Arab Insurance Group (B.S.C.)

Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2009

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REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The Directors of the Arab insurance Group (B.S.C.) (Arig) are pleased to present the Company's 29th Annual Report and Consolidated Financial Statements for the year ended 31 December 2009.

Financial Result

2009 witnessed positive financial performance across the organization as compared to 2008 results which were negatively impacted by write-downs on investments. The Group recorded net profits of US$ 21.9 million for the year (2008: net loss of US$ 28.6 million). The result represents an 8.6% average return on shareholders' equity. In view of the Company's return to profitability, the Board, subject to regulatory approval, recommends a cash dividend of 6.25% on paid-up capital (6.25 cents per share), amounting to US$ 13.75 million.

While the worst of the financial crisis appears to have passed, regional economies continue to reel from a general slowdown in demand, particularly within the private sector. As a result, insurance companies, eager to deliver on their business plans, competed heavily over the available market business. While premium written from cyclical lines slowed, remaining classes came under pricing pressure. We are determined to protect your interest by not compromising on the quality of the reinsurance book we write as the results could be detrimental to future income expectations. Responding to market conditions and consistent with our underwriting philosophy, the Company wrote US$ 279.4 million of Gross Premium in 2009 (-0.5%; 2008: US$ 280.7 million), albeit resulting in a further improved bottom line. At the same time, Net Written Premium showed a marginal increase to US$ 270.7 million (+1%; 2008: US$ 269.2 million).

Against the backdrop of a softening market, Arig achieved a combined ratio of 98.7% over the year (2008: 99.8%) on its non-life book of business. Producing profits from underwriting reinsurance risk remains at the core of Arig's corporate objectives and the Technical Result, i.e. performance of the reinsurance portfolio before investment income and operational expenses, represents a good indicator of the delivery on our goals. Again, there was a significant increase over the previous year with the Technical Result reaching US$ 16.5 million (+72%; 2008: US$ 9.6 million). Including investment income and operating expenses, the 2009 Underwriting Result came to US$ 10.6 million (2008: -15.3 million). Apart from improved underwriting performance, recovery in the financial markets allowed for the swift turn-around.

Investment earnings witnessed a rebound as global financial markets revived and the Group's prudent strategies and long term focus paid off. The Company reported investment earnings of US$ 33.7 million, a sharp reversal from the US$ 26.0 million of investment losses in 2008, representing an average rate of return on investments of 5.0% (2008: -3.7%). Invested assets, net of borrowings repaid, increased to US$ 663.7 million at the end of 2009 (2008: US$ 622.8 million).

The Market

After a tumultuous exit of 2008, the first quarter of 2009 seemed to define the bottom of the markets before government aid started to restore confidence into the financial and business community. After March, equity and bond markets recovered gradually. The global insurance industry, with one notable exception, seems to have escaped the worst of the financial crisis. Remarkably it managed to re-establish its pre-crisis capital position: having lost 16.9% of total, it is estimated that reinsurer capital increased by 16.6% in 2009[1], almost reinstating record levels held by the end of 2007. Adjusted capital improved primarily on the back of financial markets, often turning 2008 unrealized losses into 2009 unrealized gains.

Turnaround was aided by a benign catastrophe year. Insured Property losses compared favorably at US$ 20 billion against the US$ 58 billion recorded in 2008[2]. Cash flow for the industry thus stayed positive throughout and saved insurers from having to access extremely tight capital markets, or worse.

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[1] Estimates from 'Reinsurance Market Outlook, Remarkable Recovery', AON Benfield, January 2010

[2] ditto

In Arig's chosen markets the landscape was not uniform, however. Africa and Levant remained rather isolated from global events. Smaller economies showed little correlation with the situation on Wall Street while countries with deeper pockets could rely on the savings accumulated from past peaks in the commodity markets. In the Gulf, insurers were hit if they held large investment positions on equities and real estate. While investments in kind have remained a relatively unregulated key exposure within the Gulf, much of the asset depreciation was eventually compensated through liens taken on the generous levels of shareholder capital. In other Asian territories, insurers were affected by the impact of the crisis on the real economy. Whereas India turned around rather promptly due to its lesser dependence on global exports, massive public aid was extended for maintaining higher levels of economic activity in China. Southeast Asia remained mostly flat, as the insurance industry is not allowed over-exposing itself in riskier asset classes while consumer demand remained depressed.

Whereas 2009 will be viewed as one of the better years for reinsurers, primary insurers, or Arig's clients, have been struggling to strike meaningful levels of growth. This has spurred competition for top line even though income from investments has not been on par with that in previous years. The pressure to produce profits from underwriting risks - historically a weakness in the region - has increased and become a matter for long-term survival of the fittest. Managing investors' expectations in a subdued economic climate is becoming a challenge. In addition, government funded insurers and reinsurers are crowding the market, which is once again showing signs of oversupply.

Arig's Position

A number of mid-size claims included, 2009 proved to be a year without major industry losses. Whereas Arig followed the fortunes of reviving financial markets, much of the work done in the previous years started paying off helping to steer a course of confidence through volatile conditions. The Company's developed capital model provides guidance on Arig's risk capital position. Available shareholder's equity at the end of 2009 stood at a comfortable 2.3 times over the capital required to meet Arig's liabilities in a stressed 1:200-year loss scenario. Alongside, our analytical pricing tools are helping to maintain underwriting profitability in a softening market environment. Meanwhile, the Company keeps refining its Enterprise Risk Management framework helping to identify, manage and control all risks that Arig is faced with in its operating environment while aiming at producing profit for its shareholders within our defined risk space.

The cyclical lines of business, which benefitted from strong growth dynamics in previous years, suffered from a rapid drop in demand and reducing insured values during the reporting period. The onset of recessive developments in some markets impacted Construction and Marine lines in particular but also Motor Extended Warranties as consumer appetite fell to record lows. For Arig the effects were largely neutralized by growth in new business written in Life and Medical as well as income generated from the African continent - segments that we focused upon through recent years for the purpose of providing revenue and income smoothing across the market cycles.

2009 was marked by two corporate events and both investments were made to enhance Arig's earning stream from market segments that have been identified as attractive. In February, Arig opened a Representative Office on the island of Mauritius. Staffed by professionals who are familiar with the territory, this service office is enhancing our presence in the Sub-Sahara region. On November 15, the Central Bank of Bahrain approved the formation of Hardy Arig Insurance Management W.L.L. (HAIM) under its jurisdiction. The new company is an equally owned joint venture between the Hardy Underwriting Group and Arig, writing high-end single risk accounts under Lloyd's regulated policies. We are particularly pleased about our partnership with the Hardy Group, owners of the respected Syndicate 382 at Lloyd's. Hardy's specific approach to underwriting risk coupled with Arig's market access and knowledge is expected to generate significant future value to both partners.

Rather than resorting to radical changes in our business model, Arig has been following a regime of constant improvement. Building on income streams and assets that work in our favor, we are constantly looking at ways to improve the Company's performance beyond the traditional role and behavior of a regional reinsurer. Historically our business has been closely linked to the condition of the insurance markets in the MENA region, all of which continue to be intensely competitive, and often so beyond economic reason. Therefore our aim is to increase complementary income streams from areas where risk returns are technically adequate or better.

Outlook

Economic forecasts for 2010 remain subdued. Globally industrial production - and consumption of natural resources - is expected to remain well below the built up capacities. It will therefore take time for markets to exhaust current surplus and start generating growth at meaningful levels. Until then and in the absence of private sector confidence, significant investments are mainly expected to come from the public sector. Performance of the economies in the current year will largely depend on how much and how long governments are able to increase their spending in an effort to jump start their lagging economies.

Fortunately Arig has its stronghold amidst a regional community that is blessed with a solid stream of past and future income from natural resources. Mid- and long-term demand for oil and gas in particular is expected to exceed supplies. Infrastructure projects and other investments into the future remain high on the regional agenda and are a key reason why Hardy and Arig decided to gear up and compete for the allocation of such risks through the new joint venture HAIM. Personal lines and regional diversification will continue to provide alternative revenue streams albeit there is little doubt that 2010 will not be a year of strong expansion for the sector.

While 2009 has allowed companies to regroup financially and show positive results across the sector, there is no doubt that 2010 will be testing as the industry is struggling to match its income targets with a softening market for insurers and reinsurers alike, market fragmentation and reducing returns from investments. Good Enterprise Risk Management remains the order of the day. As we continue to operate in a volatile environment, the Members of the Board of Directors wish to give comfort to Arig's stakeholders that the Company's focus remains on building and expanding a business model that is both, solid and sustainable.

Arig is committed to sound principles of Corporate Governance and has adopted appropriate initiatives towards this end. In addition to complying with the requirements of Central Bank of Bahrain, Arig's governance practices are aimed at enhancing corporate value and transparency. During the year, the company's initiatives have been well recognised, as it continues to maintain leadership in transparency and disclosure amongst listed companies in the GCC.

In tune with corporate fortunes, Arig's role as a responsible corporate citizen has been enhanced. Management and staff were involved in charitable events in an ongoing effort to put smiles on the faces of the less privileged in our society.

ACKNOWLEDGEMENTS

The Directors 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 also extend their thanks and appreciation to our business partners, clients, shareholders, and regulators for their unwavering support and cooperation throughout the year and hope to further strengthen these relationships in the years ahead.

The Directors take this opportunity to record their appreciation and gratitude to the management team and all the staff of the Company for their sincere efforts, commitment and loyalty.

On behalf of the Board of Directors



Khalid Ali Al Bustani
Chairman
22 February 2010

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Arab Insurance Group (B.S.C.)
Manama, Kingdom of Bahrain

22 February 2010

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 2009, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the board of directors for the consolidated financial statements
The board of directors of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 controls 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 principles 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 2009, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the directors and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the Insurance Regulations set out in Volume 3 of the Insurance Rulebook issued by the Central Bank of Bahrain or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

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 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

(In thousands of U.S. Dollars)

	Note	2009	2008
ASSETS			
Cash and cash equivalents	5	**354,313**	402,949
Investments	6	**306,103**	271,948
Accrued income	8	**127,712**	102,867
Insurance receivables	9	**75,960**	63,646
Insurance deposits	10	**68,395**	62,341
Deferred policy acquisition costs		**22,296**	20,296
Reinsurers' share of technical provisions	11	**57,709**	67,577
Other assets	12	**26,423**	22,977
Takaful participants' assets	13	**65,745**	42,160
Property and equipment	14	**27,627**	26,126
		1,132,283	1,082,887
LIABILITIES			
Technical provisions	15	**647,551**	592,312
Insurance payables	18	**27,425**	34,922
Borrowings	19	**12,706**	68,384
Other liabilities	20	**50,917**	49,575
Takaful fund and participants' liabilities	13	**65,745**	42,160
		804,344	787,353
EQUITY			
Attributable to shareholders of parent company	21		
Share capital		**220,000**	220,000
Treasury stock		**(8,163)**	(7,889)
Reserves		**41,052**	33,045
Retained earnings (accumulated deficit)		**14,456**	(5,577)
		267,345	239,579
Non-controlling interests	22	**60,594**	55,955
		327,939	295,534
		1,132,283	1,082,887

These consolidated financial statements were approved by the Board of Directors on 22 February 2010 and signed by:



Khalid A. Al Bustani
Chairman



Khalid J. Bin Kalban
Vice Chairman



Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 38 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 2009

(In thousands of U.S. Dollars)

	Note		2009	2008
Gross premiums written			**279,355**	280,694
Net earned premiums			**264,023**	255,042
Claims and related expenses			**(194,357)**	(194,072)
Policy acquisition costs			**(53,150)**	(51,385)
Investment income (loss) attributable to insurance funds	25		**14,602**	(7,588)
Operating expenses	26		**(20,488)**	(17,298)
Underwriting result	23		**10,630**	(15,301)
Investment income (loss) attributable to shareholders' funds	25		**19,086**	(18,456)
Operating expenses – non underwriting activities	26		**(14,214)**	(15,096)
Borrowing cost			**(923)**	(2,151)
Other income	27		**13,541**	20,816
Other expenses and provisions	28		**(1,714)**	(3,104)
Profit (loss) for the year			**26,406**	(33,292)
Attributable to:				
Non-controlling interests			**4,553**	(4,724)
Shareholders of Parent Company			**21,853**	(28,568)
			26,406	(33,292)
Earnings per share attributable to shareholders:	29	US$	**0.10**	(0.13)

The accompanying notes 1 to 38 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 2009

(In thousands of U.S. Dollars)

	2009	2008
Profit (loss) for the year	**26,406**	(33,292)
Other comprehensive income		
Changes on remeasurement of available for sale investments	**5,090**	(10,708)
Transfers for recognition of losses/(gains) on disposal of available for sale investments	**1,523**	(2,055)
Other comprehensive income (loss) for the year	**6,613**	(12,763)
Total comprehensive income (loss) for the year	**33,019**	(46,055)
Attributable to:		
Non-controlling interests	**4,979**	(5,485)
Shareholders of Parent Company	**28,040**	(40,570)
	33,019	(46,055)

The accompanying notes 1 to 38 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 2009

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings (accumulated deficit)	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2008	220,000	(7,889)	23,813	1,648	7,584	33,045	(5,577)	239,579	55,955	295,534
Net income for the year	-	-	-	-	-	-	21,853	21,853	4,553	26,406
Changes on remeasurement of available for sale investments	-	-	-	4,659	-	4,659	-	4,659	431	5,090
Transfers for recognition of losses/(gains) on disposal of available for sale investment	-	-	-	1,526	-	1,526	2	1,528	(5)	1,523
Total comprehensive income for the year	-	-	-	6,185	-	6,185	21,855	28,040	4,979	33,019
Transfer of net depreciation on revalued property	-	-	-	-	(363)	(363)	363	-	-	-
Purchase of treasury stock	-	(274)	-	-	-	-	-	(274)	-	(274)
Transfer to legal reserves	-	-	2,185	-	-	2,185	(2,185)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 December 2009	220,000	(8,163)	25,998	7,833	7,221	41,052	14,456	267,345	60,594	327,939
Parent company balances at 31 December 2009	220,000	(8,163)	25,932	8,106	7,221	41,259	14,249	267,345	-	267,345

The accompanying notes 1 to 38 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 2008

(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
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Net loss for the year							(28,568)	(28,568)	(4,724)	(33,292)
Changes on remeasurement of available for sale investments				(10,110)		(10,110)		(10,110)	(598)	(10,708)
Transfers for recognition of gains on disposal of available for sale investment				(1,455)		(1,455)	(437)	(1,892)	(163)	(2,055)
Total comprehensive loss for the year	-	-	-	(11,565)	-	(11,565)	(29,005)	(40,570)	(5,485)	(46,055)
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Purchase of treasury stock	-	(1,341)	-	-	-	-	-	(1,341)	-	(1,341)
Dividends	-	-	-	-	-	-	(15,922)	(15,922)	-	(15,922)
Directors' remuneration	-	-	-	-	-	-	(1,026)	(1,026)	-	(1,026)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(3,284)	(3,284)
Balances at 31 December 2008	220,000	(7,889)	23,813	1,648	7,584	33,045	(5,577)	239,579	55,955	295,534
Parent company balances at 31 December 2008	220,000	(7,889)	23,747	2,423	7,584	33,754	(6,286)	239,579	-	239,579

The accompanying notes 1 to 38 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 2009

(In thousands of U.S. Dollars)

	Note	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		**241,083**	247,141
Reinsurance premiums paid		**(8,640)**	(11,487)
Claims paid		**(207,147)**	(203,290)
Reinsurance receipts in respect of claims		**8,562**	8,443
Investment (loss) income		**(6,681)**	4,325
Interest received		**8,501**	16,993
Interest paid		**(1,601)**	(2,275)
Dividends received		**1,470**	1,851
Operating expenses paid		**(24,954)**	(27,700)
Other income/expenses, net		**678**	7,168
Insurance deposits paid		**(6,098)**	(7,936)
Purchase of trading investments		**(98,667)**	(207,727)
Sale of trading investments		**100,788**	223,000
Directors' remuneration paid		**-**	(1,026)
Net cash provided by operating activities	33	**7,294**	47,480
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity/sale of investments		**179,602**	90,716
Purchase of investments		**(187,472)**	(123,124)
Interest received		**7,040**	6,544
Dividends received		**744**	1,595
Investment income received		**2,823**	1,127
Collateralised cash deposits received (paid)		**232**	(584)
Purchase of property and equipment		**(2,405)**	(13,554)
Purchase of intangible assets		**(360)**	(281)
Net cash provided by (used in) investing activities		**204**	(37,561)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		**(31)**	(15,507)
Purchase of treasury shares		**(274)**	(1,341)
Net borrowings		**(55,678)**	22,706
Net cash (used in) provided by financing activities		**(55,983)**	5,858
Net (decrease) increase in cash and cash equivalents		**(48,485)**	15,777
Effect of exchange rate on cash and cash equivalents		**(151)**	879
Cash and cash equivalents, beginning of year		**402,949**	386,293
Cash and cash equivalents, end of year		**354,313**	402,949

The accompanying notes 1 to 38 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 2009

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated 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:

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

- IFRS 7 - Financial Instruments - Disclosures, The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

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

The following relevant new/amended IFRS standards and interpretations have been issued, which are not yet mandatory and have not been adopted by the Group in preparing these consolidated financial statements:

- IFRS 2 – Share Based Payments – requires an entity receiving goods or services to account for the transaction in its separate financial statement even when another group entity or shareholder settles the transaction and the entity receiving the services has no obligation to settle the payment, effective 1 January 2010.

- IFRS 3 – Business Combinations – changes in accounting for business combinations that will impact the amount of goodwill recognized and the reported results in the period of acquisition and future reported results, effective for annual periods beginning on or after 1 July 2009

- IFRS 9 – Financial Instruments - 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, effective 1 January 2013

- IAS 24 – Related Party Disclosures - amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities, effective 1 January 2011

- IAS 27 – Consolidated and Separate Financial Statements – requires accounting for changes in ownership interest in subsidiary that occur without loss of control to be recognised as an equity transaction, effective 1 July 2009.

- IAS 32 – Financial Instruments: Presentation - allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments, effective 1 February 2010.

The adoption of the above standards and interpretations, is not expected to have a material impact on the financial statements except for IFRS 9 as financial assets would have to be reclassified and measured within the two new categories. The company is considering the implications of the standard, the impact and the timing of its adoption

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 2009. 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 govern the financial and operating policies so as to obtain benefits from their activities, and thus generally includes 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. 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 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. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Non-derivative financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables. Securities intended to be held for an indefinite period of time and those that are not classified as at fair value through profit or loss, held to maturity or loans and receivables, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale.

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

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

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

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

INVESTMENT 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 based on sliding scale rates applied on the aged balance of receivables 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. 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 based on sliding scale rates applied on the aged balance of deposits 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. 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

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.

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, net of translation adjustments relating to hedging liabilities, if any, are included in equity. Other foreign currency gains and losses are taken to income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

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

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.

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		
	2009		
	Receivables	**Share of technical provisions**	**Total**
Balance relating to reinsurers:			
- With investment grade rating	**5,480**	**42,661**	**48,141**
- Other	**18,415**	**15,844**	**34,259**
	23,895	**58,505**	**82,400**

	US$ '000		
	2008		
	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	5,281	46,548	51,829
- Other	23,599	11,520	35,119
	28,880	58,068	86,948

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**
2009					
Reinsurance Assets (Liabilities), net	**(8,999)**	**(1,137)**	**(6,463)**	**(496)**	**70,507**
Hedged	**(10,120)**	**(1,601)**	**-**	**-**	**-**

	US$ '000				
	Euro	Pound Sterling	Indian Rupee	Canadian Dollar	Other
2008					
Reinsurance Assets (Liabilities), net	(10,469)	(1,815)	(4,163)	(449)	(72,755)
Hedged	10,266	689	-	405	218

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 to market risks is as follows:

	US$ '000	
	2009	2008
	Income	Income
5% increase in ultimate loss ratio	**(13,201)**	(12,752)
5% decrease in ultimate loss ratio	**13,201**	12,752
10% increase in US Dollar exchange rate	**7,910**	8,118
10% decrease in US Dollar exchange rate	**(7,329)**	(7,510)

5. CASH AND CASH EQUIVALENTS

	US$ '000	
	2009	2008
Cash and bank balances	**141,851**	171,819
Deposits with short term maturities	**212,462**	231,130
	354,313	402,949

Deposits of US$ 13.6 million (2008: US$ 13.6 million) have been pledged as security for borrowing by the subsidiary, Takaful Re Limited.

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:

	2009	2008
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	**0.125% to 5.95%**	0.37% to 5.50%

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

iii) Currency risk:

	US$ '000	
	2009	2008
U.S. Dollar	**134,750**	299,701
UAE Dirham	**83,862**	37,141
Bahraini Dinar	**78,804**	23,350
Qatari Riyal	**49,416**	21,700
Other	**7,481**	21,057
	354,313	402,949

6. INVESTMENTS

	US$ '000	
	2009	2008
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	**53,953**	51,401
	53,953	51,401
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	**30,484**	-
- Other	**5,101**	17,771
	35,585	17,771
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	**64,412**	50,393
- Other investment grade	**54,425**	40,446
	118,837	90,839
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	**7,766**	38,525
- Other investment grade	**30,235**	18,232
- Non-OECD country governments	**3,546**	4,227
- Other	**13,455**	12,850
Common stock of listed companies	**1,814**	3,286
Common stock of unlisted companies	**19,383**	11,405
Other	**21,529**	23,412
	97,728	111,937
	306,103	271,948

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

	US$ '000	
	2009	2008
At 1 January	**8,303**	7,050
New provision:		
- Unlisted companies	**450**	1,316
- Others	**3,235**	2,485
Provision reversed on sale	**(86)**	(2,548)
At 31 December	**11,902**	8,303

Debt securities amounting to US$ 45.0 million (2008: US$ 41.1 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ Nil (2008: US$ 65.3 million) for borrowings.

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:

	2009		
	Interest receivable basis	**Effective rates**	**Coupon rates**
Supra-nationals and OECD country government securities	**Semi-annual/Annual**	1.49% - 5.14%	1.5% - 6.0%
Other investment grade debt securities	**Semi-annual/Annual**	0.88% - 6.92%	0.86% - 7.25%
Non-OECD country government securities	**Semi-annual/Annual**	2.46% - 4.5%	0.92% - 4.5%
Other securities	**Monthly/Semi-Annual**	0.63% - 4.95%	0.62 – 2.64%

	2008		
	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	**Semi-annual/Annual**	2.6% - 7.3%	2.8% - 7.5%
Other investment grade debt securities	**Semi-annual/Annual**	3.0% - 9.2%	3.0% - 9.5%
Non-OECD country government securities	**Semi-annual/Annual**	4.5% - 5.3%	4.5% - 5.2%
Other securities	**Monthly/Semi-Annual**	2.6% - 7.4%	2.4% - 7.4%

iii) Debt securities – currency risk :

	US$ '000		
	2009		
	U.S. Dollar	**Other**	**Total**
Supra-nationals and OECD country government securities	**72,178**	**-**	**72,178**
Other investment grade debt securities	**97,234**	**17,910**	**115,144**
Non-OECD country governments	**-**	**3,546**	**3,546**
Other debt securities	**18,556**	**-**	**18,556**
	187,968	**21,456**	**209,424**

	US$ '000		
	2008		
	U.S. Dollar	Other	Total
Supra-nationals and OECD country government securities	85,465	3,453	88,918
Other investment grade debt securities	57,584	1,094	58,678
Non-OECD country governments	2,025	2,202	4,227
Other debt securities	30,621	-	30,621
	175,695	6,749	182,444

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			
	2009		2008	
	Principal amount	**Book value**	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	**19,000**	**19,009**	17,343	17,560
- One to five years	**51,090**	**51,516**	62,124	63,167
- More than five years	**1,551**	**1,653**	8,009	8,191
	71,641	**72,178**	87,476	88,918
Debt securities of other investment grade issuers:				
- Due in one year or less	**7,436**	**7,454**	24,000	23,950
- One to five years	**98,565**	**101,422**	33,028	33,728
- More than five years	**6,048**	**6,268**	1,000	1,000
	112,049	**115,144**	58,028	58,678
Non-OECD country government securities:				
- Due in one year or less	**876**	**876**	550	540
- One to five years	**2,849**	**2,670**	2,236	3,687
	3,725	**3,546**	2,786	4,227
Other debt securities :				
- Due in one year or less	**1,700**	**1,481**	1,573	2,148
- One to five years	**8,411**	**8,147**	8,710	8,064
- More than 5 years	**9,755**	**8,928**	26,485	20,409
	19,866	**18,556**	36,768	30,621
	207,281	**209,424**	185,058	182,444

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	
	2009	2008
U.S. Dollar	**35,948**	29,703
Euro	**6,485**	3,842
Bahraini Dinar	**2,700**	2,382
Saudi Riyal	**5,974**	9,673
Pound Sterling	**5,271**	2,607
Japanese Yen	**3,447**	2,423
Other	**15,325**	15,462
	75,150	66,092

6. INVESTMENTS (Contd.)

vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 7.7 million (2008: US$ 8.7 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			
	2009		2008	
	Income	**Equity**	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves-debt instruments	**(117)**	**(2,001)**	(464)	(1,500)
– 100 basis points shift in yield curves-debt instruments	**120**	**2,053**	477	1,575
Currency risk				
10% increase in US Dollar exchange rate	**23,285**	**158**	9,528	166
10% decrease in US Dollar exchange rate	**(19,002)**	**(130)**	(7,796)	(135)
Equity price				
10% increase in equity prices	**5,999**	**-**	5,662	-
10% decrease in equity prices	**(5,999)**	**-**	(5,662)	-

8. ACCRUED INCOME

	US$ '000	
	2009	2008
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	**121,058**	95,938
- After 12 months	**3,384**	3,319
	124,442	99,257
Accrued interest		
- Expected to be received within 12 months	**3,270**	3,610
	127,712	102,867

9. INSURANCE RECEIVABLES

	US$ '000	
	2009	2008
Balances due :		
- Within 12 months	**75,862**	57,848
- After 12 months	**98**	5,798
	75,960	63,646

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

	US$ '000	
	2009	2008
At 1 January	**17,080**	16,016
Provision for impairment	**893**	1,064
31 December	**17,973**	17,080

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

	US$ '000	
	2009	2008
Under two years	**73**	138
Over two years	**11,043**	11,124
	11,116	11,262

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

	US$ '000	
	2009	2008
Upto 6 months	**12,000**	16,012
6 to 12 months	**25,182**	19,998
	37,182	36,010

10. INSURANCE DEPOSITS

	US$ '000	
	2009	2008
Balances due :		
- Within 12 months	**52,526**	47,995
- After 12 months	**15,869**	14,346
	68,395	62,341

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

	US$ '000	
	2009	2008
At 1 January	**5,430**	5,338
Provision for impairment	**(49)**	92
31 December	**5,381**	5,430

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

	US$ '000	
	2009	2008
Under ten years	**1,419**	1,108
Over ten years	**6,032**	4,684
	7,451	5,792

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

	US$ '000	
	2009	2008
Up to 1 year	**17,365**	14,728
1 to 3 years	**38,292**	33,227
	55,657	47,955

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000	
	2009	2008
General insurance business		
- Claims outstanding	**53,504**	57,552
- Unreported general insurance claims	**2,838**	7,681
- Deferred retrocession premium reserve	**847**	1,674
	57,189	66,907
Life insurance business		
- Life insurance claims outstanding	**520**	516
- Life insurance unreported losses	**-**	154
	520	670
	57,709	67,577

12. OTHER ASSETS

	US$ '000	
	2009	2008
Intangible assets :		
- Goodwill	**1,893**	1,893
- Present value of future profits (PVFP)	**5,000**	5,000
- Computer software	**10,267**	9,933
	17,160	16,826
Less : accumulated amortisation	**(11,404)**	(10,266)
Net intangible assets	**5,756**	6,560
Other assets due within 12 months:		
- Collateralised cash deposits	**4,323**	4,555
- Prepayments and other receivables	**16,344**	11,862
	20,667	16,417
	26,423	22,977

	US$ '000	
	2009	2008
Movement in intangible assets :		
Net book value at 1 January	**6,560**	7,343
- Additions	**335**	395
- Amortisation charge	**(1,139)**	(1,178)
Net book value at 31 December	**5,756**	6,560

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

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) STATEMENT OF FINANCIAL POSITION

	US$ '000	
	2009	2008
ASSETS		
Cash & cash equivalents	**9,483**	6,186
Accrued income	**30,428**	17,016
Insurance receivable	**8,019**	5,607
Insurance deposits	**9,810**	6,403
Deferred acquisition costs	**3,625**	3,821
Deferred wakala fees	**4,380**	3,127
	65,745	42,160
LIABILITIES		
Accounts payable	**13,881**	8,853
Other liabilities	**85**	51
	13,966	8,904
TAKAFUL FUND		
Unearned contributions	**21,904**	15,585
Outstanding claims	**12,757**	6,966
Unreported losses	**26,805**	13,317
	61,466	35,868
Accumulated deficit	**(9,687)**	(2,612)
	65,745	42,160

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$ 5.2 million (2008: US$ 1.4 million).

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS (Contd.)

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000	
	2009	2008
Gross contributions	**48,669**	34,033
Outward reinsurance premiums	**(1,491)**	(747)
Unearned contributions	**(6,261)**	(4,224)
Net earned contributions	**40,917**	29,062
Reported losses	**(18,319)**	(12,495)
Provision for unreported losses	**(14,117)**	(6,417)
Claim and related expenses	**(32,436)**	(18,912)
Policy acquisition costs	**(6,815)**	(5,944)
Deferred policy acquisition costs	**(202)**	219
Policy acquisition costs	**(7,017)**	(5,725)
Fee payable to operator (Wakala fee)	**(8,481)**	(5,962)
Investment income	**83**	159
Other expenses & provisions	**(141)**	(31)
Deficit for the year	**(7,075)**	(1,409)

14. PROPERTY AND EQUIPMENT

	US$ '000	
	2009	2008
Land	**1,340**	1,340
Building	**9,270**	9,272
Work in progress – building	**18,011**	16,240
Information systems, furniture, equipment and other	**13,574**	12,985
	42,195	39,837
Less: accumulated depreciation	**(14,568)**	(13,711)
	27,627	26,126
Movements in property and equipment		
Net book value at 1 January	**26,126**	10,355
- Additions	**2,406**	16,627
- Disposals	**(4)**	-
- Revaluation	**-**	-
- Reversal of impairment on revaluation	**-**	-
- Depreciation charge	**(901)**	(856)
Net book value at 31 December	**27,627**	26,126

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$ 9,272,000. 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. The subsidiary has a commitment of US$ 15.8 million (2008: US$ 15.8 million) towards construction of this building.

15. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000	
	2009	2008
General insurance business		
Claims outstanding	**283,257**	274,713
Unreported losses	**151,859**	132,887
Unearned premiums	**108,998**	100,210
	544,114	507,810
Life insurance business		
Claims outstanding	**22,162**	14,160
Unreported losses	**74,069**	60,687
Unearned premiums	**7,206**	9,655
	103,437	84,502
	647,551	592,312

The mean term of reserves is 2.7 years and 2.6 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:

	US$ '000					
	Underwriting year					
	2005	2006	2007	2008	2009	Total
Gross						
Estimate of incurred claims costs:						
- At end of underwriting year	60,230	61,939	145,803	104,722	109,672	
- One year later	98,619	122,927	226,499	184,130	-	
- Two years later	110,437	132,928	225,636	-	-	
- Three years later	115,741	143,254	-	-	-	
- Four years later	119,102	-	-	-	-	
Current estimate of incurred claims	119,102	143,254	225,636	184,130	109,672	781,794
Cumulative payments to date	(92,246)	(109,159)	(147,562)	(70,238)	(339)	(419,544)
Liability recognised	26,856	34,095	78,074	113,892	109,333	362,250
Liability in respect of prior years						169,097
Total liability included in the statement of financial position						531,347
Net						
Estimate of incurred claims costs:						
- At end of underwriting year	55,843	56,934	137,457	102,165	107,514	
- One year later	91,271	111,562	217,719	180,010	-	
- Two years later	101,740	121,448	218,690	-	-	
- Three years later	107,078	131,429	-	-	-	
- Four years later	109,963	-	-	-	-	
Current estimate of incurred claims	109,963	131,429	218,690	180,010	107,514	747,606
Cumulative payments to date	(85,538)	(100,124)	(143,945)	(69,007)	(256)	(398,870)
Liability recognised	24,425	31,305	74,745	111,003	107,258	348,736
Liability in respect of prior years						125,749
Total liability included in the statement of financial position						474,485

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

2009

	US$ '000		
	Gross	Reinsurance	Net
Claims			
Claims outstanding	**288,873**	**58,068**	**230,805**
Unreported losses	**193,574**	**7,835**	**185,739**
Total at beginning of year	**482,447**	**65,903**	**416,544**
Increase in provision during the year	**202,071**	**(479)**	**202,550**
Claims settled during the year	**(153,171)**	**(8,562)**	**(144,609)**
Balance at end of year	**531,347**	**56,862**	**474,485**
Unearned premium			
At beginning of year	**109,865**	**1,674**	**108,191**
Increase in provision during the year	**6,339**	**(827)**	**7,166**
Balance at end of year	**116,204**	**847**	**115,357**
Accrued insurance premium			
At beginning of year	**102,033**	**2,776**	**99,257**
Increase during the year	**23,975**	**(1,210)**	**25,185**
Balance at end of year	**126,008**	**1,566**	**124,442**
Deferred policy acquisitions costs			
At beginning of year	**20,919**	**623**	**20,296**
Increase during the year	**1,623**	**(377)**	**2,000**
Balance at end of year	**22,542**	**246**	**22,296**

2008

	US$ '000		
	Gross	Reinsurance	Net
Claims			
Claims outstanding	298,520	63,668	234,852
Unreported losses	140,187	10,590	129,597
Total at beginning of year	438,707	74,258	364,449
Increase in provision during the year	182,547	77	182,470
Claims settled during the year	(138,807)	(8,432)	(130,375)
Balance at end of year	482,447	65,903	416,544
Unearned premium			
At beginning of year	96,152	1,497	94,655
Increase in provision during the year	13,713	177	13,536
Balance at end of year	109,865	1,674	108,191
Accrued insurance premium			
At beginning of year	69,019	1,864	67,155
Increase during the year	33,014	912	32,102
Balance at end of year	102,033	2,776	99,257
Deferred policy acquisitions costs			
At beginning of year	17,690	478	17,212
Increase during the year	3,229	145	3,084
Balance at end of year	20,919	623	20,296

18. INSURANCE PAYABLES

	US$ '000	
	2009	2008
Due Within 12 months	**27,425**	34,922
	27,425	34,922

19. BORROWINGS

	US$ '000	
	2009	2008
Balances Due:		
- Within 12 months	**-**	55,678
- After 12 months	**12,706**	12,706
	12,706	68,384

Borrowings amounting to US$ nil (2008: US$ 55.7 million) and US$ 12.7 million (2008: US$ 12.7 million) are secured by debt securities and deposits with short term maturity, respectively. The effective interest rate on the borrowings was 5.2% (2008: 4.4%).

20. OTHER LIABILITIES

	US$ '000	
	2009	2008
Accrued expenses	**5,451**	3,786
Post employment benefits (note 31)	**14,290**	13,274
Accrual for scheme of arrangement fees	**3,231**	3,231
Reinsurance premiums accrued	**11,179**	11,733
Employee share scheme (note 30)	**1,370**	795
Dividends payable	**906**	937
Other	**14,490**	15,819
	50,917	49,575
Balances due:		
- Within 12 months	**35,457**	35,506
- After 12 months	**15,460**	14,069
	50,917	49,575

21. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition:

	US$ '000	
	2009	2008
Authorised		
500 million ordinary shares of US$ 1 each	**500,000**	500,000
Issued, Subscribed & Fully Paid-up		
220 million (2008: 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	
		2009	2008	**2009**	2008
Central Bank of Libya	**Libya**	**31.8**	31.8	**15.1**	15.0
General Pension & Social Security Authority	**UAE**	**27.5**	27.5	**13.0**	13.0
Ministry of Finance & Industry	**UAE**	**30.5**	27.2	**14.5**	12.9
Kuwait Investment Authority	**Kuwait**	**27.2**	27.2	**12.9**	12.9
Real Estate Bank	**UAE**	**11.0**	11.0	**5.2**	5.2

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	
	2009	2008	**2009**	2008	**2009**	2008
Less than 1%	**53.8**	69.2	**4,727**	**4,751**	**25.5**	32.7
1% to 5%	**29.1**	17.5	**7**	**5**	**13.8**	8.3
5% to 10%	**11.0**	11.0	**1**	**1**	**5.2**	5.2
10% and above	**116.9**	113.6	**4**	**4**	**55.5**	53.8

ii) Treasury stock:

The company held 9,210,326 of its own shares at 31 December 2009 (2008: 8,707,776 shares).

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) General reserve:

General Reserve represents unrestricted reserves created by appropriation from net profits of the parent or subsidiary companies.

v) 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.

vi) 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.)

vii) Retained earnings:

Retained earnings includes gains and losses on translation of financial statements of subsidiaries and 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	
	2009	2008
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	**(5)**	432
Transfers on disposal	**2**	(437)
Balance at 31 December	**(3)**	(5)

viii) 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 issued by them. 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. MINORITY INTERESTS

	US$ '000	
	2009	2008
At 1 January	**55,955**	64,724
Share of profit and movement in equity of subsidiaries	**4,979**	(5,485)
Dividend declared by subsidiary	**(340)**	(3,284)
At 31 December	**60,594**	55,955

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 2009							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engg.	Medical	Others				
REVENUES :								
Gross premiums written	49,122	29,687	49,192	66,736	34,455	30,460	19,703	279,355
Outward reinsurance premiums	(1,899)	(2,454)	-	(1,593)	(2,210)	(459)	(27)	(8,642)
Change in unearned premiums - gross	1,163	(791)	(11,886)	639	2,561	2,451	-	(5,863)
Change in unearned premiums - reinsurance	(629)	(133)	-	(66)	1	-	-	(827)
Net earned premiums	47,757	26,309	37,306	65,716	34,807	32,452	19,676	264,023
Investment income attributable to insurance funds	2,435	1,260	965	3,823	3,587	1,120	1,412	14,602
	50,192	27,569	38,271	69,539	38,394	33,572	21,088	278,625
COSTS AND EXPENSES :								
Gross claims paid	(35,706)	(9,216)	(23,205)	(32,152)	(23,762)	(21,648)	(7,482)	(153,171)
Claims recovered from reinsurers	2,457	945	-	1,181	3,979	(13)	13	8,562
Change in provision for outstanding claims – gross	2,287	(4,954)	(90)	(9,459)	12,259	(1,709)	(6,027)	(7,693)
Change in provision for outstanding claims - reinsurance	(1,411)	565	-	(53)	(4,257)	62	(58)	(5,152)
Change in provision for unreported losses – gross	4,851	(3,080)	(15,049)	2,306	(9,801)	(8,578)	527	(28,824)
Change in provision for unreported losses - reinsurance	(991)	(309)	(1)	(972)	(331)	-	-	(2,604)
Claims and related expenses	(28,513)	(16,049)	(38,345)	(39,149)	(21,913)	(31,886)	(13,027)	(188,882)
Policy acquisition costs	(15,948)	(10,170)	(4,803)	(17,460)	(7,341)	(555)	(1,108)	(57,385)
Policy acquisition costs recovered from reinsurers	379	773	-	1,093	64	109	(115)	2,303
Change in deferred policy acquisition costs - gross	494	144	1,053	587	(672)	(36)	(15)	1,555
Change in deferred policy acquisition costs - reinsurance	219	50	-	108	-	-	-	377
Policy acquisition costs	(14,856)	(9,203)	(3,750)	(15,672)	(7,949)	(482)	(1,238)	(53,150)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	(5,475)	(5,475)
Operating expenses	(3,269)	(2,200)	(2,339)	(5,194)	(3,600)	(2,253)	(1,633)	(20,488)
Underwriting result	3,554	117	(6,163)	9,524	4,932	(1,049)	(285)	10,630

23. SEGMENT INFORMATION (Contd.)

	US$ '000							
	Year ended 31 December 2008							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engg.	Medical	Others				
REVENUES :								
Gross premiums written	49,069	29,325	31,683	70,673	38,979	32,006	28,959	280,694
Outward reinsurance premiums	(3,902)	(2,917)	-	(2,526)	(1,911)	(258)	34	(11,480)
Change in unearned premiums - gross	(4,041)	(1,390)	(2,801)	(5,005)	(3,901)	2,786	-	(14,352)
Change in unearned premiums - reinsurance	112	20	-	83	(35)	-	-	180
Net earned premiums	41,238	25,038	28,882	63,225	33,132	34,534	28,993	255,042
Investment loss attributable to insurance funds	(1,473)	(490)	(776)	(1,557)	(2,235)	(555)	(502)	(7,588)
	39,765	24,548	28,106	61,668	30,897	33,979	28,491	247,454
COSTS AND EXPENSES :								
Gross claims paid	(27,248)	(9,062)	(19,696)	(28,786)	(23,453)	(21,463)	(9,099)	(138,807)
Claims recovered from reinsurers	3,593	1,102	2	1,151	2,230	354	-	8,432
Change in provision for outstanding claims - gross	1,960	31	93	(2,494)	2,305	(2,813)	(1,633)	(2,551)
Change in provision for outstanding claims - reinsurance	(2,290)	(183)	-	(355)	(1,711)	(218)	-	(4,757)
Change in provision for unreported losses – gross	(9,813)	(3,264)	(3,969)	(10,365)	(1,582)	(6,363)	687	(34,669)
Change in provision for unreported losses - reinsurance	(797)	(265)	1	(843)	(573)	158	-	(2,319)
Claims and related expenses	(34,595)	(11,641)	(23,569)	(41,692)	(22,784)	(30,345)	(10,045)	(174,671)
Policy acquisition costs	(15,340)	(10,541)	(3,382)	(17,801)	(7,066)	(2,312)	(843)	(57,285)
Policy acquisition costs recovered from reinsurers	935	757	-	768	259	-	-	2,719
Change in deferred policy acquisition costs - gross	1,460	580	114	1,057	403	(96)	(278)	3,240
Change in deferred policy acquisition costs - reinsurance	(32)	(7)	-	(20)	-	-	-	(59)
Policy acquisition costs	(12,977)	(9,211)	(3,268)	(15,996)	(6,404)	(2,408)	(1,121)	(51,385)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	(19,401)	(19,401)
Operating expenses	(2,946)	(1,761)	(1,902)	(4,243)	(3,145)	(1,733)	(1,568)	(17,298)
Underwriting result	(10,753)	1,935	(633)	(263)	(1,436)	(507)	(3,644)	(15,301)

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			
	2009		2008	
	Premium	Non-current assets	Premium	Non-current assets
Gross premiums from:				
- Middle East	**163,189**	**34,594**	166,245	33,804
- Africa	**40,845**	**303**	36,354	244
- Asia	**71,076**	**528**	77,432	521
- Others	**4,245**	**32**	663	4
	279,355	**35,457**	280,694	34,573

iii) Analysis of segment assets and liabilities:

	US$ '000							
	2009							
	Non Life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engg.	Medical	Others				
Segment assets	**56,117**	**34,700**	**42,581**	**100,913**	**83,713**	**17,605**	**21,881**	**357,510**
Non segment assets								
- Cash								**354,313**
- Investments								**306,103**
- Others								**114,357**
	56,117	**34,700**	**42,581**	**100,913**	**83,713**	**17,605**	**21,881**	**1,132,283**
Segment liabilities	**103,991**	**60,314**	**59,693**	**178,077**	**167,547**	**43,341**	**61,581**	**674,544**
Non segment liabilities								**129,800**
	103,991	**60,314**	**59,693**	**178,077**	**167,547**	**43,341**	**61,581**	**804,344**

23. SEGMENT INFORMATION (Contd.)

iii) Analysis of segment assets and liabilities:

	US$ '000							
	2008							
	Non Life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engg.	Medical	Others				
Segment assets	77,460	29,692	29,833	52,598	91,985	13,701	19,840	315,109
Non segment assets								
- Cash								402,949
- Investments								271,948
- Others								92,881
	77,460	29,692	29,833	52,598	91,985	13,701	19,840	1,082,887
Segment liabilities	122,703	63,428	31,969	158,726	174,498	35,799	51,840	638,963
Non segment liabilities								148,390
	122,703	63,428	31,969	158,726	174,498	35,799	51,840	787,353

24. OUTWARD REINSURANCE PREMIUMS

	US$ '000			
	2009			
	Treaty	**Facultative**	**Life**	**Total**
Proportional retrocession premium	**3,837**	**281**	**1**	**4,119**
Protection premium	**2,147**	**1,110**	**485**	**3,742**
Reinstatement premium	**(38)**	**819**	**-**	**781**
	5,946	**2,210**	**486**	**8,642**

	US$ '000			
	2008			
	Treaty	Facultative	Life	Total
Proportional retrocession premium	6,150	862	-	7,012
Protection premium	3,194	948	224	4,366
Reinstatement premium	1	101	-	102
	9,345	1,911	224	11,480

25. INVESTMENT INCOME

	US$ '000			
	2009			2008
	Insurance funds	**Shareholders' funds**	**Total**	
Interest income				
- Investments designated at fair value through profit or loss	**427**	**348**	**775**	1,540
- Others	**6,564**	**8,457**	**15,021**	20,215
Dividends	**920**	**1,294**	**2,214**	3,446
Realised (loss) gains				
- Trading investments	**(2,988)**	**(4,337)**	**(7,325)**	(9,005)
- Investment designated at fair value through profit or loss	**(2,591)**	**(2,112)**	**(4,703)**	496
- Available for sale	**1,822**	**1,586**	**3,408**	(538)
Gain (loss) on remeasurement				
- Trading investments	**6,787**	**12,046**	**18,833**	(33,273)
- Investments designated at fair value through profit or loss	**4,780**	**3,898**	**8,678**	(6,594)
Impairment loss-available for sale	**(1,343)**	**(2,256)**	**(3,599)**	(1,252)
Other	**224**	**162**	**386**	(1,079)
	14,602	**19,086**	**33,688**	(26,044)

26. OPERATING EXPENSES

	US$ '000			
	2009			2008
	Underwriting	Non-Underwriting	Total	
Salaries and benefits	**16,287**	**10,599**	**26,886**	24,549
General and administration	**4,201**	**3,615**	**7,816**	7,845
	20,488	**14,214**	**34,702**	32,394

27. OTHER INCOME

	US$ '000	
	2009	2008
Third party administration services	**6,105**	8,403
Fees on managing Islamic reinsurance operations	**8,481**	6,023
Foreign exchange (loss) gain	**(2,886)**	4,604
Software sales and related services	**1,293**	1,525
Other	**548**	261
	13,541	20,816

28. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2009	2008
Provision for doubtful receivables and deposits	**337**	1,161
Intangible asset amortised	**1,000**	1,000
Other	**377**	943
	1,714	3,104

29. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF PARENT COMPANY

Basic earnings per share has been computed as follows:

		2009	2008
Weighted average number of shares outstanding	'000	**211,186**	211,984
Net profit (loss)	US$'000	**21,853**	(28,568)
Earnings per share	US$	**0.10**	(0.13)

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	
	2009	2008
Liability	**1,370**	795
Expense	**(1,168)**	(464)

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 actuarial assumptions used for accounting purposes were:

	2009	2008
Discount rate	**1.5%**	2.9%
Expected return on plan assets	**1.5%**	2.9%
Future salary increases	**3.3%**	3.0%

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

	US$ '000	
	2009	2008
Balance at 1 January	**13,274**	13,649
Accruals for the year	**2,661**	2,806
Payments during the year	**(1,645)**	(3,181)
Balance at 31 December	**14,290**	13,274

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			
	2009		2008	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Euro	**1,602**	**6,524**	9,581	2,486
Pound Sterling	**11,282**	**20,196**	733	1,719
Japanese yen	**-**	**2,795**	-	1,717
Other	**-**	**2,242**	683	1,129
	12,884	**31,757**	10,997	7,051

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			
	2009		2008	
	Purchases	**Sales**	Purchases	Sales
Unrealised gains	**-**	**879**	727	21
Unrealised losses	**(296)**	**-**	(104)	(255)
	(296)	**879**	623	(234)

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

	US$ '000	
	2009	2008
Profit (loss) before minority interests	**26,406**	(33,292)
Increase in insurance funds	**57,053**	55,151
Change in insurance receivable/payable, net	**(18,745)**	(4,959)
Change in accrued income	**(24,845)**	(29,713)
Change in other assets/liabilities, net	**(32,575)**	60,293
Net cash provided by operating activities	**7,294**	47,480

34. FAIR VALUE DISCLOSURE

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

	US$ '000						
	2009						
	Book Value						
	At fair value through profit & loss	**Loans and receivables**	**Held to maturity**	**Available for sale**	**Amortised Cost**	**Total**	**Fair value**
ASSETS							
Cash and cash equivalents	-	**354,313**	-	-	-	**354,313**	**354,313**
Investments	**89,538**	-	**118,837**	**97,728**	-	**306,103**	**309,929**
Accrued income	-	**1,054**	**126,147**	**511**	-	**127,712**	**127,712**
Insurance receivables	-	**75,960**	-	-	-	**75,960**	**75,960**
Insurance deposits	-	**68,395**	-	-	-	**68,395**	**68,395**
Other assets	-	**18,641**	-	-	-	**18,641**	**18,641**
LIABILITIES							
Insurance payables	-	-	-	-	**27,425**	**27,425**	**27,425**
Borrowings	-	-	-	-	**12,706**	**12,706**	**12,706**
Other liabilities	-	-	-	-	**46,539**	**46,539**	**46,539**

	US$ '000						
	2008						
	Book Value						
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	Fair value
ASSETS							
Cash and cash equivalents	-	402,949	-	-	-	402,949	402,949
Investments	69,172	-	90,839	111,937	-	271,948	272,338
Accrued income	-	615	101,171	1,081	-	102,867	102,867
Insurance receivables	-	63,646	-	-	-	63,646	63,646
Insurance deposits	-	62,341	-	-	-	62,341	62,341
Other assets	-	15,347	-	-	-	15,347	15,347
LIABILITIES							
Insurance payables	-	-	-	-	34,922	34,922	34,922
Borrowings	-	-	-	-	68,384	68,384	68,384
Other liabilities	-	-	-	-	46,449	46,449	46,449

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:

2009	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**53,953**	-	-	**53,953**
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	**30,484**	-	-	**30,484**
- Other	**5,101**	-	-	**5,101**
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	**7,766**	-	-	**7,766**
- Other investment grade	**29,183**	-	-	**29,183**
- Non-OECD country governments	**1,185**	-	-	**1,185**
- Other	**11,396**	**1,059**	-	**12,455**
Common stock of listed companies	**1,814**	-	-	**1,814**
Common stock of unlisted companies	-	**18,383**	-	**18,383**
Other	**148**	**17,131**	-	**17,279**
	141,030	**36,573**	-	**177,603**

Investments amounting to US$ 9.7 million is being carried at cost as it's fair value cannot be ascertained.

iii. Forward foreign exchange contracts:

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

iv. Covered options:

The fair value of covered options is based on their quoted market prices.

v. 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

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

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

During the year, the company established a joint venture – Hardy Arig Insurance Management (W.L.L.) with Hardy Underwriting Bermuda Limited to develop reinsurance business on behalf of the joint venturers. The joint venture is incorporated in Bahrain and is equally owned by the company and Hardy Underwriting Bermuda Limited.

36. RELATED PARTY DISCLOSURES

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.

	US$ '000	
	2009	2008
i) Directors		
- Remuneration paid	**-**	1,026
- Allowances	**99**	91
ii) Key management compensation		
- Salaries and other short-term employee benefits	**1,206**	1,050
- Post-employment benefits	**638**	203
- Share-based benefit	**268**	(86)
iii) Balances payable (net)		
Key management		
- Maximum balance	**3,250**	2,493
- Closing balance	**3,250**	2,493

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 2009 and 2008 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	
	2009	2008
ASSETS		
Cash and cash equivalents	**265,733**	313,562
Investments	**263,179**	230,871
Accrued income	**127,073**	102,511
Insurance receivables	**74,108**	61,021
Insurance deposits	**68,395**	62,341
Deferred policy acquisition costs	**22,296**	20,296
Reinsurers' share of technical provisions	**57,709**	67,577
Other assets	**16,135**	17,514
Investment in subsidiaries	**79,435**	73,604
Fixed assets	**9,038**	9,201
	983,101	958,498
LIABILITIES		
Technical provisions	**647,551**	592,312
Insurance payables	**27,425**	34,918
Borrowings	**-**	55,678
Other liabilities	**40,780**	36,011
	715,756	718,919
SHAREHOLDERS' EQUITY (note 21)		
Share capital	**220,000**	220,000
Treasury stock	**(8,163)**	(7,889)
Reserves	**41,259**	33,754
Retained earnings (accumulated deficit)	**14,249**	(6,286)
	267,345	239,579
	983,101	958,498

38. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The directors propose to recommend the following appropriations for approval of shareholders at the Annual General Assembly meeting to be held on 28 March 2010:

	US$ '000
Cash dividend of US$ 0.0625 per share of US$ 1 each	**13,750**
Directors' remuneration	**864**
	14,614