficit for the period	(1,385)	(1,409)	(66)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	31 March 2009	31 December 2008	31 March 2008
General insurance business			
Claims outstanding	**265,154**	274,713	292,545
Unreported losses	**139,870**	132,887	104,990
Unearned premiums	**150,755**	100,210	140,055
	555,779	507,810	537,590
Life insurance business			
Claims outstanding	**13,499**	14,160	9,840
Unreported losses	**67,542**	60,687	49,713
Unearned premiums	**9,101**	9,655	14,320
	90,142	84,502	73,873
	645,921	592,312	611,463

10. OTHER LIABILITIES

	US$ '000		
	31 March 2009	31 December 2008	31 March 2008
Accrued expenses	**4,584**	3,786	2,957
Post employment benefits	**13,307**	13,274	12,252
Accrual for scheme of arrangement fees	**3,043**	3,231	3,043
Reinsurance premiums accrued	**11,733**	11,733	11,861
Employee share scheme	**622**	795	1,243
Dividends payable	**922**	937	16,473
Other	**14,435**	12,693	16,651
	48,646	46,449	64,480

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

The Group's non-life reinsurance business consists of two main business segments, treaty and facultative mainly involving underwriting of property and marine classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies.

	US$ '000									
	Financial year-to-date 31 March 2009					Financial year-to-date 31 March 2008				
	Non-life		Life		TOTAL	Non-life		Life		TOTAL
	Treaty	Facultative	Short term	Long term		Treaty	Facultative	Short term	Long term	
REVENUES :										
Gross premiums written	88,112	6,339	16,772	589	111,812	96,397	7,652	16,491	10,190	130,730
Outward reinsurance premiums	(2,137)	(404)	(225)	(3)	(2,769)	(6,657)	(267)	(45)	21	(6,948)
Change in unearned premiums - gross	(51,620)	1,080	535	(1)	(50,006)	(56,029)	(312)	(1,847)	-	(58,188)
Change in unearned premiums - reinsurance	687	(2)	-	-	685	4,127	50	-	-	4,177
Net earned premiums	35,042	7,013	17,082	585	59,722	37,838	7,123	14,599	10,211	69,771
Investment (loss) income attributable to insurance funds	(25)	(13)	(3)	(3)	(44)	1,043	609	108	125	1,885
	35,017	7,000	17,079	582	59,678	38,881	7,732	14,707	10,336	71,656
COSTS AND EXPENSES :										
Gross claims paid	(17,226)	(7,721)	(6,253)	(2,844)	(34,044)	(20,864)	(4,154)	(5,532)	(3,863)	(34,413)
Claims recovered from reinsurers	901	395	(13)	-	1,283	2,823	295	361	-	3,479
Change in provision for outstanding claims – gross	257	8,398	(1,149)	1,598	9,104	(3,978)	242	6	210	(3,520)
Change in provision for outstanding claims - reinsurance	(242)	(798)	62	-	(978)	(1,312)	(519)	(213)	-	(2,044)
Change in provision for unreported losses - gross	(3,954)	(3,029)	(7,077)	6	(14,054)	(1,925)	904	(8,327)	-	(9,348)
Change in provision for unreported losses - reinsurance	(3,133)	769	-	-	(2,364)	(2,175)	(313)	158	-	(2,330)
Claims and related expenses	(23,397)	(1,986)	(14,430)	(1,240)	(41,053)	(27,431)	(3,545)	(13,547)	(3,653)	(48,176)
Policy acquisition costs	(26,266)	(1,326)	(706)	4	(28,294)	(27,903)	(1,242)	(230)	(76)	(29,451)
Policy acquisition costs recovered from reinsurers	1,532	6	-	-	1,538	2,285	17	-	-	2,302
Change in deferred policy acquisition costs -gross	17,230	(267)	(142)	11	16,832	17,003	(27)	(562)	(294)	16,120
Change in deferred policy acquisition costs - reinsurance	(229)	-	-	-	(229)	(1,502)	(7)	-	-	(1,509)
Policy acquisition costs	(7,733)	(1,587)	(848)	15	(10,153)	(10,117)	(1,259)	(792)	(370)	(12,538)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	60	60	-	-	-	**(5,760)**	**(5,760)**
Operating expenses	(2,999)	(822)	(452)	(409)	(4,682)	(2,801)	(570)	(300)	(348)	(4,019)
Segment underwriting result	888	2,605	1,349	(992)	3,850	(1,468)	2,358	68	205	1,163
Operating expenses – unallocated #					(172)					(169)
Underwriting result					3,678					994

 # Unallocated operating expenses represent corporate expenses.

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

	Year ended 31 December 2008				
	Non-life		Life		Total
	Treaty	Facultative	Short term	Long term	
REVENUES :					
Gross premiums written	180,750	38,979	32,006	28,959	280,694
Outward reinsurance premiums	(9,345)	(1,911)	(258)	34	(11,480)
Change in unearned premiums - gross	(13,237)	(3,901)	2,786	-	(14,352)
Change in unearned premiums - reinsurance	215	(35)	-	-	180
Net earned premiums	158,383	33,132	34,534	28,993	255,042
Investment loss attributable to insurance funds	(4,296)	(2,235)	(555)	(502)	(7,588)
	154,087	30,897	33,979	28,491	247,454
COSTS AND EXPENSES :					
Gross claims paid	(84,792)	(23,453)	(21,463)	(9,099)	(138,807)
Claims recovered from reinsurers	5,848	2,230	354	-	8,432
Change in provision for outstanding claims - gross	(410)	2,305	(2,813)	(1,633)	(2,551)
Change in provision for outstanding claims - reinsurance	(2,828)	(1,711)	(218)	-	(4,757)
Change in provision for unreported losses – gross	(27,411)	(1,582)	(6,363)	687	(34,669)
Change in provision for unreported losses - reinsurance	(1,904)	(573)	158	-	(2,319)
Claims and related expenses	(111,497)	(22,784)	(30,345)	(10,045)	(174,671)
Policy acquisition costs	(47,064)	(7,066)	(2,312)	(843)	(57,285)
Policy acquisition costs recovered from reinsurers	2,460	259	-	-	2,719
Change in deferred policy acquisition costs - gross	3,211	403	(96)	(278)	3,240
Change in deferred policy acquisition costs - reinsurance	(59)	-	-	-	(59)
Policy acquisition costs	(41,452)	(6,404)	(2,408)	(1,121)	(51,385)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	(19,401)	(19,401)
Operating expenses	(10,852)	(3,145)	(1,733)	(1,568)	(17,298)
Segment underwriting result	(9,714)	(1,436)	(507)	(3,644)	(15,301)
Operating expenses – unallocated #					(566)
Underwriting result					(15,867)

 # Unallocated operating expenses represent corporate expenses.

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 31 March 2009			Financial year-to-date 31 March 2008	Year ended 31 December 2008
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	184	138	322	677	1,540
- Others	1,566	1,748	3,314	6,197	20,130
Dividends	175	222	397	200	3,446
Realised gains					
- Trading investments	(1,673)	(1,923)	(3,596)	(1,103)	(9,005)
- Investment designated at fair value through profit or loss	(1,242)	(926)	(2,168)	-	496
- Available for sale	217	162	379	2,058	(538)
- Trading investments	(460)	(224)	(684)	(5,421)	(33,273)
- Investments designated at fair value through profit or loss	1,703	1,271	2,974	(1,183)	(6,594)
Impairment loss-available for sale	(233)	(484)	(717)	-	(1,252)
Other	(281)	(213)	(494)	1,768	(1,079)
	(44)	(229)	(273)	3,193	(26,129)

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 31 March 2009			Financial year-to-date 31 March 2008	Year ended 31 December 2008
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	4,110	2,768	6,878	5,754	24,549
General and administration	744	850	1,594	2,426	7,845
	4,854	3,618	8,472	8,180	32,394

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 31 March 2009	Financial year-to-date 31 March 2008	Year ended 31 December 2008
Third party administration services	**1,224**	1,942	8,403
Fees on managing Islamic reinsurance operations	**1,696**	1,142	6,023
Foreign exchange (loss) gain	**(756)**	1,770	4,604
Software sales and related services	**208**	438	1,525
Interest on cash balances	**-**	40	85
Other	**(10)**	39	261
	2,362	5,371	20,901

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 31 March 2009	Financial year-to-date 31 March 2008	Year ended 31 December 2008
Provision for doubtful receivable & deposits	**90**	52	1,161
Intangible asset amortised	**250**	250	1,000
Other	**(65)**	132	943
	275	434	3,104

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 31 March 2009	Financial year-to-date 31 March 2008	Year ended 31 December 2008
Weighted average number of shares outstanding	'000	**211,292**	212,639	211,984
Net profit (loss)	US$'000	**1,487**	2,956	(28,568)
Earnings (loss) per share	US$	**0.01**	0.01	(0.13)

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

	US$ '000		
	Financial year-to-date 31 March 2009	Financial year-to-date 31 March 2008	Year ended 31 December 2008
Profit (Loss) before minority interests	1,443	2,597	(33,292)
Increase in insurance funds	39,684	60,567	55,151
Change in insurance receivable/ payable, net	(5,003)	(15,268)	(4,959)
Change in accrued income	(37,129)	(46,388)	(29,713)
Change in other assets/liabilities, net	13,120	6,313	60,293
Net cash provided by operating activities	12,115	7,821	47,480

18. PRINCIPAL SUBSIDIARIES

At 31 March 2009, the principal subsidiaries of the Company were:

	Country of incorporation	Ownership
Arig Insurance Company Limited	United Kingdom	100.0%
Arima Insurance Software W.L.L.	Bahrain	100.0%
Gulf Warranties W.L.L.	Bahrain	66.0%
Takaful Re Limited	United Arab Emirates	54.0%

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2008.

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 2009	Financial year-to-date 31 March 2008	Year ended 31 December 2008
i) Directors			
- Remuneration paid	-	-	1,026
- Allowances	31	23	91
ii) Key management compensation			
- Salaries and other short-term employee benefits	265	260	1,050
- Post employment benefits	43	47	203
- Share-based compensation	100	96	(86)
iii) Balances payable (net)			
Key management			
- Maximum balance	2,477	2,774	2,493
- Closing balance	2,477	2,774	2,493

20. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in investee companies held as part of its investment portfolios amounting to US$ 7.4 million (31 December 2008: US$ 8.7 million; 31 March 2008: US$ 8.5 million). The Group also has commitments of US$ 15.8 million (31 December 2008: US$ 15.8 million; 31 March 2008: US$ 22.2 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 2008

INVESTMENTS

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

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

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

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

The fair value of publicly traded investments is based on quoted market values at the balance sheet date. Fair values of other investments are estimated at realisable values. Where it is not possible to estimate the fair value, the asset is carried at cost. Property values are based on recent valuations carried out by qualified professional valuers in accordance with recognised valuation principles.

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

In the case of available for sale financial assets, the Group assesses at each balance sheet date whether there is an objective evidence of impairment of such assets. If any such evidence exists, the impairment is recognised in income. Impairment recognised is not reversed subsequently except in case of debt instruments.

INVESTMENT INCOME

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

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

FOREIGN CURRENCY TRANSLATION

Transactions denominated in currencies other than U.S. Dollars are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in currencies other than U.S. Dollars are translated at year-end exchange rates.

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

Unrealised gains and losses on translation of financial statements of subsidiaries, net of translation adjustments relating to hedging liabilities, if any, are included in the Shareholders' equity. Other foreign currency gains and losses are taken to income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

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

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 31-March-2009		
	Investments in U.A.E.	Investments outside U.A.E.	Total
a. Cash & Cash Equivalents	56,218	320,316	376,534
Total Cash & Cash Equivalents	56,218	320,316	376,534
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	3,729	43,475	47,204
	3,729	43,475	47,204
Designated at fair value on initial recognition			
Debt Securities			
- Other	-	10,440	10,440
	-	10,440	10,440
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	57,410	57,410
- Other investment grade	4,019	33,072	37,091
	4,019	90,482	94,501
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	34,414	34,414
- Other investment grade	3,100	24,101	27,201
- Non-OECD country governments	987	2,907	3,894
- Other	5,698	7,024	12,722
Common stock of listed companies	-	1,888	1,888
Common stock of unlisted companies	-	13,106	13,106
Other (see note)	1,611	21,027	22,638
	11,396	104,467	115,863
Total Investments	19,144	248,864	268,008

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$ 5,366,000 (in U.A.E.: US$ 60,000).