Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the nine months ended 30 September 2011

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Independent auditors' report on review of interim financial information

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

13 November 2011

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Arab Insurance Group (B.S.C.) (the "Company") and its subsidiaries (together the "Group") as at 30 September 2011, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended (the "interim financial information"). The Board of Directors of the Group is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

KPMG

KPMG Fakhro, a registered partnership under Bahrain law,
is a member of KPMG International, a Swiss cooperative.

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

(In thousands of U.S. Dollars)

	Note	30 September 2011 (reviewed)	31 December 2010 (audited)	30 September 2010 (reviewed)
ASSETS				
Cash and cash equivalents		**308,027**	280,557	309,710
Investments	4	**341,299**	363,520	329,807
Accrued income	5	**140,311**	121,515	131,174
Insurance receivables		**85,502**	75,246	75,702
Insurance deposits		**48,038**	65,636	64,124
Deferred policy acquisition costs		**35,611**	19,967	29,966
Reinsurers' share of technical provisions	6	**59,311**	59,976	64,233
Other assets	7	**29,260**	24,630	29,365
Takaful participants' assets	8	**67,630**	61,821	67,301
Property and equipment		**27,775**	27,390	27,704
		1,142,764	1,100,258	1,129,086
LIABILITIES				
Technical provisions	9	**661,241**	629,328	657,286
Insurance payables		**24,789**	28,760	25,554
Borrowings		**40,000**	12,706	12,706
Other liabilities	10	**56,547**	46,448	47,740
Takaful fund and participants' liabilities	8	**67,630**	61,821	67,301
		850,207	779,063	810,587
EQUITY				
Attributable to shareholders of parent company				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(14,793)**	(14,793)	(11,032)
Reserves		**34,285**	35,535	37,260
(Accumulated deficit) retained earnings		**(6,657)**	19,398	12,242
		232,835	260,140	258,470
Non-controlling interests		**59,722**	61,055	60,029
		292,557	321,195	318,499
		1,142,764	1,100,258	1,129,086

These consolidated interim condensed financial statements were approved by the Board of Directors on 13 November 2011 and signed by:

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

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 September 2011 (reviewed)	For the three months ended 30 September 2010 (reviewed)	For the financial year-to-date 30 September 2011 (reviewed)	For the financial year-to-date 30 September 2010 (reviewed)	For the year ended 31 December 2010 (audited)
Gross premiums written		**50,106**	29,939	**239,000**	207,044	239,530
Net earned premiums		**61,854**	53,151	**168,757**	165,651	222,329
Claims and related expenses		**(42,994)**	(33,061)	**(123,634)**	(119,133)	(160,232)
Policy acquisition costs		**(15,396)**	(12,844)	**(38,985)**	(34,259)	(45,886)
Investment income (loss) attributable to insurance funds	12	**(2,719)**	7,108	**1,499**	9,975	17,588
Operating expenses	13	**(4,721)**	(4,159)	**(15,488)**	(16,115)	(21,558)
Underwriting result	11	**(3,976)**	10,195	**(7,851)**	6,119	12,241
Investment (loss) income attributable to shareholders' funds	12	**(5,946)**	7,883	**(1,347)**	10,542	16,444
Operating expenses – non underwriting activities	13	**(2,581)**	(3,526)	**(9,286)**	(10,643)	(13,936)
Borrowing cost		**(158)**	-	**(376)**	-	-
Other income	14	**1,893**	3,360	**6,609**	10,042	12,794
Other expenses and provisions	15	**1,619**	(2,309)	**(1,009)**	(2,920)	(4,039)
(Loss) profit for the period		**(9,149)**	15,603	**(13,260)**	13,140	23,504
Attributable to:						
Non-controlling interests		**(1,788)**	1,290	**(1,783)**	1,591	2,732
Shareholders of Parent Company		**(7,361)**	14,313	**(11,477)**	11,549	20,772
		(9,149)	15,603	**(13,260)**	13,140	23,504
Earnings per share attributable to shareholders (basic and diluted)	16 US$	**(0.04)**	0.07	**(0.06)**	0.06	0.10

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

(In thousands of U.S. Dollars)

	For the three months ended 30 September 2011 (reviewed)	For the three months ended 30 September 2010 (reviewed)	**For the financial year-to-date 30 September 2011 (reviewed)**	For the financial year-to-date 30 September 2010 (reviewed)	For the year ended 31 December 2010 (audited)
(Loss) profit for the period	**(9,149)**	15,603	**(13,260)**	13,140	23,504
Other comprehensive income					
Changes on remeasurement of available for sale investments	**(3,576)**	(10)	**(888)**	(2,266)	(5,161)
Transfers for recognition of (gains)/losses on disposal of available for sale investments	**337**	(1,069)	**362**	(1,120)	(2,136)
Other comprehensive income for the period	**(3,239)**	(1,079)	**(526)**	(3,386)	(7,297)
Total comprehensive income for the period	**(12,388)**	14,524	**(13,786)**	9,754	16,207
Attributable to:					
Non-Controlling interests	**(1,765)**	1,412	**(1,333)**	1,722	2,748
Shareholders of Parent Company	**(10,623)**	13,112	**(12,453)**	8,032	13,459
	(12,388)	14,524	**(13,786)**	9,754	16,207

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

ARAB INSURANCE GROUP (B.S.C.)

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings (accumulated deficit)	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (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 loss for the period	-	-	-	-	-	-	(11,477)	(11,477)	(1,783)	(13,260)
Changes on remeasurement of available-for-sale investments	-	-	-	(1,284)	-	(1,284)	-	(1,284)	396	(888)
Transfers for recognition of losses / (gains) on disposal of available-for-sale investment	-	-	-	307	-	307	1	308	54	362
Total comprehensive income for the period	-	-	-	(977)	-	(977)	(11,476)	(12,453)	(1,333)	(13,786)
Transfer of net depreciation on revalued property	-	-	-	-	(273)	(273)	273	-	-	-
Dividend	-	-	-	-	-	-	(14,852)	(14,852)	-	(14,852)
Balances at 30 September 2011	220,000	(14,793)	28,160	(459)	6,584	34,285	(6,657)	232,835	59,722	292,557

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

ARAB INSURANCE GROUP (B.S.C.)

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

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2009	220,000	(8,163)	25,998	7,833	7,221	41,052	14,456	267,345	60,594	327,939
Net profit for the year	-	-	-	-	-	-	20,772	20,772	2,732	23,504
Changes on remeasurement of available for sale investments	-	-	-	(5,192)	-	(5,192)	-	(5,192)	31	(5,161)
Transfers for recognition of (gains)/losses on disposal of available for sale investments	-	-	-	(2,123)	-	(2,123)	2	(2,121)	(15)	(2,136)
Total comprehensive income for the year	-	-	-	(7,315)	-	(7,315)	20,774	13,459	2,748	16,207
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Purchase of treasury stock	-	(6,630)	-	-	-	-	-	(6,630)	-	(6,630)
Transfer to legal reserves	-	-	2,162	-	-	2,162	(2,162)	-	-	-
Dividend	-	-	-	-	-	-	(13,170)	(13,170)	-	(13,170)
Directors' remuneration	-	-	-	-	-	-	(864)	(864)	-	(864)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(2,287)	(2,287)
Balances at 31 December 2010	220,000	(14,793)	28,160	518	6,857	35,535	19,398	260,140	61,055	321,195

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

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total Equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2009	220,000	(8,163)	25,998	7,833	7,221	41,052	14,456	267,345	60,594	327,939
Net profit for the period	-	-	-	-	-	-	11,549	11,549	1,591	13,140
Changes on remeasurement of available-for-sale investments	-	-	-	(2,371)	-	(2,371)	-	(2,371)	105	(2,266)
Transfers for recognition of losses/(gains) on disposal of available-for-sale investment	-	-	-	(1,148)	-	(1,148)	2	(1,146)	26	(1,120)
Total comprehensive income for the period	-	-	-	(3,519)	-	(3,519)	11,551	8,032	1,722	9,754
Transfer of net depreciation on revalued property	-	-	-	-	(273)	(273)	273	-	-	-
Purchase of treasury stock	-	(2,869)	-	-	-	-	-	(2,869)	-	(2,869)
Dividend	-	-	-	-	-	-	(13,174)	(13,174)	-	(13,174)
Directors remuneration	-	-	-	-	-	-	(864)	(864)	-	(864)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(2,287)	(2,287)
Balances at 30 September 2010	220,000	(11,032)	25,998	4,314	6,948	37,260	12,242	258,470	60,029	318,499

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2011 (reviewed)	For the financial year-to-date 30 September 2010 (reviewed)	For the year ended 31 December 2010 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**185,844**	204,212	246,356
Reinsurance premiums paid		**(13,914)**	(27,261)	(27,669)
Claims paid		**(198,535)**	(186,025)	(228,853)
Reinsurance receipts in respect of claims		**17,427**	12,126	16,289
Investment (loss) income		**(2,924)**	(1,553)	1,358
Interest received		**3,947**	4,170	8,181
Dividends received		**1,531**	3,434	1,617
Operating expenses paid		**(17,395)**	(20,002)	(30,186)
Other income/expenses, net		**428**	332	1,486
Insurance deposits received		**17,786**	4,459	2,947
Purchase of trading investments		**(67,017)**	(129,726)	(184,976)
Sale of trading investments		**101,069**	95,084	152,752
Directors' remuneration paid		**(846)**	(864)	(864)
Net cash provided by (used in) operating activities	17	**27,401**	(41,614)	(41,562)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Maturity/sale of investments		**118,662**	143,499	182,425
Purchase of investments		**(136,143)**	(131,272)	(203,677)
Interest received		**4,660**	4,609	6,553
Dividends Received		**151**	136	515
Investment income received		**(917)**	3,726	4,705
Collateralised cash deposits received (paid)		**152**	(350)	(2,163)
Purchase of property and equipment		**(1,049)**	(734)	(829)
Purchase of intangible assets		**(621)**	(1,005)	(254)
Investment in associate		**(375)**	-	-
Net cash (used in) provided by investing activities		**(15,480)**	18,609	(12,725)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings		**27,294**	-	-
Dividends paid		**(11,745)**	(13,023)	(12,819)
Purchase of treasury shares		**-**	(2,869)	(6,630)
Net cash provided by (used in) financing activities		**15,549**	(15,892)	(19,449)
Net increase (decrease) in cash and cash equivalents		**27,470**	(38,897)	(73,736)
Effect of exchange rate on cash and cash equivalents		**-**	6	(20)
Cash in subsidiary under member's voluntary liquidation		**-**	(5,712)	-
Cash and cash equivalents, beginning of period		**280,557**	354,313	354,313
Cash and cash equivalents, end of period		**308,027**	309,710	280,557

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

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2011

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements of the Group has been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting) which allows the interim financial information to be prepared in condensed form. The interim financial information does not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010.

The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2010 that were prepared in accordance with International Financial Reporting Standards (IFRS). Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

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

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

3. SEASONALITY OF INTERIM OPERATIONS

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

4. INVESTMENTS

	US$ '000		
	30 September 2011	31 December 2010	30 September 2010
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	**52,642**	102,271	96,200
	52,642	102,271	96,200
Designated at fair value on initial recognition			
Debt Securities			
- Other investment grade	**21,606**	24,497	28,493
- Other	**5,422**	5,821	5,438
	27,028	30,318	33,931
Held-to-maturity			
Debt securities			
- Supra-Nationals and OECD country Governments	**57,129**	59,225	54,287
- Other investment grade	**43,167**	53,606	53,979
- Non OECD country government	**2,657**	2,658	-
	102,953	115,489	108,266
Available-for-sale			
Debt securities			
- Supra-nationals and OECD country governments	**9,603**	27,440	17,859
- Other investment grade	**33,826**	39,211	19,530
- Non-OECD country governments	**5,423**	2,736	2,727
- Other	**17,594**	11,280	13,897
Common stock of listed companies	**10,780**	718	1,435
Common stock of unlisted companies	**9,701**	12,530	14,213
Other	**21,677**	21,527	21,749
	108,604	115,442	91,410
Long term bank deposits	**49,697**	-	-
Investment in associate	**375**	-	-
	341,299	363,520	329,807

Debt securities amounting to US$ 60.1 million (31 December 2010 US$ 66.3 million; 30 September 2010 US$ 48.1 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and bank deposits amounting to US$ 49.7 million (2010: US$: Nil) have been pledged against borrowings.

5. ACCRUED INCOME

	US$ '000		
	30 September 2011	31 December 2010	30 September 2010
Accrued insurance premiums	**137,535**	118,704	128,846
Accrued interest	**2,776**	2,811	2,328
	140,311	121,515	131,174

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 September 2011	31 December 2010	30 September 2010
General insurance business			
- Claims outstanding	**43,915**	44,871	44,207
- Unreported claims	**4,197**	11,112	12,066
- Deferred retrocession premium reserve	**10,684**	3,473	7,440
	58,796	59,456	63,713
Life insurance business			
- Claims outstanding	**515**	520	520
	515	520	520
	59,311	59,976	64,233

7. OTHER ASSETS

	US$ '000		
	30 September 2011	31 December 2010	30 September 2010
Intangible assets :			
- Present value of future profits (PVFP)	**5,000**	5,000	5,000
- Computer software	**10,500**	10,366	10,167
- Goodwill	**1,893**	1,893	1,893
	17,393	17,259	17,060
Less: accumulated amortisation/ impairment	**(14,600)**	(12,622)	(12,301)
Net intangible assets	**2,793**	4,637	4,759
Other assets :			
- Collateralised cash deposits	**6,334**	6,486	4,673
- Prepayments and other receivables	**20,133**	13,507	19,933
	26,467	19,993	24,606
	29,260	24,630	29,365

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000		
	30 September 2011	31 December 2010	30 September 2010
ASSETS			
Cash & cash equivalents	**14,921**	11,884	12,178
Accrued income	**32,420**	20,620	23,919
Insurance receivable	**7,580**	9,725	8,964
Insurance deposits	**2,395**	12,886	12,711
Deferred acquisition costs	**7,145**	4,583	6,386
Deferred Wakala fees	**3,169**	2,123	3,143
	67,630	61,821	67,301
LIABILITIES			
Accounts payable	**13,449**	9,809	10,119
Other liabilities	**-**	2	64
	13,449	9,811	10,183
TAKAFUL FUND			
Unearned contributions	**26,068**	14,602	20,957
Outstanding claims	**23,975**	30,288	26,156
Unreported losses	**30,515**	29,949	24,809
	80,558	74,839	71,922
Accumulated deficit	**(26,377)**	(22,829)	(14,804)
	67,630	61,821	67,301

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 30 September 2011	Year ended 31 December 2010	Year-to-date 30 September 2010
Gross contributions	**37,706**	36,164	33,136
Outward reinsurance premiums	**(1,641)**	(1,523)	(1,072)
Unearned contributions	**(11,477)**	7,301	943
Net earned contributions	**24,588**	41,942	33,007
Reported losses	**(16,061)**	(35,941)	(27,536)
Provision for unreported losses	**(565)**	(3,430)	1,832
Claim and related expenses	**(16,626)**	(39,371)	(25,704)
Policy acquisition costs	**(10,808)**	(10,376)	(9,815)
Deferred policy acquisition costs	**2,846**	959	2,762
Policy acquisition costs	**(7,962)**	(9,417)	(7,053)
Fee payable to operator (Wakala fee)	**(3,694)**	(6,400)	(5,112)
Investment income	**230**	272	197
Other expenses & provisions	**(84)**	(168)	(449)
Deficit for the period	**(3,548)**	(13,142)	(5,114)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 September 2011	31 December 2010	30 September 2010
General insurance business			
Claims outstanding	**268,815**	290,671	271,324
Unreported losses	**151,357**	144,304	166,034
Unearned premiums	**143,589**	91,167	128,477
	563,761	526,142	565,835
Life insurance business			
Claims outstanding	**16,328**	15,713	15,289
Unreported losses	**70,237**	70,311	67,872
Unearned premiums	**10,915**	17,162	8,290
	97,480	103,186	91,451
	661,241	629,328	657,286

10. OTHER LIABILITIES

	US$ '000		
	30 September 2011	31 December 2010	30 September 2010
Post employment benefits	**15,643**	15,319	15,425
Reinsurance premiums accrued	**12,065**	8,619	8,754
Dividends payable	**4,753**	1,260	1,286
Accrued expenses	**4,918**	4,995	4,265
Employee share scheme	**4,145**	3,386	3,031
Accrual for scheme of arrangement fees	**-**	2,231	3,231
Other	**15,023**	10,638	11,748
	56,547	46,448	47,740

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

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

	US$ '000							
	Period ended 30 September 2011							
	Non-life					Life		
	Treaty				Facultative	Short term	Long term	Total
	Property	Engg.	Medical	Others				
REVENUES :								
Gross premiums written	93,697	22,401	4,523	69,746	28,316	19,164	1,153	239,000
Outward reinsurance premiums	(23,211)	(993)	-	(6,090)	(592)	(347)	(8)	(31,241)
Change in unearned premiums – gross	(31,596)	(5,258)	867	(13,844)	(2,634)	(2,946)	9,196	(46,215)
Change in unearned premiums – reinsurance	6,050	(140)	-	1,305	(2)	-	-	7,213
Net earned premiums	44,940	16,010	5,390	51,117	25,088	15,871	10,341	168,757
Investment income attributable to insurance funds	229	124	86	401	380	122	157	1,499
	45,169	16,134	5,476	51,518	25,468	15,993	10,498	170,256
COSTS AND EXPENSES :								
Gross claims paid	(38,720)	(9,114)	(25,338)	(34,241)	(15,986)	(15,276)	(9,331)	(148,006)
Claims recovered from reinsurers	12,936	875	8	3,042	557	4	1	17,423
Change in provision for outstanding claims - gross	(2,148)	1,703	12,310	1,039	9,469	(1,117)	616	21,872
Change in provision for outstanding claims - reinsurance	64	(217)	61	(455)	(461)	(5)	-	(1,013)
Change in provision for unreported losses – gross	(3,787)	(1,374)	8,709	(3,423)	(6,839)	2,232	(2,175)	(6,657)
Change in provision for unreported losses - reinsurance	(7,548)	(155)	-	502	(52)	-	-	(7,253)
Claims and related expenses	(39,203)	(8,282)	(4,250)	(33,536)	(13,312)	(14,162)	(10,889)	(123,634)
Policy acquisition costs	(22,144)	(8,416)	(1,540)	(18,110)	(5,952)	(146)	521	(55,787)
Policy acquisition costs recovered from reinsurers	3	215	-	897	41	(5)	-	1,151
Change in deferred policy acquisition costs – gross	8,751	2,153	129	4,204	286	39	4	15,566
Change in deferred policy acquisition costs - reinsurance	(45)	47	-	82	1	-	-	85
Policy acquisition costs	(13,435)	(6,001)	(1,411)	(12,927)	(5,624)	(112)	525	(38,985)
Operating expenses	(4,602)	(1,359)	(841)	(4,027)	(2,496)	(1,571)	(592)	(15,488)
Underwriting result	(12,071)	492	(1,026)	1,028	4,036	148	(458)	(7,851)

11. SEGMENT INFORMATION - Analysis of revenue by primary business segment (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 paid	(39,056)	(9,787)	(26,341)	(38,441)	(35,334)	(25,128)	(9,594)	(183,681)
Claims recovered from reinsurers	642	652	-	7,994	7,001	703	(703)	16,289
Change in provision for outstanding claims – gross	2,623	(4,908)	(11,766)	(1,255)	5,184	(655)	6,870	(3,907)
Change in provision for outstanding claims - reinsurance	(637)	246	(218)	104	(7,585)	-	-	(8,090)
Change in provision for unreported losses – gross	(3,272)	3,886	11,611	(9,172)	5,299	188	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

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

	US$ '000							
	Period ended 30 September 2010							
	Non-life					Life		
	Treaty				Facultative	Short term	Long term	Total
	Property	Engineering	Medical	Others				
REVENUES :								
Gross premiums written	48,540	25,773	6,800	82,531	26,999	11,830	4,571	207,044
Outward reinsurance premiums	(1,698)	(1,776)	-	(22,477)	(1,311)	24	(23)	(27,261)
Change in unearned premiums - gross	(11,331)	(5,627)	16,776	(17,359)	(2,099)	(1,383)	297	(20,726)
Change in unearned premiums - reinsurance	62	344	-	6,180	8	-	-	6,594
Net earned premiums	35,573	18,714	23,576	48,875	23,597	10,471	4,845	165,651
Investment income attributable to insurance funds	1,577	816	625	2,477	2,556	760	1,164	9,975
	37,150	19,530	24,201	51,352	26,153	11,231	6,009	175,626
COSTS AND EXPENSES :								
Gross claims paid	(21,717)	(6,787)	(21,343)	(29,244)	(29,004)	(13,326)	(15,623)	(137,044)
Claims recovered from reinsurers	448	471	-	4,453	6,754	-	-	12,126
Change in provision for outstanding claims - gross	6,568	(2,152)	(6,343)	1,671	7,342	2,073	4,463	13,622
Change in provision for outstanding claims - reinsurance	(655)	(33)	-	(467)	(7,500)	-	-	(8,655)
Change in provision for unreported losses - gross	(5,659)	(2,561)	6,188	(15,942)	3,941	2,670	3,532	(7,831)
Change in provision for unreported losses - reinsurance	(66)	(128)	-	8,983	(140)	-	-	8,649
Claims and related expenses	(21,081)	(11,190)	(21,498)	(30,546)	(18,607)	(8,583)	(7,628)	(119,133)
Policy acquisition costs	(13,737)	(8,850)	(1,570)	(15,756)	(4,439)	857	849	(42,646)
Policy acquisition costs recovered from reinsurers	119	443	-	190	(54)	-	-	698
Change in deferred policy acquisition costs - gross	3,339	2,163	(979)	4,280	(228)	(366)	-	8,209
Change in deferred policy acquisition costs - reinsurance	(29)	(148)	-	(343)	-	-	-	(520)
Policy acquisition costs	(10,308)	(6,392)	(2,549)	(11,629)	(4,721)	491	849	(34,259)
Operating expenses	(2,740)	(1,646)	(1,704)	(4,395)	(2,805)	(1,607)	(1,218)	(16,115)
Underwriting result	3,021	302	(1,550)	4,782	20	1,532	(1,988)	6,119

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 September 2011			Financial year-to-date 30 September 2010	Year ended 31 December 2010
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**474**	**328**	**802**	959	1,304
- Others	**4,010**	**4,108**	**8,118**	9,758	13,128
Dividends	**797**	**780**	**1,577**	1,556	2,137
Realised gains (loss)					
- Trading investments	**537**	**(17)**	**520**	1,862	2,500
- Investment designated at fair value through profit or loss	**(40)**	**(28)**	**(68)**	2,185	1,922
- Available-for-sale	**2,319**	**1,847**	**4,166**	5,390	7,664
(Loss) gain on remeasurement of investments at fair value through profit & loss					
- Trading investments	**(5,146)**	**(6,173)**	**(11,319)**	1,661	9,252
- Investments designated at fair value through profit or loss	**(215)**	**(148)**	**(363)**	(1,222)	(1,310)
Impairment loss					
- available-for-sale	**(691)**	**(1,643)**	**(2,334)**	(615)	(1,408)
Other	**(546)**	**(401)**	**(947)**	(1,017)	(1,157)
	1,499	**(1,347)**	**152**	20,517	34,032

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 September 2011			Financial year-to-date 30 September 2010	Year ended 31 December 2010
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**12,164**	**6,820**	**18,984**	20,467	27,614
General and administration	**3,324**	**2,466**	**5,790**	6,291	7,880
	15,488	**9,286**	**24,774**	26,758	35,494

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 September 2011	Financial year-to-date 30 September 2010	Year ended 31 December 2010
Fees on managing Islamic reinsurance operations	**3,687**	5,112	6,400
Software sales and related services	**1,540**	940	1,180
Third party administration services	**1,201**	3,637	4,468
Other	**181**	353	746
	6,609	10,042	12,794

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 September 2011	Financial year-to-date 30 September 2010	Year ended 31 December 2010
Amortisation / impairment of intangible assets	**1,750**	750	1,000
Provision for doubtful receivable & Deposits	**-**	-	1,446
Foreign exchange (gain) loss	**(1,114)**	967	1,355
Other	**373**	1,203	238
	1,009	2,920	4,039

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		Financial year-to-date 30 September 2011	Financial year-to-date 30 September 2010	Year ended 31 December 2010
Weighted average number of shares outstanding	'000	**198,032**	208,291	206,900
Net (loss) profit	US$'000	**(11,477)**	11,549	20,772
Earnings per share	US$	**(0.06)**	0.06	0.10

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

	US$ '000		
	Financial year-to-date 30 September 2011	Financial year-to-date 30 September 2010	Year ended 31 December 2010
(Loss) profit for the period	**(13,260)**	13,140	23,504
Increase (decrease) in insurance funds	**19,318**	(188)	(15,402)
Change in insurance receivable/ payable, net	**(10,565)**	(1,613)	2,049
Change in accrued income	**(9,137)**	(3,462)	6,197
Change in other assets/liabilities, net	**41,045**	(49,491)	(57,910)
Net cash provided by (used in) operating activities	**27,401**	(41,614)	(41,562)

18. PRINCIPAL SUBSIDIARIES & JOINT VENTURES

At 30 September 2011, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2010. The Company continues to hold 50% of the Joint Venture Hardy Arig Insurance Management W.L.L. which is incorporated in the Kingdom of Bahrain.

19. RELATED PARTY TRANSACTIONS

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

The consolidated financial statements include the effect of the following transactions with related parties.

Compensation to directors and key management personnel are as follows:

	US$ '000		
	Financial year-to-date 30 September 2011	Financial year-to-date 30 September 2010	Year ended 31 December 2010
i) Directors			
- Remuneration	**-**	864	846
- Allowances	**56**	63	96
ii) Key management compensation			
- Salaries and other short-term employee benefits	**1,662**	1,766	2,093
- Post employment benefits	**164**	158	209
- Share-based compensation	**343**	880	1,018
iii) Balances payable (net)			
Key management			
- Maximum balance	**4,973**	4,869	4,618
- Closing balance	**4,973**	4,869	4,618

20. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in investee companies held as part of its investment portfolios amounting to US$ 7.4 million (31 December 2010: US$ 7.5 million; 30 September 2010: US$ 6.4 million).

The Subsidiary, Takaful Re Limited has a commitment to provide an interest free loan to the extent of the accumulated deficit in the participant's fund. The Group's share of the commitment is US$ 14.2 million (31 December 2010: US$ 12.3 million; 30 September 2010: US$ 8.0 million).

30 years

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ARAB INSURANCE GROUP

APPENDIX I

ARAB INSURANCE GROUP (B.S.C.)

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

INVESTMENTS

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

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

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

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

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

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

INVESTMENT IN ASSOCIATED COMPANIES

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

INVESTMENT INCOME

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

B. ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 30-September-2011		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	37,924	270,103	**308,027**
Total Cash & Cash Equivalents	**37,924**	**270,103**	**308,027**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	698	51,944	**52,642**
	698	**51,944**	**52,642**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	21,606	**21,606**
- Other	-	5,422	**5,422**
	-	**27,028**	**27,028**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	57,129	**57,129**
- Other Investment grade	5,005	38,162	**43,167**
- Non-OECD country government	-	2,657	**2,657**
	5,005	**97,948**	**102,953**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	9,603	**9,603**
- Other Investment grade	4,048	29,778	**33,826**
- Non-OECD country governments	1,285	4,138	**5,423**
- Other	8,590	9,004	**17,594**
Common stock of listed companies	-	10,780	**10,780**
Common stock of unlisted companies	-	9,701	**9,701**
Other (see note)	541	21,136	**21,677**
	14,464	**94,140**	**108,604**
Long Term Bank Deposits	39,756	9,941	49,697
	39,756	**9,941**	**49,697**
Investment in Associate	-	375	375
	-	**375**	**375**
Total Investments	**59,923**	**281,376**	**341,299**

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$ 3,480,000 (in U.A.E.: US$ 3,000).