Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the three months ended 31 March 2012

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Independent auditors' report on review of the condensed consolidated interim financial information

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

14 May 2012

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arab Insurance Group (B.S.C.) (the "Company") and its subsidiaries (together the "Group") as at 31 March 2012, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended (the condensed consolidated interim financial information). The Board of Directors of the Company are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 - *Interim Financial Reporting*.

KPMG

KPMG Fakhro, a Bahrain partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012

(In thousands of U.S. Dollars)

	Note	**31 March 2012 (reviewed)**	31 December 2011 (audited)	31 March 2011 (reviewed)
ASSETS				
Cash and bank balances		**331,631**	343,844	328,755
Investments	4	**309,600**	305,728	356,806
Accrued income	5	**134,121**	94,583	168,889
Insurance receivables		**97,683**	94,412	79,292
Insurance deposits		**46,639**	48,938	63,684
Deferred policy acquisition costs		**41,255**	23,523	39,519
Reinsurers' share of technical provisions	6	**56,938**	53,889	78,248
Other assets	7	**34,045**	31,703	28,678
Property and equipment	9	**28,249**	27,657	27,563
		1,080,161	1,024,277	1,171,434
LIABILITIES				
Technical provisions	10	**684,834**	618,660	719,739
Insurance payables		**26,982**	27,703	24,550
Borrowings		**20,000**	40,000	52,706
Other liabilities	11	**53,594**	56,602	67,159
		785,410	742,965	864,154
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(14,793)
Reserves		**38,595**	31,360	35,341
(Accumulated deficit) retained earnings		**(8,540)**	(14,179)	5,281
		235,262	222,388	245,829
Non-controlling interests		**59,489**	58,924	61,451
		294,751	281,312	307,280
		1,080,161	1,024,277	1,171,434

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

Khalid A. Al Bustani	Khalid J. Bin Kalban	Yassir Albaharna
Chairman	Vice Chairman	Chief Executive Officer

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED 31 MARCH 2012

(In thousands of U.S. Dollars)

	Note		For the financial year-to-date 31 March 2012 (reviewed)	For the financial year-to-date 31 March 2011 (reviewed)	For the year ended 31 December 2011 (audited)
Gross premiums written			**119,782**	132,084	247,463
Net earned premiums			**48,771**	47,171	222,869
Claims and related expenses			**(31,548)**	(35,620)	(167,797)
Policy acquisition costs			**(13,217)**	(7,734)	(53,714)
Investment income attributable to insurance funds	13		**5,240**	2,670	3,743
Operating expenses	14		**(5,729)**	(4,967)	(19,618)
Underwriting result	12		**3,517**	1,520	(14,517)
Investment income attributable to shareholders' funds	13		**5,247**	2,781	293
Operating expenses – non underwriting activities	14		**(2,670)**	(3,554)	(11,845)
Borrowing cost			**(131)**	(62)	(533)
Other income	15		**1,980**	2,235	8,469
Other expenses and provisions	16		**(1,965)**	(2,040)	(3,147)
Profit (loss) for the period			**5,978**	880	(21,280)
Attributable to:					
Non-controlling interests			**430**	235	(2,224)
Shareholders of Parent Company			**5,548**	645	(19,056)
			5,978	880	(21,280)
Earnings per share attributable to shareholders (basic and diluted)	17	US$	**0.03**	0.00	(0.10)

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

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ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2012

(In thousands of U.S. Dollars)

	For the financial year-to-date 31 March 2012 (reviewed)	For the financial year-to-date 31 March 2011 (reviewed)	For the year ended 31 December 2011 (audited)
Profit (loss) for the period	**5,978**	880	(21,280)
Other comprehensive income			
Changes on remeasurement of available-for-sale investments	**6,864**	119	(3,783)
Transfers for recognition of (gains)/losses on disposal of available for sale investments	**(130)**	(61)	278
Revaluation of property	**727**	-	-
Other comprehensive income for the period	**7,461**	58	(3,505)
Total comprehensive income for the period	**13,439**	938	(24,785)
Attributable to:			
Non-controlling interests	**565**	396	(1,885)
Shareholders of Parent Company	**12,874**	542	(22,900)
	13,439	938	(24,785)

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2012

(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 (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
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
Net profit for the period	-	-	-	-	-	-	5,548	5,548	430	5,978
Changes on remeasurement of available-for-sale investments	-	-	-	6,729	-	6,729	-	6,729	135	6,864
Transfers for recognition of (gains) /losses on disposal of available-for-sale investment	-	-	-	(131)	-	(131)	1	(130)	-	(130)
Revaluation of Property (note 9)	-	-	-	-	727	727	-	727	-	727
Total comprehensive income for the period	-	-	-	6,598	727	7,325	5,549	12,874	565	13,439
Transfer of net depreciation on revalued property	-	-	-	-	(90)	(90)	90	-	-	-
Balances at 31 March 2012	220,000	(14,793)	28,194	3,271	7,130	38,595	(8,540)	235,262	59,489	294,751

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ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

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

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ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

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

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2010	220,000	(14,793)	28,160	518	6,857	35,535	19,398	260,140	61,055	321,195
Net profit for the period	-	-	-	-	-	-	645	645	235	880
Changes on remeasurement of available-for-sale investments	-	-	-	(39)	-	(39)	-	(39)	158	119
Transfers for recognition of (gains) / losses on disposal of available-for-sale investment	-	-	-	(64)	-	(64)	-	(64)	3	(61)
Total comprehensive income for the period	-	-	-	(103)	-	(103)	645	542	396	938
Transfer of net depreciation on revalued property	-	-	-	-	(91)	(91)	91	-	-	-
Dividend	-	-	-	-	-	-	(14,853)	(14,853)	-	(14,853)
Balances at 31 March 2011	220,000	(14,793)	28,160	415	6,766	35,341	5,281	245,829	61,451	307,280

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)
CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED 31 MARCH 2012

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 31 March 2012 (reviewed)	For the financial year-to-date 31 March 2011 (reviewed)	For the year ended 31 December 2011 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**70,405**	63,759	245,688
Reinsurance premiums paid		**(5,160)**	(1,717)	(23,554)
Claims and acquisition costs paid		**(67,550)**	(65,514)	(239,628)
Reinsurance receipts in respect of claims		**6,604**	6,281	22,861
Investment income (loss)		**8,082**	508	(3,655)
Interest received		**2,294**	1,490	4,781
Dividend received		**432**	683	1,694
Operating expenses paid		**(9,276)**	(8,365)	(24,696)
Other income/expenses, net		**(1,875)**	(354)	1,055
Insurance deposits received		**1,077**	2,140	16,886
Purchase of trading investments		**(29,963)**	(30,852)	(90,328)
Sale of trading investments		**23,649**	26,458	115,812
Directors' remuneration paid		**-**	-	(846)
Net cash (used in) provided by operating activities	18	**(1,281)**	**(5,483)**	26,070
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**47,244**	14,998	135,043
Purchase of investments		**(41,774)**	(2,373)	(106,951)
Term deposit with bank		**24,884**	(49,694)	(49,694)
Interest received		**1,652**	1,870	5,773
Dividend Received		**9**	36	243
Investment income received		**3,813**	2	(4,223)
Collateralised cash deposits received (paid)		**639**	37	(6,206)
Purchase of property and equipment		**(86)**	(468)	(1,169)
Purchase of intangible assets		**(32)**	(28)	(171)
Investment in associate		**-**	(375)	(375)
Net cash provided by (used in) investing activities		**36,349**	(35,995)	(27,730)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings		**(20,000)**	40,000	27,294
Dividends paid		**(2,402)**	-	(11,810)
Net cash (used in) provided by financing activities		**(22,402)**	40,000	15,484
Net increase (decrease) in cash and cash equivalents		**12,666**	(1,478)	13,824
Effect of exchange rate on cash and cash equivalents		**5**	(18)	(231)
Cash and cash equivalents, beginning of period		**294,150**	280,557	280,557
Cash and cash equivalents, end of period		**306,821**	279,061	294,150
Term deposit with bank		**24,810**	49,694	49,694
Cash and bank balances end of period		**331,631**	328,755	343,844

The accompanying notes 1 to 21 are an integral part of
these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2012

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial information to be prepared in condensed form. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2011 that were prepared in accordance with International Financial Reporting Standards (IFRS). Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

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

The Group has adopted all new and revised IFRS and interpretations applicable for accounting periods beginning on or after 1 January 2012, including IAS 19 (amended) Employment Benefit Scheme. The adoption of these Standards and interpretation does not have any material impact on the Financial Statements.

3. SEASONALITY OF INTERIM OPERATIONS

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

4. INVESTMENTS

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**62,832**	61,921	102,482
	62,832	61,921	102,482
Designated at fair value on initial recognition			
Debt Securities			
- Other investment grade	**23,146**	21,931	23,405
- Other	**7,168**	6,835	6,084
	30,314	28,766	29,489
Held-to-maturity			
Debt securities			
- Supra-Nationals and OECD country Governments	**42,022**	48,041	59,194
- Other investment grade	**34,097**	43,131	46,572
- Non OECD country government	**2,656**	2,656	2,657
	78,775	93,828	108,423
Available-for-sale			
Debt securities			
- Supra-nationals and OECD country governments	**31,299**	21,525	25,401
- Other investment grade	**37,941**	39,784	35,980
- Non-OECD country governments	**5,470**	5,427	2,763
- Other	**18,810**	14,598	10,950
Common stock of listed companies	**16,982**	11,521	8,054
Common stock of unlisted companies	**7,684**	8,613	10,810
Other	**19,118**	19,370	22,079
	137,304	120,838	116,037
Investment in associate	**375**	375	375
	309,600	305,728	356,806

Debt securities amounting to US$ 67.2 million (31 December 2011: US$ 67.1 million; 31 March 2011: US$ 68.2 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

5. ACCRUED INCOME

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
Accrued insurance premiums	**132,153**	91,369	166,743
Accrued interest	**1,968**	3,214	2,146
	134,121	94,583	168,889

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
General insurance business			
- Claims outstanding	**40,481**	43,084	44,316
- Unreported claims	**7,824**	5,727	18,984
- Deferred retrocession premium reserve	**8,134**	4,563	14,428
	56,439	53,374	77,728
Life insurance business			
- Claims outstanding	**499**	515	520
	499	515	520
	56,938	53,889	78,248

7. OTHER ASSETS

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
Intangible assets :			
- Present value of future profits (PVFP)	**-**	5,000	5,000
- Computer software	**10,554**	10,522	10,396
- Goodwill	**-**	1,921	1,893
	10,554	17,443	17,289
Less: Accumulated amortisation/ impairment	**(9,517)**	(16,355)	(13,941)
Net intangible assets	**1,037**	1,088	3,348
Other assets:			
- Collateralised cash deposits	**12,053**	12,692	6,449
- Prepayments and other receivables	**20,955**	17,923	18,881
	33,008	30,615	25,330
	34,045	31,703	28,678

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
ASSETS			
Cash & cash equivalents	**14,950**	16,090	11,572
Accrued income	**34,328**	26,617	36,184
Insurance receivable	**13,476**	8,464	9,651
Insurance deposits	**2,540**	2,540	12,904
Deferred acquisition costs	**7,213**	4,660	8,582
Reinsurers' share of Takaful participants' fund	**8,382**	7,607	-
Deferred Wakala fees	**3,382**	2,087	5,135
	84,271	68,065	84,028
LIABILITIES			
Accounts payable	**15,065**	12,540	14,228
Other liabilities	**-**	-	2
	15,065	12,540	14,230
TAKAFUL PARTICIPANTS' FUND			
Unearned contributions	**30,836**	18,451	32,472
Outstanding claims	**35,085**	34,288	31,514
Unreported losses	**29,439**	28,979	28,637
	95,360	81,718	92,623
Accumulated deficit	**(26,154)**	(26,193)	(22,825)
	84,271	68,065	84,028

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 31 March 2012	Year ended 31 December 2011	Year-to-date 31 March 2011
Gross contributions	**23,718**	40,048	26,897
Outward reinsurance premiums	**(1,054)**	(2,385)	(1,349)
Unearned contributions	**(11,704)**	(3,674)	(17,875)
Net earned contributions	**10,960**	33,989	7,673
Reported losses	**(6,991)**	(23,556)	(5,512)
Provision for unreported losses	**(364)**	1,221	1,312
Claim and related expenses	**(7,355)**	(22,335)	(4,200)
Policy acquisition costs	**(5,025)**	(11,316)	(6,015)
Deferred policy acquisition costs	**2,856**	362	3,999
Policy acquisition costs	**(2,169)**	(10,954)	(2,016)
Fee payable to operator (Wakala fee)	**(1,233)**	(4,381)	(1,326)
Investment income	**73**	261	81
Other expenses & provisions	**(237)**	56	(208)
Surplus (deficit) for the period	**39**	(3,364)	4

9. PROPERTY AND EQUIPMENT

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
Land	**1,340**	1,340	1,340
Building	**7,221**	9,270	9,270
Work in progress – building	**19,058**	19,058	18,734
Information systems, furniture, equipment and other	**13,985**	13,902	13,778
	41,604	43,570	43,122
Less: accumulated depreciation	**(13,355)**	(15,913)	(15,559)
	28,249	27,657	27,563

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in March 2012 by independent external valuers. Based on open market valuation, the fair value of land remained unchanged at US$ 1,340,000. The fair value of the building has been determined at US$ 7,221,000 as against a carrying value of US$ 6,494,000. The increase in fair value of US$ 727,000 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.

10. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
General insurance business			
Claims outstanding	**268,969**	267,709	288,896
Unreported losses	**160,811**	161,204	158,208
Unearned premiums	**152,444**	95,871	164,804
	582,224	524,784	611,908
Life insurance business			
Claims outstanding	**17,736**	17,375	16,947
Unreported losses	**67,900**	70,228	70,365
Unearned premiums	**16,974**	6,273	20,519
	102,610	93,876	107,831
	684,834	618,660	719,739

11. OTHER LIABILITIES

	US$ '000		
	31 March 2012	31 December 2011	31 March 2011
Post employment benefits	**13,701**	14,696	15,563
Reinsurance premiums accrued	**13,270**	13,107	10,944
Dividends payable	**1,900**	4,302	16,106
Accrued expenses	**6,436**	5,433	5,366
Employee share scheme	**988**	3,278	3,812
Other	**17,299**	15,786	15,368
	53,594	56,602	67,159

12. SEGMENT INFORMATION - Analysis of revenue by primary business segment

The Group's non-life reinsurance business consists of two main business segments, treaty and facultative. Treaty business primarily consists of Property, Engineering, Marine, Accident & other classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies.

	US$ '000							
	Period ended 31 March 2012							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	48,988	14,887	16,297	8,859	14,823	11,696	4,232	119,782
Outward reinsurance premiums	(4,633)	(515)	(1,707)	(954)	(226)	203	(1)	(7,833)
Change in unearned premiums – gross	(25,743)	(7,239)	(10,142)	(4,223)	(8,618)	(7,757)	(2,945)	(66,667)
Change in unearned premiums – reinsurance	1,594	251	1,378	188	78	-	-	3,489
Net earned premiums	20,206	7,384	5,826	3,870	6,057	4,142	1,286	48,771
Investment income attributable to insurance funds	1,110	677	345	859	1,093	519	637	5,240
	21,316	8,061	6,171	4,729	7,150	4,661	1,923	54,011
COSTS AND EXPENSES :								
Gross claims paid	(14,055)	(4,937)	(4,042)	(4,546)	(5,778)	(2,488)	(4,160)	(40,006)
Claims recovered from reinsurers	5,529	146	64	863	2	-	-	6,604
Change in provision for outstanding claims - gross	(5,190)	1,774	1,313	(6)	2,018	(1,514)	1,153	(452)
Change in provision for outstanding claims - reinsurance	(2,191)	(228)	(176)	(30)	(24)	(15)	(1)	(2,665)
Change in provision for unreported losses – gross	(1,695)	(1,023)	(474)	1,626	2,097	1,340	999	2,870
Change in provision for unreported losses – reinsurance	1,537	428	643	719	(1,225)	-	(1)	2,101
Claims and related expenses	(16,065)	(3,840)	(2,672)	(1,374)	(2,910)	(2,677)	(2,010)	(31,548)
Policy acquisition costs	(13,398)	(5,409)	(5,863)	(3,392)	(2,995)	(387)	(15)	(31,459)
Policy acquisition costs recovered from reinsurers	225	189	185	35	-	(1)	-	633
Change in deferred policy acquisition costs – gross	8,126	2,862	3,345	1,918	1,507	87	13	17,858
Change in deferred policy acquisition costs - reinsurance	(103)	(107)	(64)	25	-	-	-	(249)
Policy acquisition costs	(5,150)	(2,465)	(2,397)	(1,414)	(1,488)	(301)	(2)	(13,217)
Operating expenses	(2,185)	(778)	(811)	(513)	(738)	(393)	(311)	(5,729)
Underwriting result	(2,084)	978	291	1,428	2,014	1,290	(400)	3,517

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

	US$ '000							
	Year ended 31 December 2011							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	107,524	33,834	22,615	26,467	34,073	20,022	2,928	247,463
Outward reinsurance premiums	(23,680)	(1,442)	(3,843)	(1,306)	(822)	(517)	(8)	(31,618)
Change in unearned premiums – gross	(9,770)	(208)	1,432	(2,309)	5,902	581	10,309	5,937
Change in unearned premiums - reinsurance	973	(189)	(327)	390	240	-	-	1,087
Net earned premiums	75,047	31,995	19,877	23,242	39,393	20,086	13,229	222,869
Investment income attributable to insurance funds	1,400	319	90	133	1,025	370	406	3,743
	76,447	32,314	19,967	23,375	40,418	20,456	13,635	226,612
COSTS AND EXPENSES :								
Gross claims paid	(60,182)	(19,236)	(14,372)	(11,820)	(50,530)	(19,094)	(10,551)	(185,785)
Claims recovered from reinsurers	17,797	1,077	2,813	620	549	4	1	22,861
Change in provision for outstanding claims – gross	(8,420)	9,052	603	2,192	17,347	331	(2,003)	19,102
Change in provision for outstanding claims - reinsurance	(241)	(664)	156	(499)	(498)	(5)	-	(1,751)
Change in provision for unreported losses – gross	(17,612)	(4,318)	117	435	4,531	7,235	(7,174)	(16,786)
Change in provision for unreported losses - reinsurance	(5,185)	(478)	465	(201)	(39)	-	-	(5,438)
Claims and related expenses	(73,843)	(14,567)	(10,218)	(9,273)	(28,640)	(11,529)	(19,727)	(167,797)
Policy acquisition costs	(26,725)	(10,642)	(5,749)	(8,785)	(6,859)	(169)	115	(58,814)
Policy acquisition costs recovered from reinsurers	169	231	855	257	1	(4)	(1)	1,508
Change in deferred policy acquisition costs – gross	3,706	187	(673)	477	(268)	(38)	-	3,391
Change in deferred policy acquisition costs - reinsurance	(17)	71	163	(16)	-	-	-	201
Policy acquisition costs	(22,867)	(10,153)	(5,404)	(8,067)	(7,126)	(211)	114	(53,714)
Operating expenses	(8,073)	(2,667)	(1,747)	(1,988)	(2,603)	(1,955)	(585)	(19,618)
Underwriting result	(28,336)	4,927	2,598	4,047	2,049	6,761	(6,563)	(14,517)

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

	US$ '000							
	Period ended 31 March 2011							
	Non-life					Life		Total
	Property	Engineering	Marine	Accident	Others	Short term	Long term	
REVENUES :								
Gross premiums written	63,956	16,640	14,888	8,872	14,482	12,477	769	132,084
Outward reinsurance premiums	(15,622)	(665)	(263)	(1,759)	(904)	292	(8)	(18,929)
Change in unearned premiums – gross	(46,138)	(10,650)	(10,101)	(2,509)	(4,194)	(6,027)	2,679	(76,940)
Change in unearned premiums – reinsurance	10,178	276	199	(456)	759	-	-	10,956
Net earned premiums	12,374	5,601	4,723	4,148	10,143	6,742	3,440	47,171
Investment income attributable to insurance funds	1,988	(209)	(229)	160	445	232	283	2,670
	14,362	5,392	4,494	4,308	10,588	6,974	3,723	49,841
COSTS AND EXPENSES :								
Gross claims paid	(10,969)	(4,063)	(3,086)	(3,802)	(6,845)	(6,849)	(1,772)	(37,386)
Claims recovered from reinsurers	4,470	116	139	1,376	180	-	-	6,281
Change in provision for outstanding claims - gross	1,880	2,330	516	(155)	(1,175)	239	(1,298)	2,337
Change in provision for outstanding claims - reinsurance	(418)	(63)	(78)	68	(154)	-	-	(645)
Change in provision for unreported losses – gross	(11,132)	(1,423)	481	(541)	(1,008)	223	(397)	(13,797)
Change in provision for unreported losses - reinsurance	6,844	295	(75)	439	87	-	-	7,590
Claims and related expenses	(9,325)	(2,808)	(2,103)	(2,615)	(8,915)	(6,387)	(3,467)	(35,620)
Policy acquisition costs	(13,118)	(5,674)	(5,212)	(1,756)	(2,290)	72	18	(27,960)
Policy acquisition costs recovered from reinsurers	110	157	56	360	(1)	-	-	682
Change in deferred policy acquisition costs – gross	10,317	3,820	3,532	676	1,360	(36)	13	19,682
Change in deferred policy acquisition costs - reinsurance	(163)	(109)	(66)	200	-	-	-	(138)
Policy acquisition costs	(2,854)	(1,806)	(1,690)	(520)	(931)	36	31	(7,734)
Operating expenses	(2,226)	(608)	(544)	(324)	(471)	(573)	(221)	(4,967)
Underwriting result	(43)	170	157	849	271	50	66	1,520

13. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 31 March 2012			Financial year-to-date 31 March 2011	Year ended 31 December 2011
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**117**	**85**	**202**	317	1,190
- Others	**1,247**	**1,271**	**2,518**	2,757	10,378
Dividends	**214**	**227**	**441**	701	2,207
Realised gains					
- Trading investments	**911**	**829**	**1,740**	1,665	202
- Investment designated at fair value through profit or loss	**332**	**243**	**575**	88	237
- Available-for-sale	**193**	**192**	**385**	1,223	4,414
Gain (loss) on remeasurement of investments at fair value through profit & loss					
- Trading investments	**2,510**	**2,968**	**5,478**	(282)	(8,018)
- Investments designated at fair value through profit or loss	**(118)**	**(86)**	**(204)**	(159)	(615)
Impairment loss					
- available-for-sale	**-**	**(331)**	**(331)**	(573)	(4,149)
Other	**(166)**	**(151)**	**(317)**	(286)	(1,810)
	5,240	**5,247**	**10,487**	5,451	4,036

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 31 March 2012			Financial year-to-date 31 March 2011	Year ended 31 December 2011
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**4,232**	**1,430**	**5,662**	6,634	21,932
General and administration	**1,497**	**1,240**	**2,737**	1,887	9,531
	5,729	**2,670**	**8,399**	8,521	31,463

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 31 March 2012	Financial year-to-date 31 March 2011	Year ended 31 December 2011
Fees on managing Islamic reinsurance operations	**1,233**	1,312	4,381
Software sales and related services	**346**	258	2,049
Third party administration services	**307**	429	1,655
Other	**94**	236	384
	1,980	2,235	8,469

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 31 March 2012	Financial year-to-date 31 March 2011	Year ended 31 December 2011
Foreign exchange loss (gain)	**1,851**	(59)	(2,359)
Amortisation / impairment of intangible assets	**-**	1,250	3,422
Provision for doubtful receivable & Deposits	**-**	-	1,801
Other	**114**	849	283
	1,965	2,040	3,147

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 31 March 2012	Financial year-to-date 31 March 2011	Year ended 31 December 2011
Weighted average number of shares outstanding	'000	**198,032**	198,032	198,032
Net profit (loss)	US$'000	**5,548**	645	(19,056)
Earnings per share	US$	**0.03**	0.00	(0.10)

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

	US$ '000		
	Financial year-to-date 31 March 2012	Financial year-to-date 31 March 2011	Year ended 31 December 2011
Profit (loss) for the period	**5,978**	880	(21,280)
Increase in insurance funds	**614**	20,013	8,561
Change in insurance receivable/ payable, net	**(15,959)**	(17,238)	(20,223)
Change in accrued income	**35,868**	(684)	26,932
Change in other assets/liabilities, net	**(27,782)**	(8,454)	32,080
Net cash (used in) provided by operating activities	**(1,281)**	(5,483)	26,070

19. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES

At 31 March 2012, 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 2011. The Company continues to hold 50% of the joint venture Hardy Arig Insurance Management W.L.L. which is incorporated in the Kingdom of Bahrain.The Group also holds 25% of the equity shares in Globemed Bahrain W.L.L., Bahrain

20. RELATED PARTY TRANSACTIONS

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

The following is the summary of transactions with related parties:

i) **Subsidiary companies:**

	US$ '000		
	For the Financial year-to-date 31 March 2012	For the Financial year-to-date 31 March 2011	For the Year ended 31 December 2011
a) Gross premium retroceded by subsidiary to parent company	**4,697**	-	21,126
b) Service fees for administration services provided by parent company	**1,477**	943	4,520
c) Balances outstanding			
- Receivables	**15,408**	3,546	14,077
- Payables	**-**	-	1,518
d) Software royalty fees	**-**	-	129

ii) **Joint Venture**:

	US$ '000		
	For the Financial year-to-date 31 March 2012	For the Financial year-to-date 31 March 2011	For the Year ended 31 December 2011
a) Service fees for administration services provided	**35**	22	66
b) Balances receivable	**169**	72	115

20. RELATED PARTY TRANSACTIONS (Contd.)

iii) **Compensation to directors and key management personnel**:

	US$ '000		
	Financial year-to-date 31 March 2012	Financial year-to-date 31 March 2011	Year ended 31 December 2011
i) Directors			
- Allowances	**33**	27	97
ii) Key management compensation			
- Salaries and other short-term employee benefits	**371**	371	2033
- Post employment benefits	**65**	51	221
- Share-based compensation	**101**	161	30
iii) Balances payable (net)			
Key management			
- Maximum balance	**4,006**	4,861	2,236
- Closing balance	**4,006**	4,861	2,236

21. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in available for sale investments amounting to US$ 8.34 million (31 December 2011: US$ 8.37 million; 31 March 2011: US$ 7.2 million).

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 (31 December 2011: US$ 14.1 million; 31 March 2011: US$ 12.3 million).

APPENDIX I

ARAB INSURANCE GROUP (B.S.C.)

A. SIGNIFICANT ACCOUNTING POLICIES ON INVESTMENTS AS PER CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2011

INVESTMENTS

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

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

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

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

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

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

INVESTMENT IN ASSOCIATED COMPANIES

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

INVESTMENT INCOME

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 31-March-2012		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	73,902	257,729	**331,631**
Total Cash & Cash Equivalents	**73,902**	**257,729**	**331,631**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	2,031	60,801	**62,832**
	2,031	**60,801**	**62,832**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	23,146	**23,146**
- Other	-	7,168	**7,168**
	-	**30,314**	**30,314**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	42,022	**42,022**
- Other Investment grade	5,003	29,094	**34,097**
- Non-OECD country government	-	2,656	**2,656**
	5,003	**73,772**	**78,775**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	31,299	**31,299**
- Other Investment grade	5,523	32,418	**37,941**
- Non-OECD country governments	1,333	4,137	**5,470**
- Other	9,370	9,440	**18,810**
Common stock of listed companies	-	16,982	**16,982**
Common stock of unlisted companies	-	7,684	**7,684**
Other (see note)	272	18,846	**19,118**
	16,498	**120,806**	**137,304**
Investment in Associate	-	375	**375**
	-	**375**	**375**
Total Investments	**23,532**	**286,068**	**309,600**

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).