Arab Insurance Group (B.S.C.)

Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2011

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REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

2011 proved to be one of the most challenging periods for professional reinsurers. As Arig is part of a globalized industry, our company was affected as well. Following a spate of natural catastrophes and other sizeable losses closer to home, the combined ratio for our Non-life portfolio climbed to 108.6% (2010: 104.1%). At the same time, returns achievable from the regional and global financial markets recorded a historical low point, reducing the yield from our investible assets to US$ 4.0 million (2010: US$ 34 million). With an additional deficit of US$ 4.3 million from Arig's subsidiaries, the annual result for the reporting period is a net loss of US$ 19.1 million (2010: Profit US$ 20.8 million).

THE MARKET

Reinsurers prefer to think in cycles; in fact, many of them plan their returns as an average over the cycle. This implies that there are periods with very good results, and periods when earnings are depressed. The reasons for that could be diverse but usually results are driven by the level of claims received from the insured clients, and the investment income earned on shareholders' and policyholders' funds. In many years, earnings factors are complementary, that is if investment returns are high, insurance pricing tends to come under pressure, or vice versa. Then there are years, where trends are aligned, which can lead to either exceptionally profitable results or negative returns. Without any doubt, 2011 belongs to the latter category. One could even go as far as to call it a *'Perfect Storm'*.

Despite several natural catastrophes, 2010 still produced rather acceptable results when financial markets turned friendly towards the end of the year. In 2011, however, the industry sector took hits on both accounts:

1. With estimated economic losses of US$ 380 billion[1], 2011 turned out to be the costliest year for natural catastrophes ever recorded. Over US$ 105 billion of the losses were insured with reinsurers carrying the major load, namely 65% of the losses from Australia, New Zealand and Japan, and 80% of the claims from Thailand. What also made this year so different is the fact that 70% of the economic loss occurred in Asia and Australasia, highlighting the continuous shift of economic gravity from the West to the Far East, but also the extreme exposure to natural hazards and changing risk scenario driven by a sharp increase in insured values.

2. While internationally operating insurers and reinsurers were battered by underwriting losses, financial markets offered no relief. The after-effects of the 2008 financial crisis were still felt in many of the world economies while demand for capital remained low. At the same time, severe uncertainties around rising debt levels, the Euro zone and asset bubbles forming in India and China kept investors searching for safer grounds. This all contributed to historically low returns that could be achieved on fixed term deposits (FTD's) and high-grade treasuries - traditionally the preferred asset classes of the insurance industry. In some cases we even witnessed the emergence of negative interest paid on some treasury bonds. Riskier asset classes also remained depressed, or at least highly volatile. 2011 proved to be an extremely difficult year for quality conscious investors looking to protect their principal while seeking a decent return. While there may have been small pockets of opportunities to buck the trend, it was a challenging period for managers with limited risk appetite looking to invest hundreds of millions of Dollars.

[1] Munich Re: "Review of natural catastrophes in 2011: Earthquakes result in record loss year"

ARIG'S POSITION

The 2011 claims experience was unique. More than half of the insured natural catastrophe claims originated from the earthquakes in New Zealand and Japan. Seismic activity of this magnitude has long return periods. The Tohoku earthquake that occurred in March last year registered a magnitude of 9.0, triggering a Tsunami of epic proportions. The last time the northeast of Japan experienced an event of this size was in the year 869. In other words, it may be a long time before the region gets struck again. However, the industry has to be aware that insured values have sharply increased in recent history. There is no hiding of the fact that in Asia, risks emanating from natural hazards were under-priced in many markets, whereas in the Old Economies continue to be better funded, simply because insurers have a more complete picture of their real exposures. Clearly, there is now a rising opportunity to benefit from the increased prices currently charged for natural catastrophe related covers, particularly in areas that were hit by recent claims.

Experience teaches us that volatile business lines, if priced correctly, can offer healthy margins to companies with strong balance sheets. This is especially true where large capacities are required - as it is the case with Japan, North America or Europe. It does, however, not apply to the bread-and-butter business we write from the Middle East, where our policies usually allow insurance clients to make their own pricing decisions. Keen observers would have noticed that since the end of 2008, growth and profitability within the GCC have been reducing, even though, miraculously, there still appear to be investors keen to fund new start-ups.

In the meantime, the market continues to compete on price rather than products and services. In other words, while the riskiness of the portfolios largely stays the same, insurers are willing to accept lower premiums for their products, which is effectively driving up loss ratios over time. Because the majority of reinsurance demand is in the form of proportional treaty arrangements, Arig is affected by the dwindling margins in its clients' business, for which we additionally have to pay commissions. With no changes in the going market practices, we have little choice but to exercise selective underwriting, turning clients away each year because writing their business would place us in a loss position. In the meantime, it has become a key success factor for Arig to keep developing alternative sources of revenue from other territories.

In addition to the regular claims we saw from the MENA markets and elsewhere, 2011 also brought about some unexpected events. First, there was the reoccurrence of the Jeddah floods after officials had asserted remedial action following the previous flooding in 2009. Furthermore, we were confronted with substantial losses from the Arab Spring events in North Africa. Though we would argue that many of the claims should be outside of the coverage provided under our reinsurance contracts, we would have stood limited chances to put our arguments across to local courts that may feel more sympathetic to the national cause than to a foreign reinsurer. Total claims reserves relating to the unrest in Tunisia and Egypt currently amount to US$ 4.1 million.

Since 2009 we have maintained a business partnership with the Hardy Group domiciled in Bermuda that provides Arig with access to markets and business lines which would be too expensive to develop on our own. We are currently participating across Hardy's Lloyd's syndicate, additionally on their world-wide Property programs and we participate in a joint venture operation in Bahrain targeting high-value projects and industrial accounts. In 2011, Hardy related premium made up 22.4% of Arig's total, and in 2012 this number is estimated to be 23.5%. We are also the company's largest shareholder with a stake of slightly over 7%.

Arig follows a conservative investment approach. Not investing in real estate or derivatives has kept us out of trouble while the proportion of our equity holdings is kept at manageable levels. In most years, the returns from investments would be able to compensate for Arig's operational expenses, often still producing a profit in addition. In 2011 this was not the case. With yields from FTD's at historically low levels and most equity and alternative investment markets registering losses towards the end of the year, investment returns fell far short of our targets. The Company reported investment earnings of US$ 4 million only (2010: US$ 34 million), representing an average rate of return on investments of 0.6% (2010: 5.2%). Invested assets at the end of 2011 stood at US$ 652.8 million (2010: US$ 646.9 million).

OUTLOOK

Slowing growth throughout the world economy, sluggish demand in most insurance classes and a low interest rate environment will continue to challenge shareholders' expectations in 2012. As Deloitte's worded it in their 2012 Global Insurance Outlook: "Generating growth in a challenging economy takes operational excellence and innovation." In our own terms, this translates into tightening of Group efficiencies and the realization of opportunistic benefits as they may offer themselves.

The Board feels compelled to look at innovative and alternative ways so that the Arig Group is placed in a better position of maneuvring a successful course through a difficult period. We realize that standstill is not an option. The industry has taken a hit in 2011 and Arig was no exception; however, there is at least one new opportunity in every crisis. Subsequently, the management has submitted fresh ideas to the Board, which have been - and will continue to be - duly considered.

For 2012, we have our work carved out: in times of reduced premium and investment income, operational expenses must be closely managed. This refers to human resources as much as expenses arising from our Group structure. Current investment income is no longer sufficient to compensate for our operational expenses. The Group's management is leaving no stone unturned in order to uncover inefficiencies that can be avoided. In addition, we are actively pursuing ways to increase our bottom line from the Group's underwriting activities.

There is some cautious optimism that our active business may receive support from a gradual improvement in the underlying Terms of Trade. This is less visible in the Middle East, but rather in overseas markets, especially those that have been affected by recent losses. With proper risk management in place, we will make informed decisions on promising opportunities where we see a healthy balance between risk and reward. Continued participation in the global market place is essential if we want to capture the pricing uplift emerging from developed overseas markets.

Concentration in the reinsurance industry is continuing. Only players with a meaningful position in their markets will survive. Different to most regional reinsurers, especially if they are quasi government owned, Arig does not receive any special support from its public sector owners. The Company competes on a level playing field against the best in the world. Not an easy task while our formidable competitors continue to invest into their businesses. Forming partnerships has been one way out of this dilemma but we remain vulnerable to shifts in the market that may also affect our partnerships. Still, we are confident that with the existing expertise hosted within our company, Arig will continue to chart its course against all odds.

ACKNOWLEDGEMENTS

The Board takes this opportunity to express their gratitude to His Majesty the King, His Royal Highness the Prime Minister and His Royal Highness the Crown Prince for their wise leadership and encouragement for the insurance sector of the Kingdom of Bahrain. The Directors extend their thanks to our business partners, clients, shareholders and regulators for their support and cooperation throughout the year. The Directors thank the management and staff for their commitment, professionalism and sincere efforts.

On behalf of the Board of Directors,

Khalid Ali Al Bustani
Chairman
14 February 2012

KPMG Fakhro
Audit
5th Floor
Chamber of Commerce Building
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Telephone +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
Arab Insurance Group (B.S.C.)
Kingdom of Bahrain

14 February 2012

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Arab Insurance Group B.S.C. ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 3), we report that: the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Group or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(In thousands of U.S. Dollars)

	Note	2011	2010
ASSETS			
Cash and bank balances	5	**343,844**	280,557
Investments	6	**305,728**	363,520
Accrued income	8	**94,583**	121,515
Insurance receivables	9	**94,412**	75,246
Insurance deposits	10	**48,938**	65,636
Deferred policy acquisition costs		**23,523**	19,967
Reinsurers' share of technical provisions	11	**53,889**	59,976
Other assets	12	**31,703**	24,630
Property and equipment	14	**27,657**	27,390
		1,024,277	1,038,437
LIABILITIES			
Technical provisions	15	**618,660**	629,328
Insurance payables	18	**27,703**	28,760
Borrowings	19	**40,000**	12,706
Other liabilities	20	**56,602**	46,448
		742,965	717,242
EQUITY			
Attributable to shareholders of parent company	21		
Share capital		**220,000**	220,000
Treasury stock		**(14,793)**	(14,793)
Reserves		**31,360**	35,535
(Accumulated deficit) retained earnings		**(14,179)**	19,398
		222,388	260,140
Non-controlling interests	22	**58,924**	61,055
		281,312	321,195
		1,024,277	1,038,437

These consolidated financial statements were approved by the Board of Directors on 14 February 2012 and signed by:

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of U.S. Dollars)

	Note	2011	2010
Gross premiums written		**247,463**	239,530
Net earned premiums		**222,869**	222,329
Claims and related expenses		**(167,797)**	(160,232)
Policy acquisition costs		**(53,714)**	(45,886)
Investment income attributable to insurance funds	25	**3,743**	17,588
Operating expenses	26	**(19,618)**	(21,558)
Underwriting result	23	**(14,517)**	12,241
Investment income attributable to shareholders' funds	25	**293**	16,444
Operating expenses – non underwriting activities	26	**(11,845)**	(13,936)
Borrowing cost		**(533)**	-
Other income	27	**10,828**	11,439
Other expenses and provisions	28	**(5,506)**	(2,684)
(Loss) profit for the year		**(21,280)**	23,504
Attributable to:			
Non-controlling interests		**(2,224)**	2,732
Shareholders of Parent Company		**(19,056)**	20,772
		(21,280)	23,504
Earnings per share attributable to shareholders (basic and diluted):	29 US$	**(0.10)**	0.10

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of U.S. Dollars)

	2011	2010
(Loss) profit for the year	**(21,280)**	23,504
Other comprehensive income		
Changes on remeasurement of available for sale investments	**(3,783)**	(5,161)
Transfers for recognition of losses/(gains) on disposal of available for sale investments	**278**	(2,136)
Other comprehensive income for the year	**(3,505)**	(7,297)
Total comprehensive income for the year	**(24,785)**	16,207
Attributable to:		
Non-controlling interests	**(1,885)**	2,748
Shareholders of Parent Company	**(22,900)**	13,459
	(24,785)	16,207

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				(Accumulated deficit) Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			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 loss for the year	-	-	-	-	-	-	(19,056)	(19,056)	(2,224)	(21,280)
Changes on remeasurement of available for sale investments	-	-	-	(4,064)	-	(4,064)	-	(4,064)	281	(3,783)
Transfers for recognition of losses/(gains) on disposal of available for sale investments	-	-	-	219	-	219	1	220	58	278
Total comprehensive income for the year	-	-	-	(3,845)	-	(3,845)	(19,055)	(22,900)	(1,885)	(24,785)
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Dividend	-	-	-	-	-	-	(14,852)	(14,852)	-	(14,852)
Acquisition of minority share in subsidiary	-	-	34	-	-	34	(34)	-	(246)	(246)
Balances at 31 December 2011	220,000	(14,793)	28,194	(3,327)	6,493	31,360	(14,179)	222,388	58,924	281,312
Parent company balances at 31 December 2011	220,000	(14,793)	28,094	(3,471)	6,493	31,116	(13,935)	222,388	-	222,388

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

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
Parent company balances at 31 December 2010	220,000	(14,793)	28,094	772	6,857	35,723	19,210	260,140	-	260,140

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of U.S. Dollars)

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		**245,688**	246,356
Reinsurance premiums paid		**(23,554)**	(27,669)
Claims and acquisition costs paid		**(239,628)**	(228,853)
Reinsurance receipts in respect of claims		**22,861**	16,289
Investment (loss) income		**(3,655)**	1,358
Interest received		**4,781**	8,181
Dividends received		**1,694**	1,617
Operating expenses paid		**(24,696)**	(30,186)
Other income/expenses, net		**1,055**	1,486
Insurance deposits received		**16,886**	2,947
Purchase of trading investments		**(90,328)**	(184,976)
Sale of trading investments		**115,812**	152,752
Directors' remuneration paid		**(846)**	(864)
Net cash provided by (used in) operating activities	33	**26,070**	(41,562)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity/sale of investments		**135,043**	182,425
Purchase of investments		**(106,951)**	(203,677)
Deposits with maturity over 3 months		**(49,694)**	-
Interest received		**5,773**	6,553
Dividends received		**243**	515
Investment income received		**(4,223)**	4,705
Collateralised cash deposits paid		**(6,206)**	(2,163)
Purchase of property and equipment		**(1,169)**	(829)
Purchase of intangible assets		**(171)**	(254)
Investment in associate		**(375)**	-
Net cash used in investing activities		**(27,730)**	(12,725)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings		**27,294**	-
Dividends paid		**(11,810)**	(12,819)
Purchase of treasury shares		**-**	(6,630)
Net cash provided by (used in) financing activities		**15,484**	(19,449)
Net increase (decrease) in cash and cash equivalents		**13,824**	(73,736)
Effect of exchange rate on cash and cash equivalents		**(231)**	(20)
Cash and cash equivalents, beginning of year		**280,557**	354,313
Cash and cash equivalents, end of year		**294,150**	280,557
Deposits with maturity over 3 months		**49,694**	-
Cash and bank balances, end of year		**343,844**	280,557

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board and are consistent with prevailing practice within the insurance industry.

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

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of land and building and certain investment assets.

Comparative figures have been reclassified, where necessary, to conform to the current year's presentation.

The Group has adopted the following new and revised IFRS and interpretations which became effective in 2011:

- IAS 24(Revised) "related party disclosures"
  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The standard requires the Group and the parent to disclose transactions between its subsidiaries and its associates. The Group has applied the standard prospectively from 1 January 2011 to transactions between its subsidiaries and associates. The change in accounting policy was applied prospectively and had no material impact on the financial statements

- Improvements to IFRSs (2010)
  Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2011 with earlier adoption permitted. There were no material changes to the current accounting policies of the Group as a result of these amendments.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

The following standards and interpretations have been issued but not yet effective for the year ended 31 December 2011:

- IAS 1 - Presentation of items of other comprehensive income (amended June 2011)
  The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application. This amendment is not expected to have a material impact on the Group's financial statements.

- IAS 19 - Employee benefits (amended June 2011)
  The amendments mainly require recognition in other comprehensive income of any actuarial gains and losses resulting from increases or decreases in the present value of defined benefit obligations because of changes in actuarial assumptions and experience adjustments. Currently all change in the defined benefit obligations are recognised in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2012 with early adoption permitted. The Group is yet to fully assess the effect of this change. However, it is not expected to have a significant impact on the Group's financial statements.

- IAS 28 – Investment in Associates and Joint Ventures (amended May 2011)
  The amended standard requires investments in joint ventures, determined on the basis of IFRS 11 - Joint Arrangements, to be accounted for using the equity method. The earlier standard applied only to investment in associates. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided the entire suite of consolidation standards namely, IFRS 10, IFRS 11 and IFRS 12, is adopted at the same time. This amendment will require the consolidation of the Group's joint venture Hardy Arig Insurance Management W.L.L. using the equity method instead of the proportionate method adopted at present. The change is not likely to have a material impact on the Group's financials

- IFRS 9 'Financial Instruments'

  Standard issued November 2009 (IFR9 (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 (IFR9 (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.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. Prior periods need not be restated. Instead additional transition disclosures will be required on the effect of initial application of IFRS 9 on the classification and measurement of financial instruments.

- IFRS 10 - Consolidated financial statements
  IFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It defines the principle of control as, an investor controls an investee when it is exposed or has rights to variable returns from its involvement with that investee and has the ability to affect those returns through its power over that investee. Control is reassessed as facts and circumstances change. The standard supersedes IAS 27 Consolidated and Separate Financial Statements. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite of consolidation standards is adopted at the same time. This amendment is not expected to have a material impact on the Group's financial statements.

- IFRS 11 – Joint Arrangements
  IFRS 11 requires classification of joint arrangements as joint operations or joint ventures by assessing the rights and obligations arising from the arrangement. It prescribes the equity method for consolidation of joint ventures and the proportionate method for consolidation of joint operations. IFRS 11 supersedes IAS 31 – Interests in Joint Ventures. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite of consolidation standards is all adopted at the same time. The standard will require the consolidation of the Group's joint venture Hardy Arig Insurance Management W.L.L. using the equity method instead of the proportionate method adopted at present. The change is not likely to have a material impact on the Group's financials

- IFRS 12 - Disclosures of interests in other entities
  IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows.

  The Group is yet to assess the full impact of IFRS 12. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite is adopted at the same time. Entities are encouraged to provide information required by IFRS 12 before the effective date, but this early disclosure would not compel the entity to apply either IFRS 12 in its entirety or the other new consolidation standards.

- IFRS 13 - Fair value measurement
  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption. The Group is yet to assess the full impact of IFRS 13.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

The significant accounting policies of the Group are as follows:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries made up to 31 December 2011. It also includes the accounts of its joint venture Hardy Arig Insurance Management (HAIM), which has been consolidated using the proportionate consolidation method.

Subsidiaries are defined as companies that are controlled by the Group, namely companies in which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities, and thus generally include all companies in which the Group owns more than 50% of the voting shares. The purchase method is used to account for acquisitions.

Joint ventures are defined as entities that are jointly controlled by the Group. The joint control is established by a contractual agreement between the investors.

All intra-group transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated on consolidation. Where necessary, the accounts of subsidiaries have been restated to ensure consistency with the accounting policies adopted by the Group.

The Company's subsidiary, Takaful Re Limited, is an Operator of Islamic Reinsurance business. In accordance with applicable Shari'a principles, participants' (policyholders') funds are maintained distinct from the Operator's (shareholders') funds. Therefore, the participants' assets and liabilities including the fund balance are not shown separately 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 13.

A listing of the principal subsidiaries is set out in note 35. In the parent company, these investments are accounted under IAS 39, Financial Instruments: Recognition and Measurement.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

INSURANCE RECEIVABLES

Insurance receivables are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the receivables. In case of receivables not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Bad debts are written off during the year in which they are identified. The identification of bad debts is based on an analysis of the financial position of the counter party.

INSURANCE DEPOSITS

Insurance deposits comprise premium and claim deposits with cedants in accordance with policy terms and are carried at anticipated realisable values after provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due according to the terms of the deposits. In case of deposits not specifically impaired, a collective evaluation of impairment is carried out based on historical loss experience. Irrecoverable deposits are written off during the year in which they are identified. Irrecoverable deposits are identified on an analysis of the financial position of the counter party.

INTANGIBLE ASSETS

Expenditure on software, patents, present value of future profits on acquisition of portfolio and licenses are capitalised and amortised using the straight line basis over their expected useful lives, not exceeding a period of 5 years.

Costs associated with developing computer software programmes are recognised as an expense when incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Group and has a probable benefit exceeding the costs beyond one year, are recognised as intangible assets. Costs include staff costs of the development team and an appropriate portion of relevant overheads.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

GOODWILL

Goodwill represents excess of cost of an acquisition over the fair value of the identifiable net assets at the date of acquisition. After initial recognition, goodwill is carried at cost less accumulated impairment. At each statement of financial position date the Group performs an analysis to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount and the resultant loss is recognised as an expense in the income statement.

PROPERTY & EQUIPMENT AND RELATED DEPRECIATION

Property & equipment are stated at cost less accumulated depreciation except for land and building which are stated at fair value based on valuation by independent external valuers, less accumulated depreciation on buildings. On revaluation, any increase in the carrying amount of the asset is carried in the shareholders' equity as Property Revaluation Reserve and any decrease is recognised as an expense, except to the extent that it reverses decreases or increases previously recognised through income or shareholders' equity. The balance in the Property Revaluation Reserve is transferred directly to Retained Earnings on sale of property and realization of surplus. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

The cost of additions and major improvements are capitalised; maintenance and repairs are charged to expense as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on straight-line basis over the expected useful lives of the assets, which are as follows:

Building	40	years
Electrical and mechanical	20	years
Information systems, furniture, equipment and others	3-5	years

Useful lives and residual values are reassessed at each reporting period and adjusted accordingly.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements are recognised when they accrue to employees, with a provision being carried for the estimated liability as a result of services rendered upto the statement of financial position date.

POST EMPLOYMENT OBLIGATIONS

The Group operates a number of defined benefit plans for its employees.

For defined benefit plans, the accounting cost is charged to the income statement so as to spread it over the expected service lives of employees. The accounting costs under these plans are measured as the present value of the estimated future cash outflows using interest rates of government securities, which have terms to maturity approximating the terms of the related liability.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

EMPLOYEE SHARE SCHEME

The Group operates a cash settled, share-based compensation scheme. The fair value of the employee services received in exchange for virtual shares is recognised as an expense.

The total amount to be expensed is spread over the financial year to which the award pertains (Scheme year) and the vesting period of two years from the end of Scheme year in the proportion 60:20:20.

At each statement of financial position date, the liability is revalued with reference to the book value of the virtual shares allocated and the impact of the revaluation is recognised in the income statement with a corresponding adjustment to the liability.

TREASURY STOCK

Treasury stock representing shares purchased by the parent company or its consolidated subsidiaries are carried at cost with the exception of holdings as on the date of capital reduction, 4 July 2002, which are carried at nominal value. All treasury stock is presented as a deduction from shareholders' equity and gains and losses from sale of these shares are presented as a change in shareholders' equity.

RECOGNITION OF UNDERWRITING RESULT

Insurance business is accounted for in a manner consistent with prevailing practice within the insurance industry, more specifically, on an annual accounting basis. Specific accounting policies relating to individual items of insurance revenues and costs and technical provisions are explained below for each relevant item.

PREMIUMS

Gross premiums written comprise the total premiums in relation to contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Group at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. Unearned premiums are those proportions of the premiums accounted for, which relate to periods of risk that extend beyond the end of the financial year; they are calculated based on a time apportionment basis. A provision for unexpired risks is made for estimated amounts required over and above provisions for unearned premiums to meet future claims and related expenses on business in force at the statement of financial position date. Such provision, where necessary, is made on the basis of an assessment of segments in which policies with similar risk profile are grouped together.

CLAIMS AND RELATED EXPENSES

Claims and related expenses are accounted for based on reports received and subsequent review on an individual case basis. Provision is made to cover the estimated ultimate cost of settling claims arising out of events, which have occurred by the end of the financial year, including unreported losses, and claims handling expenses. Provision for unreported claims is established based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business.

POLICY ACQUISITION COSTS

Commissions, taxes, brokerages and other variable underwriting costs directly associated with acquiring business are amortised over the period in which the related premiums are earned. Policy acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred policy acquisition costs.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

REINSURANCE ARRANGEMENTS

As part of managing its insurance risks, the Group enters into contracts with other reinsurers for compensation of losses on insurance contracts issued by the Group.

Compensations receivable from reinsurers are estimated in a manner consistent with the corresponding claim liability. The benefits and obligations arising under reinsurance contracts are recognised in income and the related assets and liabilities are recognised as accounts receivable, reinsurers' share of technical reserves and accounts payable.

LIABILITY ADEQUACY TEST

At each statement of financial position date, liability adequacy tests are performed to ensure adequacy of the contractual liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual undiscounted cash flows and claims handling and administrative expenses are considered. The tests are performed on a portfolio basis where policies with similar risk profile are grouped together as a portfolio.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying its accounting policies, the Group makes estimates and judgements that have an impact on the amounts recognised and reported in the financial statements. These estimates and judgements are based on historical experience, observable market data, published information and other information including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant impact on the recognised amounts in the financial statements and the processes used to determine these estimates and judgements are described below:

i) Claims and related expenses

The estimate of ultimate losses arising from existing insurance contracts include unreported claims. Provisions for unreported claims are estimated based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business. The ultimate insurance liability also includes the costs to administer the claims.

ii) Ultimate premiums

The estimate of ultimate premiums is based on premium income estimates provided by cedants which is then adjusted to reflect underwriters' judgement taking into account market conditions and historical data. This estimate is subject to review by underwriters and actuaries.

4. MANAGEMENT OF INSURANCE RISKS

Risks under insurance contracts arise from uncertainty regarding the occurrence of the insured event and the amount of the resulting claim. In addition to underwriting risks, the Group is also exposed to other related risks such as credit, currency and liquidity risks.

The following is a summary of policies adopted to mitigate the key insurance risks facing the Group:

i) Underwriting risks

The group manages its underwriting risks principally through policies and guidelines for accepting risks and reinsurance arrangements.

Risks are accepted based on an evaluation of pricing and prior underwriting experience in accordance with underwriting guidelines that have been laid out for each line of business. Underwriting guidelines are constantly reviewed and updated to take account of market developments, performance and opportunities. Accumulation limits are set to control exposures to natural hazards and catastrophes. Various underwriting and approval limits are specified for accepting risks.

Acceptance of risks that do not meet specified minimum criteria are subject to agreement of an Underwriting Review Committee comprising representatives from the Marketing, Underwriting and Actuarial functions.

The reinsurance strategy of the Group is designed to protect exposures to individual and event risks based on current risk exposures through cost effective reinsurance arrangements.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practices involve the use of actuarial analysis and application of underwriting judgement. These are supplemented by periodical independent actuarial reviews for determining the adequacy of reserves.

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

ii) Credit risks

Credit risk under insurance contracts is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is controlled through terms of trade for receipt of premium and in certain cases enforcement of premium warranty conditions. Most of the counterparties are insurance companies that are generally not rated. However, there are no significant exposures from any one counterparty.

Reinsurance arrangements are effected with reinsurers whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria. Exposure to any single reinsurer generally does not exceed a maximum of 25% of total exposure and risks are generally placed with counterparties with minimum investment grade rating except for proportional treaty arrangements placed on reciprocal basis.

Credit risks relating to reinsurance arrangements are analysed as follows:

	US$ '000		
	2011		
	Receivables	**Share of technical provisions**	**Total**
Balance relating to reinsurers:			
- With investment grade rating	**8,670**	**29,998**	**38,668**
- Other	**22,101**	**13,601**	**35,702**
	30,771	**43,599**	**74,370**

	US$ '000		
	2010		
	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	8,076	30,614	38,690
- Other	18,300	14,777	33,077
	26,376	45,391	71,767

iii) Currency risks

As the Company writes business in various currencies, it is exposed to currency risk. Foreign exchange currency risks are hedged where exposures are significant and facility to hedge is available.

	US$ '000				
	Euro	**Pound Sterling**	**Indian Rupee**	**Canadian Dollar**	**Other**
2011					
Reinsurance Assets (Liabilities), net	**(4,740)**	**(3,826)**	**(8,388)**	**(788)**	**(89,624)**
Hedged	**(4,771)**	**(3,215)**	**-**	**(988)**	**-**

	US$ '000				
	Euro	Pound Sterling	Indian Rupee	Canadian Dollar	Other
2010					
Reinsurance Assets (Liabilities), net	(7,620)	(1,909)	(9,354)	(687)	(83,235)
Hedged	(7,519)	(855)	-	-	-

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

iv) Liquidity risks

Liquidity risk is the risk that cash may not be available to pay obligations when due. Limits have been specified in the investment policy and guidelines that requires a significant portion of investment funds representing insurance liabilities to be held in cash or readily marketable investment securities.

v) Sensitivity analysis

The sensitivity of the Group's income and equity to market risks is as follows:

	US$ '000	
	2011	2010
5% increase in loss ratio	**(11,143)**	(11,117)
5% decrease in loss ratio	**11,143**	11,117
10% increase in US Dollar exchange rate	**10,180**	9,795
10% decrease in US Dollar exchange rate	**(9,581)**	(9,156)

5. CASH AND BANK BALANCES

	US$ '000	
	2011	2010
Cash and bank balances	**68,039**	58,365
Deposits with maturity within 3 months	**221,582**	222,192
Deposits with maturity over 3 months	**54,223**	-
	343,844	280,557

Bank deposits amounting to US$ 49.7 million (2010: US$: Nil) have been pledged against borrowings.

Details of significant terms and conditions, exposures to credit, interest rate and currency risks are as follows:

i) Credit risk:

Bank balances and deposits with short term maturities are held with leading financial institutions. The Group limits its concentration of time deposits with any one financial institution to a maximum of 10% of shareholders' equity.

ii) Interest rate risk:

	2011	2010
Interest receivable basis:		
- Bank balances	**Daily/Monthly**	Daily/Monthly
- Deposits with short term maturities	**On maturity**	On maturity
Effective rates	**0.125% to 3.00%**	0.125% to 3.35%

As the deposits are short term maturities, there is no sensitivity to interest rate fluctuation.

iii) Currency risk:

	US$ '000	
	2011	2010
U.S. Dollar	**132,568**	85,896
UAE Dirham	**69,829**	69,561
Bahraini Dinar	**75,999**	70,060
Qatari Riyal	**46,899**	47,322
Other	**18,549**	7,718
	343,844	280,557

6. INVESTMENTS

	US$ '000	
	2011	2010
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	**61,921**	102,271
	61,921	102,271
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	**21,931**	24,497
- Other	**6,835**	5,821
	28,766	30,318
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	**48,041**	59,225
- Other investment grade	**43,131**	53,606
- Non OECD country government	**2,656**	2,658
	93,828	115,489
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	**21,525**	27,440
- Other investment grade	**39,784**	39,211
- Non-OECD country governments	**5,427**	2,736
- Other	**14,598**	11,280
Common stock of listed companies	**11,521**	718
Common stock of unlisted companies	**8,613**	12,530
Other	**19,370**	21,527
	120,838	115,442
Investment in associate	**375**	-
	305,728	363,520

Movements on the Group's provision for impaired available for sale investments are as follows:

	US$ '000	
	2011	2010
At 1 January	**13,310**	11,902
New provision:		
- Unlisted companies	**1,344**	454
- Others	**2,806**	990
Provision reversed on sale	**-**	(36)
At 31 December	**17,460**	13,310

Debt securities amounting to US$ 67.1 million (2010: US$ 66.3 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

Details of significant exposures to credit, interest rate and currency risks on investments are as follows:

i) **Credit risk:**

The Group limits its investment concentration in debt securities in any one investee and in any one industry group to 10% and 20% respectively, of the total debt securities portfolio.

The Group also limits its investment concentration in common stock of listed companies of any one issue and any one issuer to 5% and 10% respectively, of its total common stock portfolio.

6. INVESTMENTS (Contd.)

ii) Debt securities - interest rate risk:

	2011		
	Interest receivable basis	**Effective rates**	**Coupon rates**
Supra-nationals and OECD country government securities	**Monthly/Semi-annual/Annual**	**0.13% - 5.56%**	**0.125% - 6.00%**
Other investment grade debt securities	**Semi-annual/Annual**	**1.60% - 6.29%**	**1.60% - 7.25%**
Non-OECD country government securities	**Semi-annual/Annual**	**0.86% - 5.5%**	**0.86% - 5.5%**
Other securities	**Monthly/Semi-Annual**	**0.91% - 3.99%**	**0.90% - 4.07%**

	2010		
	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/Annual	0.99% - 5.52%	1% - 6%
Other investment grade debt securities	Semi-annual/Annual	1.71% - 6.52%	1.65% - 7.25%
Non-OECD country government securities	Semi-annual/Annual	2.88% - 3.60%	2.65% - 3.60%
Other securities	Monthly/Semi-Annual	1.28% - 3.83%	1.21% - 3.75%

iii) Debt securities – currency risk :

	US$ '000		
	2011		
	U.S. Dollar	**Other**	**Total**
Supra-nationals and OECD country government securities	**69,566**	**-**	**69,566**
Other investment grade debt securities	**95,553**	**9,293**	**104,846**
Non-OECD country governments	**-**	**8,083**	**8,083**
Other debt securities	**21,433**	**-**	**21,433**
	186,552	**17,376**	**203,928**

	US$ '000		
	2010		
	U.S. Dollar	Other	Total
Supra-nationals and OECD country government securities	86,665	-	86,665
Other investment grade debt securities	105,772	11,542	117,314
Non-OECD country governments	-	5,394	5,394
Other debt securities	17,101	-	17,101
	209,538	16,936	226,474

6. INVESTMENTS (Contd.)

iv) Debt securities - remaining term to maturity:

The principal amount and book values of debt securities are shown in the table below by contractual maturity.

	US$ '000			
	2011		2010	
	Principal amount	**Book value**	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	**17,025**	**17,075**	9,000	9,009
- One to five years	**51,000**	**51,089**	70,051	70,454
- More than five years	**1,290**	**1,402**	6,967	7,202
	69,315	**69,566**	86,018	86,665
Debt securities of other investment grade issuers:				
- Due in one year or less	**17,340**	**17,395**	13,856	13,926
- One to five years	**79,588**	**80,555**	94,010	95,733
- More than five years	**7,255**	**6,896**	7,566	7,655
	104,183	**104,846**	115,432	117,314
Non-OECD country government securities:				
- Due in one year or less	**1,490**	**1,485**	-	-
- One to five years	**6,676**	**6,598**	5,507	5,394
	8,166	**8,083**	5,507	5,394
Other debt securities :				
- Due in one year or less	**2,300**	**2,278**	1,508	1,615
- One to five years	**12,037**	**12,078**	7,360	7,189
- More than 5 years	**7,513**	**7,077**	7,099	8,297
	21,850	**21,433**	15,967	17,101
	203,514	**203,928**	222,924	226,474

v) Common stock:

Common stock have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis.

The book value of common stock classified by currencies in which they are denominated are as follows:

	US$ '000	
	2011	2010
U.S. Dollar	**46,170**	68,742
Euro	**2,864**	3,918
Bahraini Dinar	**843**	3,164
Saudi Riyal	**2,970**	8,178
Pound Sterling	**15,508**	8,599
Japanese Yen	**2,353**	2,670
Other	**11,347**	20,248
	82,055	115,519

vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 8.37 million (2010: US$ 7.48 million).

7. SENSITIVITY ANALYSIS

The sensitivity of the Group's profit or loss and total equity to market risks on its cash and cash equivalents and investments is as follows:

	US$ '000			
	2011		2010	
	Income	**Equity**	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	**(639)**	**(1,801)**	(906)	(2,323)
– 100 basis points shift in yield curves- debt instruments	**653**	**1,920**	944	2,419
Currency risk				
10% increase in US Dollar exchange rate	**21,755**	**204**	21,006	368
10% decrease in US Dollar exchange rate	**(17,784)**	**(160)**	(17,187)	(295)
Equity price				
10% increase in equity prices	**6,371**	**218**	10,518	221
10% decrease in equity prices	**(6,371)**	**(218)**	(10,518)	(221)

8. ACCRUED INCOME

	US$ '000	
	2011	2010
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	**72,602**	92,436
- After 12 months	**18,767**	26,268
	91,369	118,704
Accrued interest		
- Expected to be received within 12 months	**3,214**	2,811
	94,583	121,515

9. INSURANCE RECEIVABLES

	US$ '000	
	2011	2010
Balances due :		
- Within 12 months	**93,822**	74,797
- After 12 months	**590**	449
	94,412	75,246

Movements on the Group's provision for impaired receivables are as follows:

	US$ '000	
	2011	2010
At 1 January	**18,091**	17,973
Provision for impairment	**307**	118
31 December	**18,398**	18,091

9. INSURANCE RECEIVABLES (Contd.)

The individually impaired receivables mainly relate to counter party in financial difficulty. The ageing of these receivables is as follows:

	US$ '000	
	2011	2010
Under two years	**-**	14
Over two years	**10,849**	10,607
	10,849	10,621

Receivables that are less than 12 months past due are not considered impaired. The ageing analysis of these receivables is as follows:

	US$ '000	
	2011	2010
Upto 6 months	**12,704**	10,049
6 to 12 months	**14,018**	23,547
	26,722	33,596

10. INSURANCE DEPOSITS

	US$ '000	
	2011	2010
Balances due :		
- Within 12 months	**34,652**	51,182
- After 12 months	**14,286**	14,454
	48,938	65,636

Movements on the Group's provision for impaired deposits are as follows:

	US$ '000	
	2011	2010
At 1 January	**6,232**	5,381
Provision for impairment	**(350)**	851
31 December	**5,882**	6,232

The individually impaired deposits mainly relate to counter parties in financial difficulty. The ageing of these deposits is as follows:

	US$ '000	
	2011	2010
Under ten years	**1,030**	917
Over ten years	**5,995**	6,133
	7,025	7,050

10. INSURANCE DEPOSITS (Contd.)

Deposits that are less than 3 years past due are not considered impaired. The ageing analysis of these deposits is as follows:

	US$ '000	
	2011	2010
Up to 1 year	**8,965**	13,440
1 to 3 years	**28,447**	38,392
	37,412	51,832

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000	
	2011	2010
General insurance business		
- Claims outstanding	**43,084**	44,871
- Unreported claims	**5,727**	11,112
- Deferred retrocession premium reserve	**4,563**	3,473
	53,374	59,456
Life insurance business		
- Claims outstanding	**515**	520
	515	520
	53,889	59,976

12. OTHER ASSETS

	US$ '000	
	2011	2010
Intangible assets :		
- Present value of future profits (PVFP)	**5,000**	5,000
- Computer software	**10,522**	10,366
- Goodwill	**1,921**	1,893
	17,443	17,259
Less : accumulated amortisation/impairment	**(16,355)**	(12,622)
Net intangible assets	**1,088**	4,637
Other assets due within 12 months:		
- Collateralised cash deposits	**12,692**	6,486
- Prepayments and other receivables	**17,923**	13,507
	30,615	19,993
	31,703	24,630

	US$ '000	
	2011	2010
Movement in intangible assets :		
Net book value at 1 January	**4,637**	5,756
- Additions	**171**	434
- Write-off	**(1,921)**	(320)
- Amortisation charge	**(1,799)**	(1,233)
Net book value at 31 December	**1,088**	4,637

Collateralised cash deposits have been pledged as security for reinsurance letters of credit and guarantees.

During 2011, goodwill relating to the Group's subsidiary Gulf Warranties W.L.L. was tested for impairment and an impairment loss of US$ 1.9 million recognised in the income statement.

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000	
	2011	2010
ASSETS		
Cash & cash equivalents	**16,090**	11,884
Accrued income	**26,617**	20,620
Insurance receivable	**8,464**	9,725
Insurance deposits	**2,540**	12,886
Deferred acquisition costs	**4,660**	4,583
Deferred wakala fees	**2,087**	2,123
	60,458	61,821
LIABILITIES		
Accounts payable	**12,540**	9,809
Other liabilities	**-**	2
	12,540	9,811
TAKAFUL PARTICIPANTS' FUND		
Unearned contributions	**18,254**	14,602
Outstanding claims	**27,129**	30,288
Unreported losses	**28,728**	29,949
	74,111	74,839
Accumulated deficit	**(26,193)**	(22,829)
	60,458	61,821

The subsidiary Takaful Re Limited has a commitment to provide an interest free loan to the extent of the accumulated deficit. The Group's share of the commitment is US$ 14.1 million (2010: US$ 12.3 million).

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000	
	2011	2010
Gross contributions	**40,048**	36,164
Outward reinsurance premiums	**(2,385)**	(1,523)
Unearned contributions	**(3,674)**	7,301
Net earned contributions	**33,989**	41,942
Reported losses	**(23,556)**	(35,941)
Provision for unreported losses	**1,221**	(3,430)
Claim and related expenses	**(22,335)**	(39,371)
Policy acquisition costs	**(11,316)**	(10,376)
Deferred policy acquisition costs	**362**	959
Policy acquisition costs	**(10,954)**	(9,417)
Fee payable to operator (Wakala fee)	**(4,381)**	(6,400)
Investment income	**261**	272
Other expenses & provisions	**56**	(168)
Deficit for the year	**(3,364)**	(13,142)

14. PROPERTY AND EQUIPMENT

	US$ '000	
	2011	2010
Land	**1,340**	1,340
Building	**9,270**	9,270
Work in progress – building	**19,058**	18,457
Information systems, furniture, equipment and other	**13,902**	13,650
	43,570	42,717
Less: accumulated depreciation	**(15,913)**	(15,327)
	27,657	27,390
Movements in property and equipment		
Net book value at 1 January	**27,390**	27,627
- Additions	**1,173**	795
- Disposals	**(2)**	(184)
- Depreciation charge	**(904)**	(848)
Net book value at 31 December	**27,657**	27,390

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in October 2007 by external valuers. Based on open market valuation, the fair value of land was determined at US$ 1,340,000. The increase in fair value of US$ 431,000 has been taken to income to set off the loss recognised in the previous valuation. The fair value of the building has been determined at US$ 9,270,000. The increase in fair value of US$ 431,000 has been included in Property Revaluation Reserve.

Work in progress-building is the office premises of the subsidiary Takaful Re Limited under construction in Dubai, U.A.E.

15. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000	
	2011	2010
General insurance business		
Claims outstanding	**267,709**	290,671
Unreported losses	**161,204**	144,304
Unearned premiums	**95,871**	91,167
	524,784	526,142
Life insurance business		
Claims outstanding	**17,375**	15,713
Unreported losses	**70,228**	70,311
Unearned premiums	**6,273**	17,162
	93,876	103,186
	618,660	629,328

The mean term of reserves is 2.9 years and 2.7 years for non-life and life business respectively.

16. CLAIMS DEVELOPMENT

The table below shows the incurred gross and net claims including unreported losses computed with reference to earned premiums, compared with previous estimates for the last 5 years:

Gross

	US$ '000						
	Underwriting year						
	2006	2007	2008	2009	2010	2011	Total
Estimate of incurred claims costs:							
- At end of underwriting year	61,939	145,803	104,722	109,672	105,119	111,266	
- One year later	122,927	226,499	184,130	175,223	178,633		
- Two years later	132,928	225,636	186,828	176,852			
- Three years later	143,254	228,594	194,434				
- Four years later	148,242	230,843					
- Five years later	147,620						
Current estimate of incurred claims	147,620	230,843	194,434	176,852	178,633	111,266	1,039,648
Cumulative payments to date	(122,238)	(180,309)	(147,961)	(113,477)	(74,812)	(14,624)	(653,421)
Liability recognised	25,382	50,534	46,473	63,375	103,821	96,642	386,227
Liability in respect of prior years							130,289
Total liability included in the statement of financial position							516,516

Net

	2006	2007	2008	2009	2010	2011	Total
Estimate of incurred claims costs:							
- At end of underwriting year	56,934	137,457	102,165	107,514	89,173	95,116	
- One year later	111,562	217,719	180,010	173,266	164,854		
- Two years later	121,448	218,690	182,613	172,923			
- Three years later	131,429	221,626	190,155				
- Four years later	135,990	223,969					
- Five years later	135,359						
Current estimate of incurred claims	135,359	223,969	190,155	172,923	164,854	95,116	982,376
Cumulative payments to date	(112,280)	(175,826)	(145,603)	(110,531)	(63,065)	(2,189)	(609,494)
Liability recognised	23,079	48,143	44,552	62,392	101,789	92,927	372,882
Liability in respect of prior years							94,308
Total liability included in the statement of financial position							467,190

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

2011

	US$ '000		
	Gross	**Reinsurance**	**Net**
Claims			
Claims outstanding	**306,384**	**45,391**	**260,993**
Unreported losses	**214,615**	**11,112**	**203,503**
Total at beginning of year	**520,999**	**56,503**	**464,496**
Change in provision during the year	**181,302**	**15,684**	**165,618**
Claims settled during the year	**(185,785)**	**(22,861)**	**(162,924)**
Balance at end of year	**516,516**	**49,326**	**467,190**
Unearned premium			
At beginning of year	**108,329**	**3,473**	**104,856**
Change in provision during the year	**(6,185)**	**1,090**	**(7,275)**
Balance at end of year	**102,144**	**4,563**	**97,581**
Accrued insurance premium			
At beginning of year	**124,636**	**5,932**	**118,704**
Movement during the year	**(27,400)**	**(65)**	**(27,335)**
Balance at end of year	**97,236**	**5,867**	**91,369**
Deferred policy acquisitions costs			
At beginning of year	**20,460**	**493**	**19,967**
Movement during the year	**3,356**	**(200)**	**3,556**
Balance at end of year	**23,816**	**293**	**23,523**

2010

	US$ '000		
	Gross	Reinsurance	Net
Claims			
Claims outstanding	305,419	54,024	251,395
Unreported losses	225,928	2,838	223,090
Total at beginning of year	531,347	56,862	474,485
Change in provision during the year	173,448	15,930	157,518
Claims settled during the year	(183,796)	(16,289)	(167,507)
Balance at end of year	520,999	56,503	464,496
Unearned premium			
At beginning of year	116,204	847	115,357
Change in provision during the year	(7,875)	2,626	(10,501)
Balance at end of year	108,329	3,473	104,856
Accrued insurance premium			
At beginning of year	126,008	1,566	124,442
Movement during the year	(1,372)	4,366	(5,738)
Balance at end of year	124,636	5,932	118,704
Deferred policy acquisitions costs			
At beginning of year	22,542	246	22,296
Movement during the year	(2,082)	247	(2,329)
Balance at end of year	20,460	493	19,967

18. INSURANCE PAYABLES

	US$ '000	
	2011	2010
Due Within 12 months	**27,703**	28,760
	27,703	28,760

19. BORROWINGS

	US$ '000	
	2011	2010
Balances Due:		
- Within 12 months	**40,000**	-
- After 12 months	**-**	12,706
	40,000	12,706

Borrowings amounting to US$ 40 million (2010: US$ 12.7 million) are secured by bank deposits. The effective interest rate on the borrowings was 2.2% (2010: 4.7%).

20. OTHER LIABILITIES

	US$ '000	
	2011	2010
Post employment benefits (note 31)	**14,696**	15,319
Reinsurance premiums accrued	**13,107**	8,619
Dividends payable	**4,302**	1,260
Accrued expenses	**5,433**	4,995
Employee share scheme (note 30)	**3,278**	3,386
Accrual for scheme of arrangement fees	**-**	2,231
Other	**15,786**	10,638
	56,602	46,448
Balances due:		
- Within 12 months	**38,628**	27,742
- After 12 months	**17,974**	18,706
	56,602	46,448

21. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition:

	US$ '000	
	2011	2010
Authorised		
500 million ordinary shares of US$ 1 each	**500,000**	500,000
Issued, Subscribed & Fully Paid-up		
220 million (2010: 220 million) ordinary shares of US$ 1 each	**220,000**	220,000

21. SHAREHOLDERS' EQUITY (Contd.)

b) Major Shareholders

Shareholders who have an interest of 5% or more of the outstanding shares are as shown below:

Name	Nationality	No. of shares (in millions)		% of total outstanding shares	
		2011	2010	**2011**	2010
Central Bank of Libya	**Libya**	**31.8**	31.8	**16.1**	16.1
Emirates Investment Authority	**UAE**	**30.5**	30.5	**15.4**	15.4
General Pension & Social Security Authority	**UAE**	**27.5**	27.5	**13.9**	13.9
Kuwait Investment Authority	**Kuwait**	**20.0**	20.0	**10.1**	10.1
Real Estate Bank	**UAE**	**11.0**	11.0	**5.6**	5.6

c) Shareholding pattern

The shareholding pattern in the outstanding shares of the Company is as follows:

Shares	No. of shares (in millions)		No. of shareholders		% of total outstanding shares	
	2011	2010	**2011**	2010	**2011**	2010
Less than 1%	**46.3**	54.5	**4,779**	4,828	**23.4**	27.7
1% to 5%	**30.9**	22.7	**6**	5	**15.6**	11.3
5% to 10%	**11.0**	11.0	**1**	1	**5.6**	5.6
10% and above	**109.8**	109.8	**4**	4	**55.5**	55.4

ii) Treasury stock:

The company held 21,967,818 of its own shares at 31 December 2011 (2010: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2010: US$ 14,793,000)

iii) Legal reserve:

In accordance with applicable legal provisions, the Group is required to set aside 10% of net profits each year to build a Legal Reserve up to a maximum of 100% of the paid up value of its share capital.

iv) Investment revaluation reserve:

Investment Revaluation Reserve comprises gains or losses arising from remeasurement of available for sale investment assets. These gains or losses are carried in the reserve until the assets are disposed of, at which time the gains or losses are included in income.

v) Property revaluation reserve:

Property Revaluation Reserve represents the difference between the cost of buildings less accumulated depreciation and their fair values. Further, the difference between depreciation based on the revalued carrying amounts and the depreciation based on original cost of the property is transferred directly from Property Revaluation Reserve to Retained Earnings.

21. SHAREHOLDERS' EQUITY (Contd.)

vi) Retained earnings:

Retained earnings include gains or losses on remeasurement of available for sale investment assets held at 1 January 2000, being the date of adoption of IAS 39. Movements during the year are follows:

	US$ '000	
	2011	2010
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	**(1)**	(3)
Transfers on disposal	**1**	2
Balance at 31 December	**-**	(1)

vii) Capital management:

The Group's total capital comprises paid-up capital, legal reserve and retained earning less treasury shares. The Group's policy is to maintain a strong capital base so as to maintain client, investor and market confidence and to sustain future development of the business. The parent company is regulated by Central Bank of Bahrain, which sets and monitors capital requirement for the parent company. Central Bank of Bahrain requires the parent company to compute the solvency margin requirement in accordance with provision of the Rule Book. The company is in compliance with the required margin of solvency.

Additionally, the Company manages its capital adequacy on an evaluation of its capital requirement through risk based capital models.

22. NON-CONTROLLING INTERESTS

	US$ '000	
	2011	2010
At 1 January	**61,055**	60,594
Share of comprehensive income	**(1,885)**	2,748
Dividend declared by subsidiary	**-**	(2,287)
Acquisition of minority interest	**(246)**	-
At 31 December	**58,924**	61,055

23. SEGMENT INFORMATION

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							
	Year ended 31 December 2011							
	Non-life					Life		
	Treaty				Facultative	Short term	Long term	Total
	Property	Engg.	Medical	Others				
REVENUES :								
Gross premiums written	86,303	21,013	9,326	71,996	35,875	20,022	2,928	247,463
Outward reinsurance premiums	(20,854)	(1,177)	-	(8,322)	(740)	(517)	(8)	(31,618)
Change in unearned premiums – gross	(4,896)	969	(1,972)	430	516	581	10,309	5,937
Change in unearned premiums - reinsurance	117	(189)	-	1,161	(2)	-	-	1,087
Net earned premiums	60,670	20,616	7,354	65,265	35,649	20,086	13,229	222,869
Investment income attributable to insurance funds	622	299	137	1,036	873	370	406	3,743
	61,292	20,915	7,491	66,301	36,522	20,456	13,635	226,612
COSTS AND EXPENSES :								
Gross claims	(54,049)	(11,388)	(26,899)	(41,960)	(21,844)	(19,094)	(10,551)	(185,785)
Claims recovered from reinsurers	17,421	1,021	8	3,563	843	4	1	22,861
Change in provision for outstanding claims – gross	(8,530)	1,252	12,444	4,409	11,199	331	(2,003)	19,102
Change in provision for outstanding claims - reinsurance	(26)	(513)	61	(395)	(873)	(5)	-	(1,751)
Change in provision for unreported losses – gross	(6,553)	(770)	9,231	(3,019)	(15,736)	7,235	(7,174)	(16,786)
Change in provision for unreported losses - reinsurance	(5,389)	(403)	-	546	(192)	-	-	(5,438)
Claims and related expenses	(57,126)	(10,801)	(5,155)	(36,856)	(26,603)	(11,529)	(19,727)	(167,797)
Policy acquisition costs	(22,359)	(7,821)	(2,022)	(19,037)	(7,521)	(169)	115	(58,814)
Policy acquisition costs recovered from reinsurers	169	227	-	1,072	45	(4)	(1)	1,508
Change in deferred policy acquisition costs – gross	2,739	(240)	(89)	809	210	(38)	-	3,391
Change in deferred policy acquisition costs - reinsurance	(17)	71	-	146	1	-	-	201
Policy acquisition costs	(19,468)	(7,763)	(2,111)	(17,010)	(7,265)	(211)	114	(53,714)
Operating expenses	(5,782)	(1,542)	(829)	(5,455)	(3,470)	(1,955)	(585)	(19,618)
Underwriting result	(21,084)	809	(604)	6,980	(816)	6,761	(6,563)	(14,517)

23. SEGMENT INFORMATION (Contd.)

	US$ '000							
	Year ended 31 December 2010							
	Non-life					Life		
	Treaty				Facultative	Short term	Long term	Total
	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	(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	3,579	12,119
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)	152	(160,232)
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)
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

23. SEGMENT INFORMATION (Contd.)

ii) Analysis of premiums and non-current asset based on geographical location of the risk insured and location of the asset respectively:

	US$ '000			
	2011		2010	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	132,948	47,871	116,052	52,778
- Africa	34,286	4,932	34,574	6,182
- Asia	70,852	10,193	81,115	14,505
- Others	9,377	1,349	7,789	1,393
	247,463	64,345	239,530	74,858

iii) Analysis of segment assets and liabilities:

	US$ '000								
	2011								
	Non Life					Life			
	Treaty								
	Property	Engg.	Medical	Others	Facultative	Short term	Long term	Corporate	Total
Reinsurance assets	80,243	35,608	14,991	78,841	82,342	878	16,531	-	309,434
Cash	30,293	13,002	2,691	46,490	37,384	17,916	22,161	173,907	343,844
Investments	29,627	12,716	2,632	45,469	36,562	17,522	21,674	139,526	305,728
Others	3,312	1,365	345	3,674	1,378	983	487	53,727	65,271
	143,475	62,691	20,659	174,474	157,666	37,299	60,853	367,160	1,024,277
Reinsurance liabilities	140,738	61,587	20,353	172,040	157,684	36,903	61,278	-	650,583
Others	2,472	1,019	258	2,743	1,029	734	364	83,763	92,382
	143,210	62,606	20,611	174,783	158,713	37,637	61,642	83,763	742,965

23. SEGMENT INFORMATION (Contd.)

iii) Analysis of segment assets and liabilities:

	US$ '000								
	2010								
	Non Life					Life			
	Treaty				Facultative	Short term	Long term	Corporate	Total
	Property	Engg.	Medical	Others					
Reinsurance assets	60,882	34,380	21,827	90,991	73,162	9,862	30,208	-	321,312
Cash	18,379	10,711	6,602	33,784	30,073	13,763	11,884	155,361	280,557
Investments	29,034	16,921	10,430	53,370	47,509	21,743	18,774	165,739	363,520
Others	1,521	749	135	2,040	688	911	294	66,710	73,048
	109,816	62,761	38,994	180,185	151,432	46,279	61,160	387,810	1,038,437
Reinsurance liabilities	109,783	63,016	39,804	181,635	154,980	46,711	62,518	-	658,447
Others	2,069	1,018	184	2,774	935	1,239	399	50,177	58,795
	111,852	64,034	39,988	184,409	155,915	47,950	62,917	50,177	717,242

24. OUTWARD REINSURANCE PREMIUMS

	US$ '000			
	2011			
	Treaty	Facultative	Life	Total
Proportional retrocession premium	19,660	130	-	19,790
Protection premium	1,615	9,664	525	11,804
Reinstatement premium	-	24	-	24
	21,275	9,818	525	31,618

	US$ '000			
	2010			
	Treaty	Facultative	Life	Total
Proportional retrocession premium	23,286	(91)	1	23,196
Protection premium	2,431	1,161	59	3,651
Reinstatement premium	3	818	-	821
	25,720	1,888	60	27,668

25. INVESTMENT INCOME

	US$ '000		
	2011		
	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or loss	705	485	1,190
- Others	5,092	5,286	10,378
Dividends	1,152	1,055	2,207
Realised (loss) gains			
- Trading investments	502	(300)	202
- Investment designated at fair value through profit or loss	139	98	237
- Available-for-sale	2,449	1,965	4,414
Gain (loss) on remeasurement of investments at fair value through profit & loss			
- Trading investments	(3,781)	(4,237)	(8,018)
- Investments designated at fair value through profit or loss	(361)	(254)	(615)
Impairment loss			
- available-for-sale	(1,139)	(3,010)	(4,149)
Other	(1,015)	(795)	(1,810)
	3,743	293	4,036

25. INVESTMENT INCOME (Contd.)

	US$ '000		
	2010		
	Insurance funds	Shareholders' funds	Total
Interest income			
- Investments designated at fair value through profit or loss	814	490	1,304
- Others	6,428	6,700	13,128
Dividends	1,122	1,015	2,137
Realised gains			
- Trading investments	1,630	870	2,500
- Investment designated at fair value through profit or loss	1,199	723	1,922
- Available-for-sale	4,662	3,002	7,664
Gain (loss) on remeasurement of investments at fair value through profit & loss			
- Trading investments	3,932	5,320	9,252
- Investments designated at fair value through profit or loss	(817)	(493)	(1,310)
Impairment loss			
- available-for-sale	(674)	(734)	(1,408)
Other	(708)	(449)	(1,157)
	17,588	16,444	34,032

26. OPERATING EXPENSES

	US$ '000			
	2011			
	Underwriting	Non-Underwriting	Total	2010
Salaries and benefits	**15,201**	**6,731**	**21,932**	27,614
General and administration	**4,417**	**5,114**	**9,531**	7,880
	19,618	**11,845**	**31,463**	35,494

27. OTHER INCOME

	US$ '000	
	2011	2010
Fees on managing Islamic reinsurance operations	**4,381**	6,400
Foreign exchange gain (loss)	**2,359**	(1,355)
Software sales and related services	**2,049**	1,180
Third party administration services	**1,655**	4,468
Other	**384**	746
	10,828	11,439

28. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2011	2010
Amortisation / impairment of Intangible assets	**3,422**	1,000
Provision for doubtful receivables and deposits	**1,801**	1,446
Other	**283**	238
	5,506	2,684

29. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2011	2010
Weighted average number of shares outstanding	'000	**198,032**	206,900
Net (loss) profit	US$'000	**(19,056)**	20,772
Earnings per share	US$	**(0.10)**	0.10

30. EMPLOYEE SHARE SCHEME

The Group operates a cash-settled, share based compensation scheme. Awards under the scheme are subject to the Company achieving specified minimum rates of return to shareholders and are determined based on an evaluation of employee performance against objectives agreed in advance. Virtual shares are allocated at the end of the financial year, being the allotment date, based on the book value of the Company's shares at the beginning of the financial year. These virtual shares will vest in the employees after two years from the allotment date.

The effect of the Scheme on the consolidated financial statements is presented below:

	US$ '000	
	2011	2010
Liability	**3,278**	3,386
Expense	**81**	(2,360)

31. POST EMPLOYMENT BENEFITS

The Group operates a number of post employment plans on defined benefit basis. Eligibility for participation in the defined benefit plans is based on completion of a specified period of continuous service or date of hire. Benefits are based on the employee's years of service.

The principal assumptions used for accounting purposes were:

	2011	2010
Discount rate	1.1%	1.2%
Expected return on assets	1.1%	1.2%
Future salary increases	3.3%	3.3%

31. POST EMPLOYMENT BENEFITS (Contd.)

The movements in the liability recognised in the statement of financial position are:

	US$ '000	
	2011	2010
Balance at 1 January	**15,319**	14,290
Accruals for the year	**1,722**	1,892
Payments during the year	**(2,345)**	(863)
Balance at 31 December	**14,696**	15,319

32. FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of its business, the Group uses forward foreign exchange contracts to hedge its exposure in respect of foreign currency denominated investments and insurance liabilities. In the event that the item being hedged is sold or settled prior to maturity of the forward foreign exchange contract, it is generally the Group's policy to enter into another offsetting forward foreign exchange contract of the same amount and maturity date. The notional amounts of these financial instruments are not recognised in the Group's consolidated financial statements but their fair values are recognised as assets or liabilities, as appropriate, with changes in fair value being taken to the statement of income. The contracts oblige the Group to exchange cash flows to be received in the future from foreign currency denominated investments for U.S. Dollars at predetermined exchange rates. The counter parties in respect of these transactions are leading financial institutions.

i. Forward foreign exchange contracts – by currency:

	US$ '000			
	2011		2010	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Euro	**8,296**	**14,242**	11,033	16,074
Pound Sterling	**3,461**	**19,411**	1,293	7,583
Japanese yen	**-**	**2,143**	-	1,639
Other	**988**	**2,696**	-	3,891
	12,745	**38,492**	12,326	29,187

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposures.

ii. Forward foreign exchange contracts - remaining term to maturity:

All of the forward foreign exchange contracts outstanding are due in one year or less.

iii. Forward foreign exchange contracts – unrealised gains and losses:

The following table summarises the fair value of the Group's hedging portfolio of forward foreign exchange contracts at the statement of financial position date, segregating the items between those that are in an unrealised gain position from those that are in an unrealised loss position.

	US$ '000			
	2011		2010	
	Purchases	**Sales**	Purchases	Sales
Unrealised gains	**29**	**1,147**	-	228
Unrealised losses	**(487)**	**(41)**	(246)	-
	(458)	**1,106**	(246)	228

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

	US$ '000	
	2011	2010
(Loss) profit for the year	**(21,280)**	23,504
Increase (Decrease) in insurance funds	**8,561**	(15,402)
Change in insurance receivable/payable, net	**(20,223)**	2,049
Change in accrued income	**26,932**	6,197
Change in other assets/liabilities, net	**32,080**	(57,910)
Net cash provided by (used in) operating activities	**26,070**	(41,562)

34. FAIR VALUE DISCLOSURE

The following table presents the fair values of the Group's financial instruments:

	US$ '000						
	2011						
	Book Value						**Fair value**
	At fair value through profit & loss	**Loans and receivables**	**Held to maturity**	**Available for sale**	**Amortised Cost**	**Total**	
ASSETS							
Cash and cash equivalents	**-**	**343,844**	**-**	**-**	**-**	**343,844**	**343,844**
Investments	**90,687**	**-**	**93,828**	**120,838**	**-**	**305,353**	**307,994**
Accrued income	**-**	**1,491**	**92,688**	**404**	**-**	**94,583**	**94,583**
Insurance receivables	**-**	**94,412**	**-**	**-**	**-**	**94,412**	**94,412**
Insurance deposits	**-**	**48,938**	**-**	**-**	**-**	**48,938**	**48,938**
Other assets	**-**	**29,562**	**-**	**-**	**-**	**29,562**	**29,562**
LIABILITIES							
Insurance payables	**-**	**-**	**-**	**-**	**27,703**	**27,703**	**27,703**
Borrowings	**-**	**-**	**-**	**-**	**40,000**	**40,000**	**40,000**
Other liabilities	**-**	**-**	**-**	**-**	**51,136**	**51,136**	**51,136**

	US$ '000						
	2010						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	280,557	-	-	-	280,557	280,557
Investments	132,589	-	115,489	115,442	-	363,520	370,717
Accrued income	-	817	120,209	489	-	121,515	121,515
Insurance receivables	-	75,246	-	-	-	75,246	75,246
Insurance deposits	-	65,636	-	-	-	65,636	65,636
Other assets	-	18,772	-	-	-	18,772	18,772
LIABILITIES							
Insurance payables	-	-	-	-	28,760	28,760	28,760
Borrowings	-	-	-	-	12,706	12,706	12,706
Other liabilities	170	-	-	-	43,829	43,999	43,999

The information disclosed in the table above is not indicative of the net worth of the Group.

34. FAIR VALUE DISCLOSURE (Contd.)

The following methods and assumptions were used to estimate the fair value of the financial instruments:

i. General:

The book values of the Group's financial instruments except investments and forward foreign exchange contracts were deemed to approximate fair value due to the immediate or short term maturity of these financial instruments.

ii. Investments:

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

34. FAIR VALUE DISCLOSURE (Contd.)

The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

2011	US$'000			
	Level 1	**Level 2**	**Level 3**	**Total**
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**61,921**	-	-	**61,921**
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	**21,931**	-	-	**21,931**
- Other	**6,836**	-	-	**6,836**
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	**21,525**			**21,525**
- Other investment grade	**39,784**	-	-	**39,784**
- Non-OECD country governments	**3,941**	-	-	**3,941**
- Other	**14,598**	-	-	**14,598**
Common stock of listed companies	**11,521**	-	-	**11,521**
Common stock of unlisted companies	-	**2,540**	**6,073**	**8,613**
Other	-	**2,477**	**16,892**	**19,369**
	182,057	**5,017**	**22,965**	**210,039**

2010	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	102,271	-	-	102,271
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	24,497	-	-	24,497
- Other	5,821	-	-	5,821
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	27,440	-	-	27,440
- Other investment grade	38,624	-	-	38,624
- Non-OECD country governments	1,251	-	-	1,251
- Other	10,043	737	-	10,780
Common stock of listed companies	718	-	-	718
Common stock of unlisted companies	-	1,497	11,033	12,530
Other	-	3,169	18,108	21,277
	210,665	5,403	29,141	245,209

34. FAIR VALUE DISCLOSURE (Contd.)

Investments amounting to US$ 1.5 million (2010: US$ 2.8 million) is being carried at cost as it's fair value cannot be ascertained.

The tables below show movements in the Level 3 financial assets measured at fair value:

	Unlisted equity	Others	Total
Balance at 1 January 2011	**11,033**	**18,108**	**29,141**
Gain (loss) recognised in:			
- Income statement	**(1,164)**	**(1,794)**	**(2,958)**
- other comprehensive income	**(720)**	**360**	**(360)**
Investments made during the year	**685**	**1,802**	**2,487**
Investments redeemed during the year	**(3,760)**	**(1,584)**	**(5,344)**
Change in value due to exchange rate movements	**(1)**	**-**	**(1)**
Balance at 31 December 2011	**6,073**	**16,892**	**22,965**

The carrying values of the investment held in level 3 are based on unobservable inputs and reflects proportional share of the fair values of the respective companies and their underlying net assets. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. For the year ended December 31, 2011, there were no transfers in and out of level 1, level 2 and level 3 (2010: none). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

iii. Forward foreign exchange contracts:

The fair value of forward foreign exchange contracts, used for hedging purposes, is based on quoted market prices.

vi. Fair value less than carrying amounts:

The fair value of fixed interest debt securities fluctuates with changes in market interest rates. The book value of financial assets held to maturity has not been reduced to fair value where lower, because such market rate variations are considered temporary in nature and management intends, and has the financial resources and capacity, to generally hold such investments to maturity.

35. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

At 31 December 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	100.0%
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 except as described below. The Company also continues to hold 50% of the Joint Venture Hardy Arig Insurance Management W.L.L which is incorporated in the Kingdom of Bahrain.

During the year, Arig acquired 34% minority interest in Gulf Warranties W.L.L. for a purchase consideration of US$ 274,000. The acquisition is accounted as a transaction between owners payable in cash.

The Group also acquired 25% of the equity shares in Globemed Bahrain W.L.L., Bahrain

36. RELATED PARTY DISCLOSURES

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

The following is the summary of transactions with related parties.

i) **Subsidiary companies:**

	US$ '000	
	2011	2010
a) Gross premium retroceded by subsidiary to parent company	**21,126**	-
b) Service fees for administration services provided by parent company	**4,520**	3,643
c) Balances outstanding		
- Receivables	**14,077**	1,715
- Payables	**1,518**	-
d) Software royalty fees	**129**	-

ii) **Joint Venture**:

	US$ '000	
	2011	2010
a) Service fees for administration services provided	**66**	38
b) Balances receivable	**115**	124

36. RELATED PARTY DISCLOSURES (Contd.)

iii) **Compensation to directors and key management personnel are as follows:**

	US$ '000	
	2011	2010
a) Directors		
- Remuneration	**-**	846
- Allowances	**97**	96
b) Key management compensation		
- Salaries and other short-term employee benefits	**2033**	2,093
- Post-employment benefits	**221**	209
- Share-based benefit	**30**	1,018
c) Balances payable (net)		
Key management		
- Maximum balance	**2,236**	4,618
- Closing balance	**2,236**	4,618

All transactions with related parties are conducted on an arm's length basis. All outstanding balances from related parties are expected to be settled within 12 months. No provisions have been required in 2011 and 2010 for any outstanding amounts due from related parties.

37. PARENT COMPANY

The unconsolidated statement of financial position of the parent company, Arab Insurance Group (B.S.C.), is presented below.

	US$ '000	
	2011	2010
ASSETS		
Cash and bank balances	**277,590**	201,898
Investments	**267,102**	318,952
Accrued income	**94,449**	120,997
Insurance receivables	**77,458**	73,020
Insurance deposits	**48,938**	65,636
Deferred policy acquisition costs	**23,171**	19,967
Reinsurers' share of technical provisions	**49,550**	59,976
Other assets	**27,065**	13,834
Investment in subsidiaries and associates	**70,172**	74,644
Fixed assets	**8,504**	8,716
	943,999	957,640
LIABILITIES		
Technical provisions	**612,488**	629,328
Insurance payables	**27,252**	28,673
Borrowings	**40,000**	-
Other liabilities	**41,871**	39,499
	721,611	697,500
SHAREHOLDERS' EQUITY (note 21)		
Share capital	**220,000**	220,000
Treasury stock	**(14,793)**	(14,793)
Reserves	**31,116**	35,723
(Accumulated deficit) retained earnings	**(13,935)**	19,210
	222,388	260,140
	943,999	957,640

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX

ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000		
	31-December-2011		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	91,100	252,744	**343,844**
Total Cash & Cash Equivalents	**91,100**	**252,744**	**343,844**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	829	61,092	**61,921**
	829	**61,092**	**61,921**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	21,931	**21,931**
- Other	-	6,835	**6,835**
	-	**28,766**	**28,766**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	48,041	**48,041**
- Other Investment grade	5,004	38,127	**43,131**
- Non-OECD country government	-	2,656	**2,656**
	5,004	**88,824**	**93,828**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	21,525	**21,525**
- Other Investment grade	7,556	32,228	**39,784**
- Non-OECD country governments	1,289	4,138	**5,427**
- Other	7,231	7,367	**14,598**
Common stock of listed companies	-	11,521	**11,521**
Common stock of unlisted companies	-	8,613	**8,613**
Other (see note)	282	19,088	**19,370**
	16,358	**104,480**	**120,838**
Investment in Associate	-	375	375
	-	**375**	**375**
Total Investments	**22,191**	**283,537**	**305,728**

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$ 3,267,000 (in U.A.E.: US$ 3,000).