Arab Insurance Group (B.S.C.)

Report of the Board of Directors and Consolidated Financial Statements for the year ended 31 December 2010

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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 30th Annual Report and Consolidated Financial Statements for the year ended 31 December 2010.

Financial Result

For the completed Financial Year 2010, the Arig Group generated net profits of US$ 20.8 million, representing an average return of 7.9% on shareholders' equity. Consequently, the Board has recommended a cash dividend of 7.5% on the company's paid-up capital (7.5 cents per share), or US$ 14.9 million, which yet remains subject to regulatory approval.

The Market

Even though global results in our industry seem to suggest a similar experience as in the previous year, the image is misleading. 2009 was primarily characterized by the catch-up recoveries that were achieved starting from the low point of the preceding financial crisis. At the same time, large loss events seen by the markets remained well below their historical average. Subsequently by the end of 2009, reinsurers' capital had increased by 17.5%[1] world-wide. In 2010 however, devastating earthquakes in Chile, Haiti and New Zealand, damaging weather conditions in Australia, Europe and the U.S. and the massive oil spill related to the Deepwater Horizon explosion created a different scenario sending claims bills from disasters up by 33% to reach US$ 36 billion[2]. Meanwhile, equity markets had turned volatile as the global economy presented a mixed picture with the U.S. hovering close to recession, the Euro Zone battling to contain a drawn out debt crisis while Brazil, India and China were trying to prevent their economies from overheating. Following 34% premium growth in 2009, demand for reinsurance had dropped to a meagre 2% after the third quarter 2010[3] creating increasing pricing pressures for suppliers. Meanwhile reinsurers' combined capital had yet again grown by 17% globally, reaching a new historical peak of US$ 470 billion[4]. Caught between capital surplus, lackluster demand and declining return on equity it is easy to see why there has been a recent resurgence of share buy-backs. Likewise, M&A activity increased significantly as a number of reinsurers preferred to pursue acquisitions rather than expensive organic growth.

It is worth noting that the decline in investment returns from fixed term deposits and government bonds, i.e. the assets preferred by the insurance industry for their limited volatility risk, has not resulted in an effort to improve product prices. Quite to the contrary, it is estimated that in 2010 prices declined by a further 5% to 10% on average, depending on lines and territories[5]. In essence this means that margins available to the insurance industry on existing risk exposures have continued to shrink, which inevitably affected profitability from ongoing operations.

Despite the current situation the picture is not all gloomy. Most reinsurers world-wide - including Arig - have continued to make money, albeit at a lower rate than during the somewhat exceptional year 2009. Yet it is obvious that the current situation can hardly persist: as future investments would yield lower returns, the geared nature of the non-life (re-) insurance industry's balance sheet means "that for every percentage point reduction in interest rates the combined ratio has to be cut by almost two percentage points to generate the same return on equity"[6]. This, under the current market environment, looks increasingly unlikely to happen. As we are about to reach a low point for the market and many companies have started to live off their reserves, it becomes clear that any shock to the industry's capital base, either through large-scale underwriting losses or through capital market effects, will provoke a sharper reaction that will upset the current equilibrium and make prices point upwards again. The question is not *if* this is going to happen but rather *when* it will occur.

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[1] Aon Benfield Analytics
[2] Guy Carpenter 2010 Catastrophe Update, Dec. 21, 2010
[3] Aon Benfield Analytics
[4] ditto
[5] Willis 1st View, Willis Re, 1 January 2011
[6] Aon Benfield Reinsurance Market Outlook, January 2011

Arig's Position

Our Group has not been isolated from the global developments. Yet we adjusted our corporate strategies in time to respond to the change in market climate:

- Actively managing company capital we bought back up to 10% of treasury shares - the legal limit allowed under Bahrain Commercial Law - in order to support Arig's share price and to improve the return on equity for shareholders.
- Managing our expenses the Group has initiated negotiations to dispose of non-core activities; efforts are continuing and the Board will be communicating the results once agreements have been finalized. More efforts are made on making our organization leaner. We clearly understand the need for maximizing efficiencies particularly as margins achievable from our business are under pressure.
- Our reinsurance portfolio is consistently priced, monitored and adjusted in response to market trends. Since 2006, Arig replaced approximately one quarter of its book with new business. Despite prevailing market environment and one major individual claim, our loss ratio has broadly remained within the expected range.

For the first time in years, Arig's reinsurance premium is showing a significant reduction of 14.3% against 2009. Rather than writing business at a loss, the Group preferred to protect shareholders' interest by terminating some underperforming large individual Medical accounts where careful analysis had revealed that the original rates charged to the insureds were no longer sufficient to cover our claims and expenses. We therefore preferred to shift our underwriting focus to more attractive markets which are expected to make up for the premium shortfall within the next reporting period.

In the Middle East, our home base, slower economic growth, high fragmentation of the insurance markets and "focused efforts on writing premium over underwriting have lead to a loss in profits with an average combined loss ratio of 95 to 105 percent"[7]. Despite the continuing deterioration, market rates remained soft as new reinsurance capacity continues to flow into the region. The Group therefore had to concentrate on making its presence felt in other parts of the world:

Our business partnership with the Hardy Underwriting Group, a Lloyd's based insurer and reinsurer domiciled in Bermuda, grew significantly in 2010 to reach US$ 26.8 million of gross written premium. In January, HAIM, the joint venture between our organizations domiciled in Bahrain, became operational writing Property/Energy and Engineering risks in the Afro-Asian region. At the same time Arig started participating in Hardy's world-wide Property book, a highly diversified and technically priced portfolio of individual catastrophe protection accounts. Despite the spate of natural events during the first six months the program has returned good profits to the Group. We view Hardy as a strategic partner allowing Arig access to markets and business lines, where it would either be impossible or too costly to build up our own infrastructure. As a principle we only take risk positions where the economics are viewed to be in our favor.

In November, Arig opened a Representative Office in Tripoli, mostly to capture a larger share of the premium associated with infrastructure and other development programs in Libya. This office will also act as a service outlet for the neighbouring markets of the Maghreb. Meanwhile our office in Mauritius is making good progress and has helped to expand our premium base from Sub-Saharan territories, which now has overtaken income generated from North Africa.

In the Far East, the Singapore Branch operation continues to concentrate on the volume markets of China and Korea. Following large losses from snow storms during the winter of 2007/2008, the Chinese market has increasingly been focusing on underwriting results, which in turn has generated profits for reinsurance. Even though ample underwriting capacity is readily available, demand from local insurers continues to be high in view of the country's growth and development, making this an interesting future playing field.

New expansion territories include Russia and selected markets of the Commonwealth of Independent States (CIS), where, following a period of study, we are making inroads through carefully selected business partnerships.

[7] Aon Benfield Reinsurance Market Outlook, January 2011

2010 was generally a good year for investors despite interim volatilities. Global equity markets recovered from the steep correction witnessed in the first half of 2010 to post modest gains by the year-end. Bond yields also rose towards the latter part of the year. The Company reported investment earnings of US$ 34 million (2009: US$ 33.7 million), representing an average rate of return on investments of 5.2% (2009: 5.0%). Invested assets at the end of 2010 were US$ 646.9 million (2009: US$ 663.7 million).

Outlook

For 2011 the Group remains cautiously optimistic. Barring unforeseeable mega events that would move markets into a different direction, Arig is in a good position for profitable growth as our core markets are increasing signs of economic activity. The order of the day will continue to be selectivity in managing our existing portfolio while expanding into alternative areas.

At the end of 2010 Arig established corporate membership at Lloyd's under the name of Arig Capital Limited (ACL). With effect from 2011, the company has entered into an arrangement whereby 7.5% of all business written by Hardy Underwriting will be ceded to our Group. This agreement provides Arig with expertly written and technically rated business that was outside of our reach before. It is a highly desirable replacement for the underperforming accounts given up in 2010 and prior. We estimate that close to 25% of Arig's book will emanate from the London Market in 2011. The new segment will show little, if any, correlation to our traditional book and thereby contribute positively to the already high degree of diversity and risk spread keeping Arig's capital consumption at comparatively low levels.

As our industry will be stressed at maintaining high levels of returns and valuations, this may in fact be a good time for considering investment opportunities. Shareholders may rest assured that the management and staff of the Group are constantly testing ways and means to place Arig into a better position ensuring that appropriate profitability can be achieved in years to come.

For many years, Arig has adopted the Best Practices of Corporate Governance and continues to strengthen its governance applications, in order to deliver corporate value and meet the regulatory requirements.

30 YEARS OF ARIG

Almost 30 years ago on 1 July 1981, Arig started its underwriting operations from the Kingdom of Bahrain with the support of the founding shareholders, the Governments of Kuwait, Libya and the UAE. Since then not only the Group has developed but the whole world around us has transformed itself massively. The countries of our shareholders have become powerhouses in a global battle for resources and, as a result, major investments are being made into the future of our Arab region. In the meantime, Arig has weathered the storms of challenging markets, armed conflicts in neighbouring territories, the tragedy of 9/11 with all its implications, and, as of late, the financial crisis of 2008. While some big names in our industry have vanished and others only survived through colossal government intervention, the Board is proud to say that Arig still stands tall today. The Group is neither reliant on special privileges, nor did it require recurring capital infusion. Arig is holding its own, competing successfully with its peers and, in most years, paying dividends to its shareholders well above what can be achieved at risk free rates.

Far from being complacent, we realize that new battles need to be won every year - one day at a time. Record-high capitalization and overcapacities in our industry paired with the dawning of stricter regulation and new risk technologies pose a formidable challenge to a regional reinsurer today. In the coming years, the Group will need to do no less than to reinvent itself if success is to be ensured for the next 30 years. But then again, Arig has done it before - and so will do it again.

ACKNOWLEDGEMENTS

At this point, the Board would like to thank all of the Group's insurance clients for their unwavering trust through three decades, the shareholders for their confidence and support, and the management and staff for the years of untiring commitment and professionalism that clients have come to expect from Arig.

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 to the regulators for their support and cooperation throughout the year.

On behalf of the Board of Directors

Khalid Ali Al Bustani
Chairman
13 February 2011

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

13 February 2011

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 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law 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 adverse effect on the operations of the Company or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

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 2010

(In thousands of U.S. Dollars)

	Note	2010	2009
ASSETS			
Cash and cash equivalents	5	**280,557**	354,313
Investments	6	**363,520**	306,103
Accrued income	8	**121,515**	127,712
Insurance receivables	9	**75,246**	75,960
Insurance deposits	10	**65,636**	68,395
Deferred policy acquisition costs		**19,967**	22,296
Reinsurers' share of technical provisions	11	**59,976**	57,709
Other assets	12	**24,450**	26,423
Takaful participants' assets	13	**61,821**	65,745
Property and equipment	14	**27,570**	27,627
		1,100,258	1,132,283
LIABILITIES			
Technical provisions	15	**629,328**	647,551
Insurance payables	18	**28,760**	27,425
Borrowings	19	**12,706**	12,706
Other liabilities	20	**46,448**	50,917
Takaful fund and participants' liabilities	13	**61,821**	65,745
		779,063	804,344
EQUITY			
Attributable to shareholders of parent company	21		
Share capital		**220,000**	220,000
Treasury stock		**(14,793)**	(8,163)
Reserves		**35,535**	41,052
Retained earnings		**19,398**	14,456
		260,140	267,345
Non-controlling interests	22	**61,055**	60,594
		321,195	327,939
		1,100,258	1,132,283

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

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

The accompanying notes 1 to 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 2010

(In thousands of U.S. Dollars)

	Note		2010	2009
Gross premiums written			**239,530**	279,355
Net earned premiums			**222,329**	264,023
Claims and related expenses			**(160,232)**	(194,357)
Policy acquisition costs			**(45,886)**	(53,150)
Investment income attributable to insurance funds	25		**17,588**	17,843
Operating expenses	26		**(21,558)**	(20,488)
Underwriting result	23		**12,241**	13,871
Investment income attributable to shareholders' funds	25		**16,444**	15,845
Operating expenses – non underwriting activities	26		**(13,936)**	(14,214)
Borrowing cost			**-**	(923)
Other income	27		**12,794**	16,427
Other expenses and provisions	28		**(4,039)**	(4,600)
Profit for the year			**23,504**	26,406
Attributable to:				
Non-controlling interests			**2,732**	4,553
Shareholders of Parent Company			**20,772**	21,853
			23,504	26,406
Earnings per share attributable to shareholders (basic and diluted):	29	US$	**0.10**	0.10

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 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 2010

(In thousands of U.S. Dollars)

	2010	2009
Profit for the year	**23,504**	26,406
Other comprehensive income		
Changes on remeasurement of available for sale investments	**(5,161)**	5,090
Transfers for recognition of (gains)/losses on disposal of available for sale investments	**(2,136)**	1,523
Other comprehensive income for the year	**(7,297)**	6,613
Total comprehensive income for the year	**16,207**	33,019
Attributable to:		
Non-controlling interests	**2,748**	4,979
Shareholders of Parent Company	**13,459**	28,040
	16,207	33,019

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 2010

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2009	220,000	(8,163)	25,998	7,833	7,221	41,052	14,456	267,345	60,594	327,939
Net profit for the year	-	-	-	-	-	-	20,772	20,772	2,732	23,504
Changes on remeasurement of available for sale investments	-	-	-	(5,192)	-	(5,192)	-	(5,192)	31	(5,161)
Transfers for recognition of (gains)/losses on disposal of available for sale investments	-	-	-	(2,123)	-	(2,123)	2	(2,121)	(15)	(2,136)
Total comprehensive income for the year	-	-	-	(7,315)	-	(7,315)	20,774	13,459	2,748	16,207
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Purchase of treasury stock	-	(6,630)	-	-	-	-	-	(6,630)	-	(6,630)
Transfer to legal reserves	-	-	2,162	-	-	2,162	(2,162)	-	-	-
Dividend	-	-	-	-	-	-	(13,170)	(13,170)	-	(13,170)
Directors' remuneration	-	-	-	-	-	-	(864)	(864)	-	(864)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(2,287)	(2,287)
Balances at 31 December 2010	220,000	(14,793)	28,160	518	6,857	35,535	19,398	260,140	61,055	321,195
Parent company balances at 31 December 2010	220,000	(14,793)	28,094	772	6,857	35,723	19,210	260,140	-	260,140

The accompanying notes 1 to 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 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 profit 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 investments	-	-	-	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 CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

(In thousands of U.S. Dollars)

	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		**246,356**	241,083
Reinsurance premiums paid		**(27,669)**	(8,640)
Claims paid		**(228,853)**	(207,147)
Reinsurance receipts in respect of claims		**16,289**	8,562
Investment Income		**1,358**	(6,681)
Interest received		**8,181**	8,501
Interest paid		**-**	(1,601)
Dividends received		**1,617**	1,470
Operating expenses paid		**(30,186)**	(24,954)
Other income/expenses, net		**1,486**	678
Insurance deposits received (paid)		**2,947**	(6,098)
Purchase of trading investments		**(184,976)**	(98,667)
Sale of trading investments		**152,752**	100,788
Directors' remuneration paid		**(864)**	-
Net cash (used in) provided by operating activities	33	**(41,562)**	7,294
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity/sale of investments		**182,425**	179,602
Purchase of investments		**(203,677)**	(187,472)
Interest received		**6,553**	7,040
Dividends received		**515**	744
Investment income received		**4,705**	2,823
Collateralised cash deposits (paid) received		**(2,163)**	232
Purchase of property and equipment		**(829)**	(2,405)
Purchase of intangible assets		**(254)**	(360)
Net cash (used in) provided by investing activities		**(12,725)**	204
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		**(12,819)**	(31)
Purchase of treasury shares		**(6,630)**	(274)
Net borrowings		**-**	(55,678)
Net cash used in financing activities		**(19,449)**	(55,983)
Net decrease in cash and cash equivalents		**(73,736)**	(48,485)
Effect of exchange rate on cash and cash equivalents		**(20)**	(151)
Cash and cash equivalents, beginning of year		**354,313**	402,949
Cash and cash equivalents, end of year		**280,557**	354,313

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 2010

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board and are consistent with prevailing practice within the insurance industry.

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

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

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

The Group has adopted the following new and revised IFRS and interpretations which became effective in 2010:

- IAS 27 Consolidated and Separate Financial Statements (amended 2008)

  The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group has applied IAS 27 (revised) prospectively from 1 January 2010 to transactions with non-controlling interests and for transactions resulting in loss of control. The change in accounting policy was applied prospectively and had no material impact on the financial statements.

- Improvements to IFRSs (2009)

  Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. There were no material changes to the current accounting policies of the Company as a result of these amendments.

The following standards and interpretations have been issued but not yet effective for the year ended 31 December 2010:

- IFRS 9 'Financial Instruments'

  Standard issued November 2009 (IFR9 (2009))

  IFRS 9 (2009) "Financial Instruments" is the first standard issued as part of a wider project to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

  Standard issued October 2010 (IFR9 (2010))

  IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 *"reassessment of Embedded Derivatives"*

  The Group is yet to assess the impact of IFRS 9. However, initial indications are that it may affect the Group's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments will therefore have to be recognised in profit or loss.

  While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

- IAS 24(Revised) "related party disclosures"
  It was issued in November 2009 and is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard will be applied, the Group and the parent will need to disclose transactions between its subsidiaries and its associates. This change is not expected to have a major effect on the Group's financial statements

- Improvements to IFRSs (2010)
  Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Company's/ Group's 2011 annual financial statements with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

The Group did not early-adopt new or amended standards in 2010.

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 2010. It also includes the accounts of its joint venture Hardy Arig Insurance Management (HAIM), which has been consolidated using the proportionate consolidation method.

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

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

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

The Company's subsidiary, Takaful Re Limited, is an Operator of Islamic Reinsurance business. In accordance with applicable Shari'a principles, participants' (policyholders') funds are maintained distinct from the Operator's (shareholders') funds. 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. Derivative financial instruments that are not designated as accounting hedge are classified as at fair value through profit or loss. Investments with fixed or determinable payments and fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity. Financial instruments with fixed or determinable payments and that are not quoted in an active market are categorised as loans and receivables. Securities intended to be held for an indefinite period of time and those that are not classified as at fair value through profit or loss, held to maturity or loans and receivables, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale.

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

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

The fair value of publicly traded investments is based on quoted market values at the statement of financial position date. Fair value of managed funds is based on net asset value quoted by the fund manager and fair values of other investments are estimated at realisable values.

Where it is not possible to estimate the fair value, the asset is carried at cost less impairment, if any.

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

INVESTMENT IN ASSOCIATED COMPANIES

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

INSURANCE RECEIVABLES

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

INSURANCE DEPOSITS

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

INTANGIBLE ASSETS

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

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

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added

to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

GOODWILL

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

PROPERTY & EQUIPMENT AND RELATED DEPRECIATION

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

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

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

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

PROVISIONS

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

POST EMPLOYMENT OBLIGATIONS

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

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

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 are included in equity. Other foreign currency gains and losses are taken to income.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying its accounting policies, the Group makes estimates and judgements that have an impact on the amounts recognised and reported in the financial statements. These

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

i) **Claims and related expenses**

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

ii) **Ultimate premiums**

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

4. MANAGEMENT OF INSURANCE RISKS

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

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

i) Underwriting risks

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

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

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

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

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

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

	US$ '000		
	2009		
	Receivables	Share of technical provisions	Total
Balance relating to reinsurers:			
- With investment grade rating	10,558	38,180	48,738
- Other	18,415	15,844	34,259
	28,973	54,024	82,997

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**
2010					
Reinsurance Assets (Liabilities), net	**(7,620)**	**(1,909)**	**(9,354)**	**(687)**	**83,235**
Hedged	**(7,519)**	**(855)**	**-**	**-**	**-**

	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)	-	-	-

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	
	2010	2009
5% increase in ultimate loss ratio	**(11,117)**	(13,201)
5% decrease in ultimate loss ratio	**11,117**	13,201
10% increase in US Dollar exchange rate	**9,795**	7,910
10% decrease in US Dollar exchange rate	**(9,156)**	(7,329)

5. CASH AND CASH EQUIVALENTS

	US$ '000	
	2010	2009
Cash and bank balances	**58,365**	141,851
Deposits with short term maturities	**222,192**	212,462
	280,557	354,313

Deposits of US$ 13.6 million (2009: 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:

	2010	2009
Interest receivable basis:		
- Bank balances	**Daily/Monthly**	Daily/Monthly
- Deposits with short term maturities	**On maturity**	On maturity
Effective rates	**0.125% to 3.35%**	0.125% to 5.95%

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

iii) Currency risk:

	US$ '000	
	2010	2009
U.S. Dollar	**85,896**	134,750
UAE Dirham	**69,561**	83,862
Bahraini Dinar	**70,060**	78,804
Qatari Riyal	**47,322**	49,416
Other	**7,718**	7,481
	280,557	354,313

6. INVESTMENTS

	US$ '000	
	2010	2009
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	**102,271**	53,953
	102,271	53,953
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	**24,497**	30,484
- Other	**5,821**	5,101
	30,318	35,585
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	**59,225**	64,412
- Other investment grade	**53,606**	54,425
- Non OECD country government	**2,658**	-
	115,489	118,837
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	**27,440**	7,766
- Other investment grade	**39,211**	30,235
- Non-OECD country governments	**2,736**	3,546
- Other	**11,280**	13,455
Common stock of listed companies	**718**	1,814
Common stock of unlisted companies	**12,530**	19,383
Other	**21,527**	21,529
	115,442	97,728
	363,520	306,103

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

	US$ '000	
	2010	2009
At 1 January	**11,902**	8,303
New provision:		
- Unlisted companies	**454**	450
- Others	**990**	3,235
Provision reversed on sale	**(36)**	(86)
At 31 December	**13,310**	11,902

Debt securities amounting to US$ 66.3 million (2009: US$ 45.0 million) have been pledged as security for reinsurance trust agreements.

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:

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

	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%

iii) Debt securities – currency risk :

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

	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

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			
	2010		2009	
	Principal amount	**Book value**	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	**9,000**	**9,009**	19,000	19,009
- One to five years	**70,051**	**70,454**	51,090	51,516
- More than five years	**6,967**	**7,202**	1,551	1,653
	86,018	**86,665**	71,641	72,178
Debt securities of other investment grade issuers:				
- Due in one year or less	**13,856**	**13,926**	7,436	7,454
- One to five years	**94,010**	**95,733**	98,565	101,422
- More than five years	**7,566**	**7,655**	6,048	6,268
	115,432	**117,314**	112,049	115,144
Non-OECD country government securities:				
- Due in one year or less	**-**	**-**	876	876
- One to five years	**5,507**	**5,394**	2,849	2,670
	5,507	**5,394**	3,725	3,546
Other debt securities :				
- Due in one year or less	**1,508**	**1,615**	1,700	1,481
- One to five years	**7,360**	**7,189**	8,411	8,147
- More than 5 years	**7,099**	**8,297**	9,755	8,928
	15,967	**17,101**	19,866	18,556
	222,924	**226,474**	207,281	209,424

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	
	2010	2009
U.S. Dollar	**68,742**	35,948
Euro	**3,918**	6,485
Bahraini Dinar	**3,164**	2,700
Saudi Riyal	**8,178**	5,974
Pound Sterling	**8,599**	5,271
Japanese Yen	**2,670**	3,447
Other	**20,248**	15,325
	115,519	75,150

6. INVESTMENTS (Contd.)

vi) Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 7.48 million (2009: US$ 7.7 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			
	2010		2009	
	Income	**Equity**	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves-debt instruments	**(906)**	**(2,323)**	(117)	(2,001)
– 100 basis points shift in yield curves-debt instruments	**944**	**2,419**	120	2,053
Currency risk				
10% increase in US Dollar exchange rate	**21,006**	**368**	23,285	527
10% decrease in US Dollar exchange rate	**(17,187)**	**(295)**	(19,002)	(431)
Equity price				
10% increase in equity prices	**10,518**	**221**	5,999	332
10% decrease in equity prices	**(10,518)**	**(221)**	(5,999)	(332)

8. ACCRUED INCOME

	US$ '000	
	2010	2009
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	**92,436**	90,899
- After 12 months	**26,268**	33,543
	118,704	124,442
Accrued interest		
- Expected to be received within 12 months	**2,811**	3,270
	121,515	127,712

9. INSURANCE RECEIVABLES

	US$ '000	
	2010	2009
Balances due :		
- Within 12 months	**74,797**	75,862
- After 12 months	**449**	98
	75,246	75,960

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

	US$ '000	
	2010	2009
At 1 January	**17,973**	17,080
Provision for impairment	**118**	893
31 December	**18,091**	17,973

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

	US$ '000	
	2010	2009
Under two years	**14**	73
Over two years	**10,607**	11,043
	10,621	11,116

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

	US$ '000	
	2010	2009
Upto 6 months	**10,049**	12,000
6 to 12 months	**23,547**	25,182
	33,596	37,182

10. INSURANCE DEPOSITS

	US$ '000	
	2010	2009
Balances due :		
- Within 12 months	**51,182**	52,526
- After 12 months	**14,454**	15,869
	65,636	68,395

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

	US$ '000	
	2010	2009
At 1 January	**5,381**	5,430
Provision for impairment	**851**	(49)
31 December	**6,232**	5,381

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

	US$ '000	
	2010	2009
Under ten years	**917**	1,419
Over ten years	**6,133**	6,032
	7,050	7,451

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

	US$ '000	
	2010	2009
Up to 1 year	**13,440**	17,365
1 to 3 years	**38,392**	38,292
	51,832	55,657

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000	
	2010	2009
General insurance business		
- Claims outstanding	**44,871**	53,504
- Unreported claims	**11,112**	2,838
- Deferred retrocession premium reserve	**3,473**	847
	59,456	57,189
Life insurance business		
- Claims outstanding	**520**	520
	520	520
	59,976	57,709

12. OTHER ASSETS

	US$ '000	
	2010	2009
Intangible assets :		
- Present value of future profits (PVFP)	**5,000**	5,000
- Computer software	**10,166**	10,267
	15,166	15,267
Less : accumulated amortisation	**(12,602)**	(11,404)
	2,564	3,863
- Goodwill	**1,893**	1,893
Net intangible assets	**4,457**	5,756
Other assets due within 12 months:		
- Collateralised cash deposits	**6,486**	4,323
- Prepayments and other receivables	**13,507**	16,344
	19,993	20,667
	24,450	26,423

	US$ '000	
		2009
Movement in intangible assets :		
Net book value at 1 January	**5,756**	6,560
- Additions	**219**	335
- Write-off	**(320)**	-
- Amortisation charge	**(1,198)**	(1,139)
Net book value at 31 December	**4,457**	5,756

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	
	2010	2009
ASSETS		
Cash & cash equivalents	**11,884**	9,483
Accrued income	**20,620**	30,428
Insurance receivable	**9,725**	8,019
Insurance deposits	**12,886**	9,810
Deferred acquisition costs	**4,583**	3,625
Deferred wakala fees	**2,123**	4,380
	61,821	65,745
LIABILITIES		
Accounts payable	**9,809**	13,881
Other liabilities	**2**	85
	9,811	13,966
TAKAFUL FUND		
Unearned contributions	**14,602**	21,904
Outstanding claims	**30,288**	12,757
Unreported losses	**29,949**	26,805
	74,839	61,466
Accumulated deficit	**(22,829)**	(9,687)
	61,821	65,745

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$ 12.3 million (2009: US$ 5.2 million).

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS (Contd.)

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000	
	2010	2009
Gross contributions	**36,164**	48,669
Outward reinsurance premiums	**(1,523)**	(1,491)
Unearned contributions	**7,301**	(6,261)
Net earned contributions	**41,942**	40,917
Reported losses	**(35,941)**	(18,319)
Provision for unreported losses	**(3,430)**	(14,117)
Claim and related expenses	**(39,371)**	(32,436)
Policy acquisition costs	**(10,376)**	(6,815)
Deferred policy acquisition costs	**959**	(202)
Policy acquisition costs	**(9,417)**	(7,017)
Fee payable to operator (Wakala fee)	**(6,400)**	(8,481)
Investment income	**272**	83
Other expenses & provisions	**(168)**	(141)
Deficit for the year	**(13,142)**	(7,075)

14. PROPERTY AND EQUIPMENT

	US$ '000	
	2010	2009
Land	**1,340**	1,340
Building	**9,270**	9,270
Work in progress – building	**18,457**	18,011
Information systems, furniture, equipment and other	**13,865**	13,574
	42,932	42,195
Less: accumulated depreciation	**(15,362)**	(14,568)
	27,570	27,627
Movements in property and equipment		
Net book value at 1 January	**27,627**	26,126
- Additions	**1,010**	2,406
- Disposals	**(184)**	(4)
- Depreciation charge	**(883)**	(901)
Net book value at 31 December	**27,570**	27,627

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

Work in progress-building is the office premises of the subsidiary Takaful Re Limited under construction in Dubai, U.A.E. The subsidiary has a commitment of US$ 15.8 million (2009: US$ 15.8 million) towards construction of this building.

15. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000	
	2010	2009
General insurance business		
Claims outstanding	**290,671**	283,257
Unreported losses	**144,304**	151,859
Unearned premiums	**91,167**	108,998
	526,142	544,114
Life insurance business		
Claims outstanding	**15,713**	22,162
Unreported losses	**70,311**	74,069
Unearned premiums	**17,162**	7,206
	103,186	103,437
	629,328	647,551

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					
	2006	2007	2008	2009	2010	Total
Gross						
Estimate of incurred claims costs:						
- At end of underwriting year	61,939	145,803	104,722	109,672	105,119	
- One year later	122,927	226,499	184,130	175,223	-	
- Two years later	132,928	225,636	186,828	-	-	
- Three years later	143,254	228,594	-	-	-	
- Four years later	148,242	-	-	-	-	
Current estimate of incurred claims	148,242	228,594	186,828	175,223	105,119	844,006
Cumulative payments to date	(117,530)	(166,609)	(126,689)	(60,349)	(10,670)	(481,847)
Liability recognised	30,712	61,985	60,139	114,874	94,449	362,159
Liability in respect of prior years						158,840
Total liability included in the statement of financial position						520,999
Net						
Estimate of incurred claims costs:						
- At end of underwriting year	56,934	137,457	102,165	107,514	89,173	
- One year later	111,562	217,719	180,010	173,266		
- Two years later	121,448	218,690	182,613	-		
- Three years later	131,429	221,626	-	-		
- Four years later	135,990	-	-	-		
Current estimate of incurred claims	135,990	221,626	182,613	173,266	89,173	802,668
Cumulative payments to date	(108,402)	(162,723)	(124,696)	(59,531)	(3,887)	(459,239)
Liability recognised	27,588	58,903	57,917	113,735	85,286	343,429
Liability in respect of prior years						121,067
Total liability included in the statement of financial position						464,496

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

2010	US$ '000		
	Gross	Reinsurance	Net
Claims			
Claims outstanding	**305,419**	**54,024**	**251,395**
Unreported losses	**225,928**	**2,838**	**223,090**
Total at beginning of year	**531,347**	**56,862**	**474,485**
Change in provision during the year	**173,448**	**15,930**	**157,518**
Claims settled during the year	**(183,796)**	**(16,289)**	**(167,507)**
Balance at end of year	**520,999**	**56,503**	**464,496**
Unearned premium			
At beginning of year	**116,204**	**847**	**115,357**
Change in provision during the year	**(7,875)**	**2,626**	**(10,501)**
Balance at end of year	**108,329**	**3,473**	**104,856**
Accrued insurance premium			
At beginning of year	**126,008**	**1,566**	**124,442**
Movement during the year	**(1,372)**	**4,366**	**(5,738)**
Balance at end of year	**124,636**	**5,932**	**118,704**
Deferred policy acquisitions costs			
At beginning of year	**22,542**	**246**	**22,296**
Movement during the year	**(2,082)**	**247**	**(2,329)**
Balance at end of year	**20,460**	**493**	**19,967**

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
Change 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
Change 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
Movement 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
Movement during the year	1,623	(377)	2,000
Balance at end of year	22,542	246	22,296

18. INSURANCE PAYABLES

	US$ '000	
	2010	2009
Due Within 12 months	**28,760**	27,425
	28,760	27,425

19. BORROWINGS

	US$ '000	
	2010	2009
Balances Due:		
- After 12 months	**12,706**	12,706
	12,706	12,706

Borrowings amounting to US$ 12.7 million (2009: US$ 12.7 million) are secured by deposits with short term maturity. The effective interest rate on the borrowings was 4.7% (2009: 5.2%). During the year the subsidiary renegotiated the term of the loan.

20. OTHER LIABILITIES

	US$ '000	
	2010	2009
Post employment benefits (note 31)	**15,319**	14,290
Reinsurance premiums accrued	**8,619**	11,179
Accrued expenses	**4,995**	5,451
Employee share scheme (note 30)	**3,386**	1,370
Accrual for scheme of arrangement fees	**2,231**	3,231
Dividends payable	**1,260**	906
Other	**10,638**	14,490
	46,448	50,917
Balances due:		
- Within 12 months	**27,742**	35,457
- After 12 months	**18,706**	15,460
	46,448	50,917

21. SHAREHOLDERS' EQUITY

i) Share capital:

a) Composition:

	US$ '000	
	2010	2009
Authorised		
500 million ordinary shares of US$ 1 each	**500,000**	500,000
Issued, Subscribed & Fully Paid-up		
220 million (2009: 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	
		2010	2009	**2010**	2009
Central Bank of Libya	**Libya**	**31.8**	31.8	**16.1**	15.1
Emirates Investment Authority	**UAE**	**30.5**	30.5	**15.4**	14.5
General Pension & Social Security Authority	**UAE**	**27.5**	27.5	**13.9**	13.0
Kuwait Investment Authority	**Kuwait**	**20.0**	27.2	**10.1**	12.9
Real Estate Bank	**UAE**	**11.0**	11.0	**5.6**	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	
	2010	2009	**2010**	2009	**2010**	2009
Less than 1%	**54.5**	53.8	**4,828**	4,727	**27.7**	25.5
1% to 5%	**22.7**	29.1	**5**	7	**11.3**	13.8
5% to 10%	**11.0**	11.0	**1**	1	**5.6**	5.2
10% and above	**109.8**	116.9	**4**	4	**55.4**	55.5

ii) Treasury stock:

The company held 21,967,818 of its own shares at 31 December 2010 (2009: 9,210,326 shares) and is carried at cost US$ 14,793,000 (2009: US$ 8,163,000)

iii) Legal reserve:

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

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

	US$ '000	
	2010	2009
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	**(3)**	(5)
Transfers on disposal	**2**	2
Balance at 31 December	**(1)**	(3)

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. The company is in compliance with the required margin of solvency.

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

22. NON-CONTROLLING INTERESTS

	US$ '000	
	2010	2009
At 1 January	**60,594**	55,955
Share of comprehensive income	**2,748**	4,979
Dividend declared by subsidiary	**(2,287)**	(340)
At 31 December	**61,055**	60,594

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 2010							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engg.	Medical	Others				
REVENUES :								
Gross premiums written	76,546	26,211	14,324	57,082	32,854	25,733	6,780	239,530
Outward reinsurance premiums	(2,157)	(2,059)	-	(21,504)	(1,888)	(939)	879	(27,668)
Change in unearned premiums - gross	(3,804)	(883)	16,269	5,440	777	637	(10,594)	7,842
Change in unearned premiums - reinsurance	(8)	141	-	2,492	-	-	-	2,625
Net earned premiums	70,577	23,410	30,593	43,510	31,743	25,431	(2,935)	222,329
Investment income attributable to insurance funds	2,681	1,472	1,015	4,555	4,367	1,637	1,861	17,588
	73,258	24,882	31,608	48,065	36,110	27,068	(1,074)	239,917
COSTS AND EXPENSES :								
Gross claims paid	(39,056)	(9,787)	(26,341)	(38,441)	(35,334)	(25,128)	(9,594)	(183,681)
Claims recovered from reinsurers	642	652	-	7,994	7,001	703	(703)	16,289
Change in provision for outstanding claims – gross	2,623	(4,908)	(11,766)	(1,255)	5,184	(655)	6,870	(3,907)
Change in provision for outstanding claims - reinsurance	(637)	246	(218)	104	(7,585)	-	-	(8,090)
Change in provision for unreported losses – gross	(3,272)	3,886	11,611	(9,172)	5,299	188	1,314	9,854
Change in provision for unreported losses - reinsurance	(44)	(582)	-	7,764	(100)	-	-	7,038
Claims and related expenses	(39,744)	(10,493)	(26,714)	(33,006)	(25,535)	(24,892)	(2,113)	(162,497)
Policy acquisition costs	(14,622)	(8,979)	(1,636)	(15,032)	(5,688)	(48)	1,499	(44,506)
Policy acquisition costs recovered from reinsurers	194	542	-	281	(71)	(5)	5	946
Change in deferred policy acquisition costs - gross	(24)	410	(1,404)	(43)	(646)	(381)	9	(2,079)
Change in deferred policy acquisition costs - reinsurance	2	(65)	-	(184)	-	-	-	(247)
Policy acquisition costs	(14,450)	(8,092)	(3,040)	(14,978)	(6,405)	(434)	1,513	(45,886)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	-	-	-	2,265	2,265
Operating expenses	(5,749)	(2,081)	(1,238)	(5,329)	(3,815)	(2,455)	(891)	(21,558)
Underwriting result	13,315	4,216	616	(5,248)	355	(713)	(300)	12,241

23. SEGMENT INFORMATION (Contd.)

	US$ '000							
	Year ended 31 December 2009							
	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engineering	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	2,975	1,540	1,179	4,672	4,383	1,369	1,725	17,843
	50,732	27,849	38,485	70,388	39,190	33,821	21,401	281,866
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	4,094	397	(5,949)	10,373	5,728	(800)	28	13,871

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			
	2010		2009	
	Premium	Non-current assets	Premium	Non-current assets
from:				
- Middle East	**116,052**	**52,778**	163,189	63,517
- Africa	**34,574**	**6,182**	40,845	7,542
- Asia	**81,115**	**14,505**	71,076	13,124
- Others	**7,789**	**1,393**	4,245	784
	239,530	**74,858**	279,355	84,967

iii) Analysis of segment assets and liabilities:

	US$ '000							
	2010							
	Non Life					Life		Total
	Treaty				Facultative	Short term	Long term	
	Property	Engg.	Medical	Others				
Segment assets	**65,675**	**36,739**	**22,254**	**97,416**	**75,329**	**12,733**	**31,133**	**341,279**
Non segment assets								
- Cash								**280,557**
- Investments								**363,520**
- Others								**114,902**
	65,675	**36,739**	**22,254**	**97,416**	**75,329**	**12,733**	**31,133**	**1,100,258**
Segment liabilities	**109,783**	**63,016**	**39,804**	**181,635**	**154,980**	**46,711**	**62,517**	**658,446**
Non segment liabilities								**120,617**
	109,783	**63,016**	**39,804**	**181,635**	**154,980**	**46,711**	**62,517**	**779,063**

23. SEGMENT INFORMATION (Contd.)

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

24. OUTWARD REINSURANCE PREMIUMS

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

	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

25. INVESTMENT INCOME

	US$ '000			
	2010			2009
	Insurance funds	**Shareholders' funds**	**Total**	
Interest income				
- Investments designated at fair value through profit or loss	**814**	**490**	**1,304**	775
- Others	**6,428**	**6,700**	**13,128**	15,021
Dividends	**1,122**	**1,015**	**2,137**	2,214
Realised (loss) gains				
- Trading investments	**1,630**	**870**	**2,500**	(7,325)
- Investment designated at fair value through profit or loss	**1,199**	**723**	**1,922**	(4,703)
- Available-for-sale	**4,662**	**3,002**	**7,664**	3,408
Gain (loss) on remeasurement of investments at fair value through profit & loss				
- Trading investments	**3,932**	**5,320**	**9,252**	18,833
- Investments designated at fair value through profit or loss	**(817)**	**(493)**	**(1,310)**	8,678
Impairment loss				
- available-for-sale	**(674)**	**(734)**	**(1,408)**	(3,599)
Other	**(708)**	**(449)**	**(1,157)**	386
	17,588	**16,444**	**34,032**	33,688

26. OPERATING EXPENSES

	US$ '000			
	2010			2009
	Underwriting	Non-Underwriting	Total	
Salaries and benefits	**17,344**	**10,270**	**27,614**	26,886
General and administration	**4,214**	**3,666**	**7,880**	7,816
	21,558	**13,936**	**35,494**	34,702

27. OTHER INCOME

	US$ '000	
	2010	2009
Third party administration services	**4,468**	6,105
Fees on managing Islamic reinsurance operations	**6,400**	8,481
Software sales and related services	**1,180**	1,293
Other	**746**	548
	12,794	16,427

28. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2010	2009
Intangible asset amortised	**1,000**	1,000
Provision for doubtful receivables and deposits	**1,446**	337
Foreign exchange loss	**1,355**	2,886
Other	**238**	377
	4,039	4,600

29. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2010	2009
Weighted average number of shares outstanding	'000	**206,900**	211,186
Net profit	US$'000	**20,772**	21,853
Earnings per share	US$	**0.10**	0.10

30. EMPLOYEE SHARE SCHEME

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

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

	US$ '000	
	2010	2009
Liability	**3,386**	1,370
Expense	**(2,297)**	(1,168)

31. POST EMPLOYMENT BENEFITS

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

The principal assumptions used for accounting purposes were:

	2010	2009
Discount rate	**1.2%**	1.5%
Expected return on assets	**1.2%**	1.5%
Future salary increases	**3.3%**	3.3%

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

	US$ '000	
	2010	2009
Balance at 1 January	**14,290**	13,274
Accruals for the year	**1,892**	2,661
Payments during the year	**(863)**	(1,645)
Balance at 31 December	**15,319**	14,290

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			
	2010		2009	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Euro	**11,033**	**16,074**	11,282	20,196
Pound Sterling	**1,293**	**7,583**	1,602	6,524
Japanese yen	**-**	**1,639**	-	2,795
Other	**-**	**3,891**	-	2,242
	12,326	**29,187**	12,884	31,757

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			
	2010		2009	
	Purchases	**Sales**	Purchases	Sales
Unrealised gains	**-**	**228**	-	879
Unrealised losses	**(246)**	**-**	(296)	-
	(246)	**228**	(296)	879

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

	US$ '000	
	2010	2009
Profit before non-controlling interests	**23,504**	26,406
(Decrease) Increase in insurance funds	**(15,402)**	57,053
Change in insurance receivable/payable, net	**2,049**	(18,745)
Change in accrued income	**6,197**	(24,845)
Change in other assets/liabilities, net	**(57,910)**	(32,575)
Net cash (used in) provided by operating activities	**(41,562)**	7,294

34. FAIR VALUE DISCLOSURE

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

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

	US$ '000						
	2009						
	Book Value						Fair value
	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	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	258	-	-	-	46,281	46,539	46,539

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:

2010	US$'000			
	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	**102,271**	**-**	**-**	**102,271**
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	**24,497**	**-**	**-**	**24,497**
- Other	**5,821**	**-**	**-**	**5,821**
Available for sale				
Debt securities				
- Supra-nationals and OECD country Governments	**27,440**	**-**	**-**	**27,440**
- Other investment grade	**38,624**	**-**	**-**	**38,624**
- Non-OECD country governments	**1,251**	**-**	**-**	**1,251**
- Other	**10,043**	**737**	**-**	**10,780**
Common stock of listed companies	**718**	**-**	**-**	**718**
Common stock of unlisted companies	**-**	**12,530**	**-**	**12,530**
Other	**-**	**21,277**	**-**	**21,277**
	210,665	**34,544**	**-**	**245,209**

34. FAIR VALUE DISCLOSURE (Contd.)

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$ 2.8 million (2009: 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.

vi. Fair value less than carrying amounts:

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

35. PRINCIPAL SUBSIDIARIES & JOINT VENTURES

At 31 December 2010, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2009 except as described below. The Company also continues to hold 50% of the Joint Venture Hardy Arig Insurance Management W.L.L which is incorporated in the Kingdom of Bahrain.

During the period, the subsidiary Arig Insurance Company Limited, UK was placed under members' voluntary liquidation effective 7 July 2010. The subsidiary had ceased all underwriting activities in 1999 and through a solvent scheme of arrangement discharged all reinsurance and other liabilities. A substantial portion of the net assets has been realised.

Further, the subsidiary Arima Insurance Software W.L.L. had increased its paid up capital in September 2010 from US$ 106,134 divided into 798 shares of US$ 133 each to US$ 250,000 divided into 250 shares of US$ 100 each. The Company subscribed and paid the entire capital increase in cash.

The Company incorporated a wholly owned subsidiary Arig Capital Limited in United Kingdom for the purpose of writing Lloyd's Syndicate business.

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	
	2010	2009
i) Directors		
- Remuneration	**846**	864
- Allowances	**96**	99
ii) Key management compensation		
- Salaries and other short-term employee benefits	**2,093**	1,799
- Post-employment benefits	**209**	638
- Share-based benefit	**1,018**	268
iii) Balances payable (net)		
Key management		
- Maximum balance	**5,009**	3,250
- Closing balance	**5,009**	3,250

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 2010 and 2009 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	
	2010	2009
ASSETS		
Cash and cash equivalents	**201,898**	265,733
Investments	**318,952**	263,179
Accrued income	**120,997**	127,073
Insurance receivables	**73,020**	74,108
Insurance deposits	**65,636**	68,395
Deferred policy acquisition costs	**19,967**	22,296
Reinsurers' share of technical provisions	**59,976**	57,709
Other assets	**13,834**	16,135
Investment in subsidiaries	**74,644**	79,435
Fixed assets	**8,716**	9,038
	957,640	983,101
LIABILITIES		
Technical provisions	**629,310**	647,551
Insurance payables	**28,673**	27,425
Other liabilities	**39,517**	40,780
	697,500	715,756
SHAREHOLDERS' EQUITY		
Share capital (note 21)	**220,000**	220,000
Treasury stock	**(14,793)**	(8,163)
Reserves	**35,723**	41,259
Retained earnings	**19,210**	14,249
	260,140	267,345
	957,640	983,101

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 27th March 2011:

	US$ '000
Cash dividend of US$ 0.075 per share of US$ 1 each	**16,500**

ARAB INSURANCE GROUP (B.S.C.)

APPENDIX I

ADDITIONAL DISCLOSURE ON INVESTMENTS

	US$ '000 31-December-2010		
	Investments in U.A.E.	Investments outside U.A.E.	**Total**
a. Cash & Cash Equivalents	69,134	211,423	**280,557**
Total Cash & Cash Equivalents	**69,134**	**211,423**	**280,557**
b. Investments			
At fair value through profit or loss			
Held for trading			
Common stock of listed companies	2,743	99,528	**102,271**
	2,743	**99,528**	**102,271**
Designated at fair value on initial recognition			
Debt Securities			
- Other Investment grade	-	24,497	**24,497**
- Other	-	5,821	**5,821**
	-	**30,318**	**30,318**
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	-	59,225	**59,225**
- Other Investment grade	5,007	48,599	**53,606**
- Non-OECD country government	-	2,658	**2,658**
	5,007	**110,482**	**115,489**
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	-	27,440	**27,440**
- Other Investment grade	5,009	34,202	**39,211**
- Non-OECD country governments	1,251	1,485	**2,736**
- Other	6,286	4,994	**11,280**
Common stock of listed companies	-	718	**718**
Common stock of unlisted companies	-	12,530	**12,530**
Other (see note)	2,093	19,434	**21,527**
	14,639	**100,803**	**115,442**
Total Investments	**22,389**	**341,131**	**363,520**

Note: The Group does not have any direct investments in land or real estate. However, 'Other' includes investments in Real Estate funds amounting to US$ 3,452,000 (in U.A.E.: US$ 3,000).