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BOARD OF DIRECTORS

Khalid Ali Al Bustani

Chairman

Khalid Jassim Bin Kalban

Vice Chairman and Chairman of the Executive Committee

Dr. Fouad Abdul-Samad Al Falah

Director and Chairman of the Audit Committee

Hamed Saleh Al Saif *

Director and Member of the Executive Committee

Mohamed Khalifa Al Fahad Al Mehairi

Director and Member of the Audit Committee

Sultan Ahmed Al Ghaith

Director and Member of the Executive Committee

Abdul Aziz Abdullah Al Zaabi

Director and Member of the Executive Committee

Fathi Emhimed El Hagi

Director

Majed Ali A Omran Al Shamsi

Director and Member of the Audit Committee

** Resigned from the Board effective from 8 November 2010*

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 RESULTS

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.

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

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 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.”

Khalid Ali Al Bustani

Chairman

REPORT OF THE BOARD OF DIRECTORS

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. 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

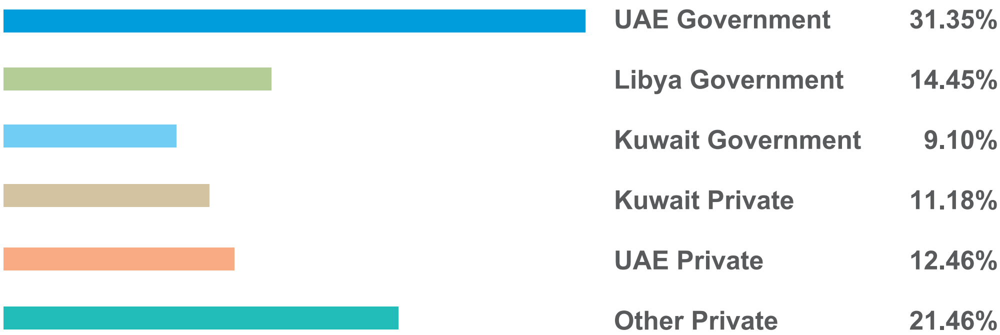
7 *Aon Benfield Reinsurance Market Outlook, January 2011*

FINANCIAL HIGHLIGHTS

KEY FIGURES

(US$ Millions)	**2010**	2009	2008	2007	2006
Gross Premiums Written	239.5	279.4	280.7	250.0	166.3
Net Written Premiums	211.9	270.7	269.2	235.2	150.3
Net Profit (Loss)	20.8	21.9	(28.6)	23.7	30.4
Investment Assets	646.9	663.7	678.5	711.7	674.3
Total Assets	1,100.3	1,132.3	1,082.9	1,049.8	930.2
Net Technical Provisions	569.4	589.8	524.7	459.1	361.2
Shareholders' Equity	260.1	267.3	239.6	298.4	293.4

PERCENTAGE OF SHAREHOLDING



As of 31 December 2010

REPORT OF THE BOARD OF DIRECTORS

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

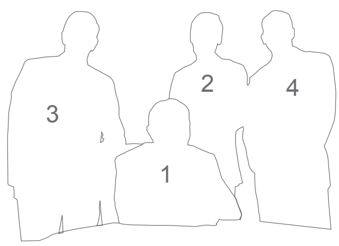
Khalid Ali Al Bustani
Chairman
13 February 2011

1. **Yassir Albaharna**
   Chief Executive Officer

2. **Andreas Weidlich**
   General Manager - Reinsurance

3. **Nagarajan Kannan**
   Deputy General Manager - Finance & Administration

4. **Salah Al Maraj**
   Assistant General Manager - Reinsurance



OPERATING AND FINANCIAL REVIEW

OPERATING AND FINANCIAL REVIEW

“We strongly believe that the ability of a reinsurer to produce profits across market cycles is defined by the ability to contract in situations when markets start becoming unattractive.”

Yassir Albaharna

Chief Executive Officer

OPERATING AND FINANCIAL REVIEW

REINSURANCE

The cooling of demand for commercial and private real estate and the associated moratorium on private sector construction had a knock-on effect across the business lines of CAR, Marine Cargo and Mortgage (Credit) Life covers in 2010. A temporarily reduced expatriate population translated into a smaller car population and payrolls in general have shrunk, which affected Motor related insurance demand as well as Group Life covers. Yet it is important to remember that the region continues to benefit from its natural resources, for which increasing global demand is expected. Excess liquidity is met by a young and growing population. Governments are determined to take their countries to the 21st century with the post-petroleum era in mind. Once confidence will have been restored, we see no reason why strong growth dynamics should not return. It is expected that stronger market sentiment would be back within the next three years.

However, the level of competition among our cedents is not likely to decline any time soon. Most markets in Asia - with the exception of China, Japan and Korea - remain fragmented and current low pricing levels continue to be supported by reinsurers looking to diversify from their traditional markets. Increasingly, regional reinsurance hubs are attracting large facultative accounts away from the established placement centers in London and continental Europe. In Dubai this is largely the case for construction, oil and gas risks. Singapore, on the other hand, which accounted for a steep 33% increase in inwards reinsurance during 2010[1], is home to 54 reinsurers writing business from China to New Zealand, and from Japan to the Middle East. In most cases, regional quotes register lower than those out of London and often the insureds get their way with pro rata policies rather than excess of loss covers. There is no hiding the fact that reinsurers take a cut when they accept risks “in the region”.

Growing the business in 2010 did not come without risks attached as original market terms generally continued to decline while claims rose beyond the previous year’s level. Making the right decision between acceptance and declinature was key to whether money would be earned or not. In many cases, a wrong turn will not immediately show as claims usually take time to become known and be processed. However, in a climate of eroding profit margins, contracting investment returns accompanied by a rise in large losses frequencies, quarterly or annual statements will only present half the answer to shareholders on whether an insurer has recently added value to its balance sheet or not. At Arig we take a long-term view to protect our stakeholders’ interest. When we have identified a loss-making segment or account on our books, we seek to take away its potential impact either by re-negotiating terms and risk management measures with our clients, or by terminating the account if no agreement can be established. We strongly believe that the ability of a reinsurer to produce profits across market cycles is defined by the ability to contract in situations when markets start becoming unattractive.

1. *Willis 1st View, Willis Re, 1 January 2011*

BUSINESS REVIEW

Portfolio Development

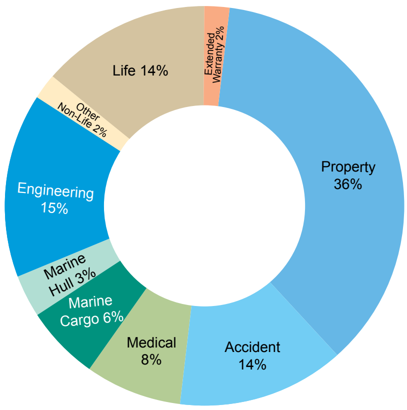
2010 proved to be a critical year. Changes in revenues occurred mostly for two reasons: first, our clients did not achieve their planned targets in many lines and this was aggregating with a similar situation in 2009; second, Arig chose to terminate some sizeable loss making accounts. While GCC insurance premium grew overall, most of the increase was achieved on the back of the compulsory Medical and Motor lines. Technically adequate pricing is crucial for both since their large volumes do not allow for any margin of error. In Motor, the true result would only surface many years later as claims made by the insureds will travel through the court systems. Guided by our historical experience we maintained a cautious stance in this class. In Medical, the art of underwriting is based on the ability to forecast future medical trend and market conditions because once trend becomes reality, it will be too late for corrective measures. Critical analysis showed that a number of our major Medical accounts were starting to turn negative. As the market did not allow for any improvement in terms, we preferred to part with approximately $22.5 million of Medical premium.

Leaving Motor and Medical aside, most of our core territories reported flat or reduced premium income. There was less spill-over from previous reporting periods as clients’ revenues have remained below targeted levels over the past two years. On the upside we were successful in writing increasing premium from the London Market and saw the launch of our joint venture with the Hardy Group. In addition we started enlarging our footprint in selected CIS countries, mainly Russia, where we intend to grow our presence over time. Yet on balance we accounted for a 14.3% reduction in GWP for the Financial Year 2010. Presented with the choice between quality and volume, we opted for the former.

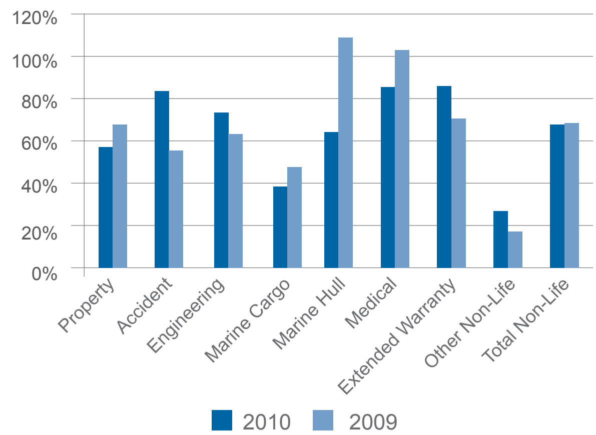
Arig’s domicile, structure and capital strength allow the company to take an opportunistic view on markets. While we desire to maintain stability on our profitable accounts, particularly with long-term treaty clients, we are flexible in deciding on growth areas for their economic viability, risk fit and future promise. Closer to home we do this under the Arig banner. In November 2010, we opened our new Representative Office in Libya, a market where our name carries good weight. Further away we prefer to work in partnerships with entities that possess market and product know how, have a proven track record and offer efficiency gains. In 2010 we expanded our relationship with the Hardy Underwriting Group, Bermuda, to cover quota share capacity to their U.S. and international (non-U.S.) Property Cat portfolios. Even though world-wide catastrophe claims contributed to a testing year for Hardy, our shares remained profitable due to the spread and diversity within the portfolio.

OPERATING AND FINANCIAL REVIEW

Gross Premiums Written By Class



Loss Ratio Comparison Non-Life Business



Performance

For Arig's non-life portfolio, the 2010 loss ratio of 67.8% almost matches the previous year's experience (2009: 67.9%). The Group thereby bucked the trend of the declining terms of trade in world markets. Maintaining our profitability required the discontinuation of two larger Medical accounts, among some others, which were seen to under-perform. However, foregoing more than US$ 22.5 million in premiums produced a twofold effect: firstly, the proportion of Arig's fixed expenses increased as a direct result of the reduced net premium written. Secondly, we should mention that Medical business is commonly written net of commissions. In other words, a lower proportion of net written Medical premium will tend to drive up Arig's average acquisition cost percentage. Both effects in combination pushed up the 2010 combined ratio for our non-life book to 104.1% (2009: 98.7%). Effective 2011, the Group has entered into new treaty agreements that will compensate for the premium given up in 2010. We therefore view this increase in our combined ratio as a temporary occurrence.

In 2010, Arig experienced a single large Engineering claim on a partially finished aluminium plant in Qatar and a swing in the performance of our Korean Casualty accounts, whereas our large proportional treaty book continued to generate profits. The facultative lines of Property, Medical and Casualty all added to the bottom line, while Engineering recorded a below-average year due to the single large claim referred to. In Marine we are maintaining a reserve for a larger claim, which is under dispute.

In the Life sector strong competition has continued with falling rates accompanied by very liberal terms of acceptance not seen before. We have maintained a guarded approach to these market conditions and have declined to dilute standards. This position is showing dividends for profitability on the short term portfolio though it has not been possible to maintain premium income growth. Instead Arig is looking at Life & Health expansion through new products and from new markets with the aim of adding these to the business from our established sources once these return to more attractive performance.

Risk Capital Position

During the reporting period Arig maintained a capital position that was again rated as 'strong'[2]. The 2010 book of business plan run against the Group's capital position established capital redundancy of 255% over the required Economical Capital to operate the company's portfolio at the 1:200 confidence level[3]. The Group is considering its substantial surplus capital as a strategic reserve for future growth and investments.

Outlook

In late 2010, we incorporated Arig Capital Limited as a corporate member at Lloyd's enabling Arig to participate in syndicated London Market business. Starting 2011, we entered into a two-year tenancy agreement with the Hardy Group to participate on its managed Lloyd's syndicate, 382, writing a 7.5% share of the syndicate. This arrangement is providing the Hardy Group with additional capital flexibility whilst giving Arig access to London market business opportunities and furthering the strategic relationship between the two groups. The arrangement is expected to generate up to $ 34 million in annual premiums for our books, from technically rated and highly diversified accounts written worldwide. It also creates a welcome balance to the price-competitive markets Arig is part of in the Middle East and in the Far East.

Our excellent relationship with the Hardy Group is part of our effort to expand into new markets that offer terms and conditions superior to what we are finding in our traditional core territories. Where it is uneconomic or risky as a newcomer to use our own resources, we seek to engage in partnerships with qualified counter-parties that offer the right fit, or we consider an acquisition strategy in our effort to utilize some of Arig's surplus capital in exchange for profitable growth opportunities. Globally declining equity returns and company valuations in our industry seem to suggest that we may be able to look at some interesting options in the near term future.

2. *According to the latest A.M. Best Review dated 23 December 2010; Arig's financial strength was rated b++ (good) and its issuer credit rated as bbb+*

3. *Arig's Capital Model is managed and run by independent actuarial firm EMB, U.K., in accordance with the British market standards*

OPERATING AND FINANCIAL REVIEW

The absence of market moving events in 2010 has translated into gradual erosion in the pricing of the policies sold by our clients. We view this as a delicate balance and possibly the low point of the current cycle as the dawning regulatory regime of Solvency II, new IFRS accounting rules, cat model changes and the possible impact of large claims or financial events may tip the balance in our favor. On the other side, we see an over-capitalized industry that can still bear some earnings pain but may eventually prefer using its rich funds to buy competitors rather than out-pricing them. Unfortunately this effect may be less pronounced in the Middle East, where traditional ownership structures continue to hamper the development of the industry.

On a global scale we are witnesses to a gravitational shift away from the traditional industrialized countries to emerging markets, in particular the BRIC countries (Brazil, Russia, India and China) that are credited with the largest current and future growth potential. While the Middle East will continue to play a role, premium growth is going to remain concentrated on the oil & gas industry and infrastructure development. Especially with our young joint venture company HAIM, a Lloyd's coverholder with high security ratings[4] domiciled in Bahrain, we are well equipped to capture future opportunities. With regard to the up and coming powerhouses in the BRIC territories however, we are seeking to move into a more advantageous position. Participating on Hardy's syndicate business is a good start but we will continue looking for additional opportunities. In that sense we are expecting the current year of 2011 to be both, challenging and exciting at the same time.

INVESTMENTS

Global economic growth saw a sharp turnaround from -0.9% in 2009 to almost +4.5% in 2010. Emerging Markets have been the growth leaders, outpacing the traditional economies. Expansion happened within a low inflation environment, even though inflation rates gradually moved upwards to average 3% in 2010, mainly as a result of rising prices for fuel, agricultural products and commodities. It appears that previous fears of deflation or a double-dip recession have vanished.

2010 proved a good year for investors as all major asset classes performed well despite interim volatilities and occasional setbacks. Although investors had entered the year with some optimism, a worsening European debt crisis led off by Greece and a rise in bond yields, combined with the fears that global economy was losing steam, dealt a heavy blow to investors' confidence. This resulted in a steep correction in equity markets in April that lasted until late June. However, a general flight to safety eventually pushed U.S. Treasury yields to historic lows by October. Subsequently bond yields gained more than 100 basis points over the last quarter, mainly on improved economic fundamentals and on additional stimulus provided by the U.S. administration. Money market rates remained rather low throughout the year as banks remained tight on lending maintaining high cash positions whereas most central banks kept policies unchanged. Equities recouped earlier losses in the third quarter and closed the year with modest gains. Commodities saw sharp gains during the year, mainly on supply factors, increasing demand from China and speculative demand. Thus commodities outperformed stocks and bonds in 2010. The US Dollar took a roller-coaster ride through the year but eventually closed in positive territory vis-à-vis its reference currencies.

Amidst market volatilities our investment strategy continued to be cautious with bulk of the assets held in cash, short-term securities and bonds. Market opportunities, mainly in equities, were utilized through tactical asset allocation. At year-end, the Group's investments stood at US$ 646.9.million (2009: US$ 663.7 million) with 43% allocated to cash and short-term instruments. Income generated in 2010 amounted to US$ 34 million (2009: US$ 33.7 million).

Looking ahead, the global recovery seems to continue but risks remain. Gradual growth could be challenged if interest rates move up in tandem with inflation; equally, yields on bonds could rise as they struggle to generate returns.

Arig's investment strategy for 2011 will focus on maintaining a diversified portfolio, within the framework of the Company's investment policy, carefully balancing market opportunities against our standing obligations to policyholders.

SUBSIDIARIES

Takaful Re Limited

The Group's Islamic reinsurance subsidiary based in the Dubai International Financial Centre, Takaful Re Limited (TRL), reported net profits of US$ 6.1 million for the year.

The slow economic recovery, continued price competition and soft Terms of Trade affected growth opportunities in the Retakaful arena. To avoid compromising the profitability of its book, TRL decided to forfeit volume for profit, terminating certain large under-performing medical accounts. Subsequently gross underwriting contributions reduced by 25.7% year on year to US$ 36.2 million (2009: US$ 48.7 million), with medical contributions declining to 15% of total, down from 45% in 2009. Property, the major business class, contributed 30% (2009: 18%). Other important lines were Engineering at 21% (2009: 13%) and Marine at 13% (2009: 9%) of total contributions.

Financial market volatility and slow pace of the regional economies also left their footprint on investment earnings. TRL's investment income reached US$ 5.1 million for the year (2009: US$ 7.2 million) managing an average of return of 4.2% (2009: 6.1%). Investment asset allocation continues to be conservative in view of the volatile market

4. *HAIM financial strength ratings identical to Lloyd's: 'A' (A.M. Best), A+ (Fitch) and 'A+' (S&P)*

conditions. Elevated liquidity was maintained in 2010 with around 66% of investment assets held in cash and short-term Islamic deposits.

Gulf Warranties

Gulf Warranties (GW) posted a net loss of US$ 0.3 million (2009: net profit US$ 0.4 million) for the year 2010, closing another challenging year. Lower consumer spending on vehicle purchases impacted the core motor warranty business which saw revenues decline to US$ 0.9 million (2009: US$ 1.4 million). Non-warranty income was also lower at US$ 2.5 million (2009: US$ 3.1 million) due to lower volume of vehicle mortgage sales.

Arima Insurance Software (ARIMA)

ARIMA, the Group’s information technology provider, offers a scalable suite of software solutions for insurers and reinsurers (including Takaful operators), covering General, Life and Medical classes as well as Bancassurance. ARIMA continued to expand its client base both in the reinsurance and general insurance segments.

ARAB INSURANCE MARKET REVIEW

As a service to the industry,
Arig is pleased to present general information
collated from the Arab insurance markets

ARAB INSURANCE MARKET REVIEW

Gross Premium By Class and Country - 2005 to 2009 in US$ millions

				Non-Life					Life	
Country	Year	Exchange Rate	Total GPI	Motor	Property & Misc. Accident	Marine & Aviation	Total Non-Life	% of GPI	Total	% of GPI
Algeria	2005	72.6350	571.0	221.0	263.5	57.5	542.0	94.9%	29.0	5.1%
	2006	70.9400	655.1	296.9	256.0	60.9	613.8	93.7%	41.3	6.3%
	2007	66.3967	808.9	369.4	309.7	77.7	756.8	93.6%	52.2	6.4%
	2008	67.7500	1,001.9	437.5	401.7	84.7	923.9	92.2%	78.0	7.8%
	2009	72.0780	1,061.5	486.8	411.6	86.0	984.4	92.7%	77.0	7.3%
Bahrain	2005	0.3769	248.9	98.0	91.8	15.5	205.3	82.5%	43.6	17.5%
	2006	0.3769	313.5	108.0	121.7	18.8	248.4	79.2%	65.1	20.8%
	2007	0.3769	371.7	124.7	128.7	18.3	271.7	73.1%	100.0	26.9%
	2008	0.3769	495.2	145.0	193.3	20.0	358.4	72.4%	136.8	27.6%
	2009	0.3769	532.1	151.3	207.9	20.9	380.1	71.4%	152.1	28.6%
Egypt(1)	2005	5.7462	740.4	100.3	119.3	207.6	427.2	57.7%	313.2	42.3%
	2006	5.7150	861.5	112.8	200.1	175.0	487.9	56.6%	373.5	43.4%
	2007	5.5175	1,088.3	140.3	256.1	176.4	572.8	52.6%	515.5	47.4%
	2008	5.5325	1,392.6	227.7	321.2	206.9	755.8	54.3%	636.8	45.7%
	2009	5.4578	1,559.9	282.9	352.8	222.9	858.6	55.0%	701.3	45.0%
Jordan	2005	0.7090	294.6	142.4	90.0	29.9	262.2	89.0%	32.3	11.0%
	2006	0.7084	347.3	170.7	109.4	31.7	311.9	89.8%	35.5	10.2%
	2007	0.7085	390.1	183.3	132.2	33.4	348.9	89.4%	41.2	10.6%
	2008	0.7082	442.5	196.1	154.6	41.3	392.0	88.6%	50.5	11.4%
	2009	0.7088	480.8	211.3	185.2	35.1	431.6	89.8%	49.1	10.2%
Kuwait	2005	0.2919	480.8	159.0	167.3	59.4	385.7	80.2%	95.1	19.8%
	2006	0.2891	571.6	162.0	213.9	54.2	430.1	75.2%	141.6	24.8%
	2007	0.2770	549.6	178.1	196.7	68.8	443.6	80.7%	106.0	19.3%
	2008	0.2703	641.3	198.7	229.4	83.0	511.0	79.7%	130.3	20.3%
	2009	0.2851	568.9	184.1	187.8	67.9	439.8	77.3%	129.1	22.7%
Lebanon	2005	1,507.5000	764.9	135.1	420.2	21.8	577.0	75.4%	187.9	24.6%
	2006	1,507.5000	799.5	137.7	457.7	22.0	617.4	77.2%	182.1	22.8%
	2007	1,512.0000	929.4	155.4	476.6	25.3	657.3	70.7%	272.1	29.3%
	2008	1,502.5000	1,124.0	222.2	584.6	32.2	839.0	74.6%	285.0	25.4%
	2009	1,502.5000	1,310.5	284.4	700.6	27.7	1,012.7	77.3%	297.8	22.7%
Libya(3)	2005	1.3569	141.4	29.3	78.2	30.1	137.5	97.3%	3.9	2.7%
	2006	1.2705	148.6	40.3	76.3	26.6	143.2	96.4%	5.4	3.6%
	2007	1.2334	164.7	46.5	81.9	31.6	160.0	97.1%	4.7	2.9%
	2008	1.2935	235.2	53.9	142.4	33.9	230.2	97.9%	5.0	2.1%
	2009	1.2034	291.6	69.4	180.8	36.5	286.7	98.3%	4.9	1.7%
Mauritania(4)	2005	271.3000	9.7	3.5	3.8	2.3	9.6	99.9%	0.0	0.1%
	2006	271.3000	10.5	3.8	4.2	2.5	10.5	99.9%	0.0	0.1%
	2007	259.2500	13.2	4.4	4.8	2.9	12.1	92.3%	1.0	7.7%
	2008	252.1250	15.2	5.1	5.6	3.4	14.1	92.7%	1.1	7.3%
	2009	262.0000	16.4	5.6	6.1	3.7	15.4	93.9%	1.0	6.1%
Morocco	2005	9.1624	1,432.0	508.1	472.7	68.4	1,074.3	75.0%	357.7	25.0%
	2006	8.4278	1,751.5	579.5	576.4	69.8	1,259.0	71.9%	492.5	28.1%
	2007	7.8339	2,258.2	692.9	683.2	87.1	1,507.0	66.7%	751.2	33.3%
	2008	8.8166	2,231.9	723.4	675.4	89.3	1,488.1	66.7%	743.8	33.3%
	2009	7.6145	2,360.5	865.9	906.9	93.0	1,488.1	63.0%	872.5	37.0%
Oman	2005	0.3850	315.9	122.2	125.3	25.5	273.0	86.4%	42.9	13.6%
	2006	0.3850	391.5	137.6	156.7	29.6	323.9	82.7%	67.7	17.3%
	2007	0.3850	446.5	167.2	165.0	32.0	364.2	81.6%	82.3	18.4%
	2008	0.3850	551.1	232.8	170.0	41.4	444.3	80.6%	106.8	19.4%
	2009	0.3850	617.7	262.4	211.6	38.8	512.8	83.0%	104.9	17.0%

(1) Egypt: Financial Year end as at 30 June **(2) Sudan:** 2009 Life premium figures are estimate. Sudan's currency changed from the Sudanese dinar (SDD) to the new Sudanese Pound (SDG) introduced in January 2007. **(3) Libya:** Property & Miscellaneous Accident includes Energy **(4) Mauritania:** 2006-2009 premium figures are estimate figures are estimate **(5) Qatar:** 2009 premium figures are estimate **(6) Saudi Arabia:** Property & Miscellaneous Accident includes Energy.

ARAB INSURANCE MARKET REVIEW

Gross Premium By Class and Country - 2005 to 2009 in US$ millions

				Non-Life					Life	
Country	Year	Exchange Rate	Total GPI	Motor	Property & Misc. Accident	Marine & Aviation	Total Non-Life	% of GPI	Total	% of GPI
Palestine	2005	4.5730	48.1	41.5	5.4	0.2	47.1	97.9%	1.0	2.1%
	2006	4.2131	47.2	39.6	6.2	0.2	46.1	97.7%	1.1	2.3%
	2007	4.1081	50.0	42.5	6.3	0.2	49.1	98.1%	0.9	1.9%
	2008	3.7714	62.7	51.3	10.1	0.3	61.8	98.5%	0.9	1.5%
	2009	3.5880	72.7	60.6	11.1	0.3	71.9	98.9%	0.8	1.1%
Qatar[5]	2005	3.6406	418.4	94.7	256.5	63.0	414.1	99.0%	4.3	1.0%
	2006	3.6408	1,021.0	231.4	672.9	110.9	1,015.2	99.4%	5.7	0.6%
	2007	3.6402	861.1	198.6	550.8	104.0	853.4	99.1%	7.7	0.9%
	2008	3.6416	855.6	173.9	555.6	116.5	846.0	98.9%	9.6	1.1%
	2009	3.6405	781.6	158.9	507.7	106.4	773.0	98.9%	8.6	1.1%
Saudi Arabia[6]	2005	3.7504	1,008.7	423.2	363.7	170.3	957.2	94.9%	51.5	5.1%
	2006	3.7505	1,257.1	512.0	504.6	182.4	1,199.0	95.4%	58.1	4.6%
	2007	3.7412	1,474.9	652.2	480.9	254.3	1,387.5	94.1%	87.4	5.9%
	2008	3.7515	1,629.8	677.6	536.1	257.8	1,471.4	90.3%	158.3	9.7%
	2009	3.7502	1,951.4	814.6	602.4	266.9	1,683.9	86.3%	267.5	13.7%
Sudan[2]	2005	230.7250	171.6	88.3	38.4	34.1	160.9	93.7%	10.8	6.3%
	2006	202.6750	243.7	128.0	57.6	44.8	230.4	94.5%	13.3	5.5%
	2007	2.0354	261.6	135.0	80.8	32.0	247.8	94.7%	13.8	5.3%
	2008	2.2133	278.1	132.6	89.7	41.5	263.8	94.9%	14.3	5.1%
	2009	2.3198	285.9	129.9	94.0	47.1	271.1	94.8%	14.8	5.2%
Syria	2005	50.0000	149.0	80.1	28.6	25.4	134.2	90.1%	14.8	9.9%
	2006	50.0000	147.2	93.9	30.6	21.9	146.4	99.4%	0.8	0.6%
	2007	50.0000	184.3	115.1	45.0	22.8	182.9	99.3%	1.4	0.7%
	2008	50.0000	241.1	160.3	49.7	28.1	238.1	98.7%	3.0	1.3%
	2009	50.0000	318.5	223.3	54.9	34.7	312.9	98.2%	5.6	1.8%
Tunisia	2005	1.3529	524.1	235.9	199.2	41.9	477.0	91.0%	47.2	9.0%
	2006	1.2968	604.0	288.0	210.1	51.9	550.0	91.1%	54.0	8.9%
	2007	1.2367	705.2	317.1	256.7	54.4	628.2	89.1%	77.0	10.9%
	2008	1.3970	696.2	306.8	260.3	51.0	618.0	88.8%	78.2	11.2%
	2009	1.2824	800.3	370.7	273.9	50.7	695.3	86.9%	105.0	13.1%
U.A.E.	2005	3.6731	2,139.5	597.9	933.0	280.6	1,811.5	84.7%	328.1	15.3%
	2006	3.6730	2,807.7	754.4	1,270.6	333.0	2,358.1	84.0%	449.6	16.0%
	2007	3.6745	3,895.8	910.9	1,815.6	448.3	3,174.8	81.5%	720.9	18.5%
	2008	3.6734	4,974.6	1,190.4	2,539.4	520.7	4,250.5	85.4%	724.0	14.6%
	2009	3.6731	5,455.5	1,106.0	2,907.4	551.2	4,564.6	83.7%	890.9	16.3%
Yemen	2005	194.6450	43.9	11.8	19.1	9.7	40.6	92.5%	3.3	7.5%
	2006	198.2550	53.0	15.8	21.8	11.8	49.4	93.2%	3.6	6.8%
	2007	198.9500	68.2	15.6	37.3	11.6	64.6	94.7%	3.6	5.3%
	2008	200.0250	70.5	19.1	32.0	14.2	65.3	92.6%	5.2	7.4%
	2009	206.3000	74.6	20.1	36.2	13.5	69.8	93.5%	4.8	6.5%
The Premium figures are in Local Currency for Iraq only										
Iraq	2005		7,500.0	n/a	n/a	n/a	6,000.0	80.0%	1,500.0	20.0%
	2006		16,000.0	n/a	n/a	n/a	14,000.0	90.0%	1,600.0	10.0%
	2007		22,000.0	8,800.0	7,700.0	3,300.0	19,800.0	90.0%	2,200.0	10.0%
	2008		26,913.5	11,700.0	7,800.0	3,900.0	23,400.0	86.9%	3,513.5	13.1%
	2009		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Definition of gross premium income : This report is based on gross premium income, which includes direct and reinsurance inward premiums received in the year, net of cancellations but before deduction of commissions or reinsurance premiums ceded.

Portfolio split includes four main lines of business:

- Motor: Two main lines: Third Party and Comprehensive (in some cases, the classes under Motor were not available).
- Property & Miscellaneous Accident: Fire, Engineering, General Accident, Personal Accident, Workmen's Compensation, Medical, Public Liability, etc.
- Marine & Aviation: Aviation, Marine Cargo, Marine Hull and Inland Cargo.
- Life: Individual Life and Group Life.

Insurance and economic data sources: Insurance data for each country is sourced primarily from supervisory authorities, insurance associations and individual companies. Key economic data is extracted from public sources, including reports and documents from the World Bank. Premiums are converted into US dollars using official IMF exchange rates as of 31st December of respective year.

ARAB INSURANCE MARKET REVIEW

Key Economic & Demographic Indicators - 2005 to 2009

Country	Year	Exchange Rate	Total GPI in US$ Millions	Premium Per Capita US$	GDP Per Capita US$	Premium as % of GDP	Population in Millions	GDP in US$ Millions
Algeria	2005	72.6350	571.0	17.36	3,109	0.6%	32.90	102,300
	2006	70.9400	655.1	19.66	3,441	0.6%	33.33	114,700
	2007	66.3967	808.9	23.86	3,864	0.6%	33.90	131,000
	2008	67.7500	1,001.9	29.12	5,055	0.6%	34.40	173,882
	2009	72.0780	1,061.5	30.41	4,645	0.7%	34.90	162,000
Bahrain	2005	0.3769	248.9	343.74	18,482	1.9%	0.72	13,381
	2006	0.3769	313.5	423.68	24,203	1.8%	0.74	17,910
	2007	0.3769	371.7	464.60	24,625	1.9%	0.80	19,700
	2008	0.3769	495.2	618.98	34,013	1.8%	0.80	27,210
	2009	0.3769	532.1	665.17	27,500	2.4%	0.80	22,000
Egypt(1)	2005	5.7462	740.4	10.01	1,207	0.8%	74.00	89,300
	2006	5.7150	861.5	11.43	1,426	0.8%	75.40	107,500
	2007	5.5175	1,088.3	14.38	1,691	0.9%	75.70	128,000
	2008	5.5325	1,392.6	17.09	1,998	0.9%	81.50	162,818
	2009	5.4578	1,559.9	18.79	2,265	0.8%	83.00	188,000
Jordan	2005	0.7090	294.6	52.60	2,536	2.1%	5.60	14,200
	2006	0.7084	347.3	58.87	2,653	2.2%	5.90	15,654
	2007	0.7085	390.1	63.53	2,769	2.3%	6.14	17,000
	2008	0.7082	442.5	70.24	3,365	2.1%	6.30	21,200
	2009	0.7088	480.8	76.31	3,492	2.2%	6.30	22,000
Kuwait	2005	0.2919	480.8	192.33	29,880	0.6%	2.50	74,700
	2006	0.2891	571.6	219.86	21,523	1.0%	2.60	55,960
	2007	0.2770	549.6	189.52	40,345	0.5%	2.90	117,000
	2008	0.2703	641.3	221.15	52,172	0.4%	2.90	151,300
	2009	0.2851	568.9	189.64	49,333	0.4%	3.00	148,000
Lebanon	2005	1507.5000	764.9	191.22	5,513	3.5%	4.00	22,052
	2006	1507.5000	799.5	195.00	5,537	3.5%	4.10	22,700
	2007	1512.0000	929.4	226.67	5,459	4.2%	4.10	22,382
	2008	1502.5000	1,124.0	265.09	6,759	3.9%	4.24	28,660
	2009	1502.5000	1,310.5	312.03	7,381	4.2%	4.20	31,000
Libya(3)	2005	1.3569	141.4	23.97	6,576	0.4%	5.90	38,800
	2006	1.2705	148.6	24.77	8,383	0.3%	6.00	50,300
	2007	1.2334	164.7	27.00	9,443	0.3%	6.10	57,600
	2008	1.2935	235.2	37.33	15,861	0.2%	6.30	99,926
	2009	1.2034	291.6	44.25	13,079	0.3%	6.59	86,190
Mauritania(4)	2005	271.3000	9.7	3.11	613	0.5%	3.10	1,900
	2006	271.3000	10.5	3.28	844	0.4%	3.20	2,700
	2007	259.2500	13.2	4.11	893	0.5%	3.20	2,858
	2008	252.1250	15.2	4.75	906	0.5%	3.20	2,900
	2009	262.0000	16.4	4.63	726	0.6%	3.54	2,569
Morocco	2005	9.1624	1,432.0	47.43	1,654	2.9%	30.19	49,946
	2006	8.4278	1,751.5	57.43	1,879	3.1%	30.50	57,300
	2007	7.8339	2,258.2	72.38	2,030	3.6%	31.20	63,324
	2008	8.8166	2,231.9	71.53	2,767	2.6%	31.20	86,329
	2009	7.6145	2,360.5	73.77	2,844	2.6%	32.00	91,000
Oman	2005	0.3850	315.9	121.49	9,608	1.3%	2.60	24,980
	2006	0.3850	391.5	150.58	17,127	0.9%	2.60	44,530
	2007	0.3850	446.5	171.74	15,000	1.1%	2.60	39,000
	2008	0.3850	551.1	196.81	12,760	1.5%	2.80	35,729
	2009	0.3850	617.7	208.68	17,905	1.2%	2.96	53,000

ARAB INSURANCE MARKET REVIEW

Key Economic & Demographic Indicators - 2005 to 2009

Country	Year	Exchange Rate	Total GPI in US$ Millions	Premium Per Capita US$	GDP Per Capita US$	Premium as % of GDP	Population in Millions	GDP in US$ Millions
Palestine	2005	4.5730	48.1	13.36	1,123	1.2%	3.60	4,044
	2006	4.2131	47.2	12.68	1,129	1.1%	3.72	4,200
	2007	4.1081	50.0	13.52	1,162	1.2%	3.70	4,300
	2008	3.7714	62.71	17.09	1,127	1.5%	3.67	4,135
	2009	3.7714	72.75	19.66	1,505	1.3%	3.70	5,568
Qatar(5)	2005	3.6406	418.4	516.55	34,654	1.5%	0.81	28,070
	2006	3.6408	1,021.0	1,230.08	31,771	3.9%	0.83	26,370
	2007	3.6402	861.1	717.59	49,908	1.4%	1.20	59,889
	2008	3.6416	855.6	611.14	66,179	0.9%	1.40	92,650
	2009	3.6405	781.6	558.29	66,429	0.8%	1.40	93,000
Saudi Arabia(6)	2005	3.7504	1,008.7	43.67	13,411	0.3%	23.10	309,800
	2006	3.7505	1,257.1	53.04	15,451	0.3%	23.70	366,200
	2007	3.7412	1,474.9	59.23	15,100	0.4%	24.90	376,000
	2008	3.7515	1,629.8	63.91	18,337	0.3%	25.50	467,601
	2009	3.7502	1,951.4	75.93	20,700	0.4%	25.70	532,000
Sudan(2)	2005	230.7250	171.6	4.85	753	0.6%	35.40	26,656
	2006	202.6750	243.7	6.59	1,016	0.6%	37.00	37,600
	2007	2.0354	261.6	6.51	1,237	0.5%	40.20	49,710
	2008	2.2133	278.1	6.73	1,415	0.5%	41.30	58,443
	2009	2.3198	285.9	6.92	1,475	0.5%	41.30	60,898
Syria	2005	50.0000	149.0	8.01	1,389	0.6%	18.60	25,840
	2006	50.0000	147.2	7.55	1,790	0.4%	19.50	34,900
	2007	50.0000	184.3	9.35	1,917	0.5%	19.70	37,760
	2008	50.0000	241.1	11.37	1,906	0.6%	21.20	40,400
	2009	50.0000	318.5	14.15	1,204	1.2%	22.51	27,100
Tunisia	2005	1.3529	524.1	52.41	2,870	1.8%	10.00	28,700
	2006	1.2968	604.0	59.80	3,000	2.0%	10.10	30,300
	2007	1.2367	705.2	68.47	3,369	2.0%	10.30	34,700
	2008	1.3970	696.2	67.59	3,901	1.7%	10.30	40,180
	2009	1.2824	800.3	77.70	3,883	2.0%	10.30	40,000
U.A.E.	2005	3.6731	2,139.5	475.45	21,800	2.2%	4.50	98,100
	2006	3.6730	2,807.7	610.36	28,152	2.2%	4.60	129,500
	2007	3.6745	3,895.8	885.40	43,182	2.1%	4.40	190,000
	2008	3.6734	4,974.6	1,105.46	36,288	3.0%	4.50	163,296
	2009	3.6731	5,455.5	1,136.56	42,708	2.7%	4.80	205,000
Yemen	2005	194.6450	43.9	2.10	686	0.3%	20.90	14,340
	2006	198.2550	53.0	2.45	884	0.3%	21.60	19,100
	2007	198.9500	68.2	3.07	976	0.3%	22.20	21,660
	2008	200.0250	70.5	3.05	1,150	0.3%	23.10	26,576
	2009	206.3000	74.6	3.09	1,165	0.3%	24.13	28,100
Total GPI in Local Currency for Iraq only								
Iraq	2005	1,472.0000	7,500.0				26.78	75,000
	2006	1,467.4200	16,000.0				26.70	87,900
	2007	1,254.5700	22,000.0				26.70	87,900
	2008	1,193.0800	26,913.5				28.20	91,316
	2009	n/a	n/a				30.39	84,700

CORPORATE GOVERNANCE REPORT 2010

CORPORATE GOVERNANCE REPORT

Arig is committed to follow international Best Practices of Corporate Governance. We firmly believe that there is a link between strong ethical standards, good governance and the creation of shareholders value. In our communication with stakeholders and the general business community, we aim to be fully transparent through high standards of disclosure.

BAHRAIN CORPORATE GOVERNANCE CODE

The Ministry of Industry and Commerce, Kingdom of Bahrain, has issued the Bahrain Corporate Governance Code (“Code”) in March 2010, which became effective 1 January 2011.

The Company has conducted a detailed gap analysis and is pleased to advise that most of the requirements of the Code are already being met. For the remainder, Arig has initiated appropriate steps to ensure compliance with the Code by the end of 2011.

FRAMEWORK

The Company through its Board of Directors has established a governance framework which includes formalized policies, procedures, guidelines and relevant management reporting requirements.

Arig’s governance practices are reviewed on a regular basis to incorporate necessary improvements from time to time. Accordingly, relevant changes to this framework will be made throughout 2011 to meet all remaining requirements of the Code.

THE BOARD OF DIRECTORS

The Board is elected by the shareholders of the Company in accordance with the provisions of the Articles of Association of the Company and the General meeting of shareholders shall be competent to terminate any Board member. The Board is ultimately responsible for the overall direction, supervision and control of the Company and regularly assesses the Company’s competitive position and approves its strategic and financial plans. The Board also oversees the corporate governance process continually, in order to ensure good standards of governance within the Company. In terms of Risk Management, the Board reviews and assesses the adequacy of the management of risks.

The current Board was elected by shareholders at the general assembly in March 2008 for a fixed term of three years valid until the Annual General Meeting due in 2011. Formal Board Procedures enhances Board development that includes induction training to new directors, continuing development and self evaluation. Names of the current directors together with their biographical details are set out in page 28.

Members of the Board are all non-executive and five out of eight members are independent non-executive directors (excluding resigned member) in accordance with the requirements of Appendix A of the Code. The Board formally reviewed and evaluated its own performance together with the performance of the individual Directors, as required by the Code.

BOARD COMMITTEES

Whilst significant matters are dealt with by the Board, the Board Committees have been delegated with the responsibility to assist the Board in carrying out its duties and to enhance the effectiveness of the Board. The Executive Committee serves to assist the Board to co-ordinate, guide and monitor the management and performance of the Company whereas the Audit Committee supports the Board in fulfilling its oversight responsibility with regard to financial reporting, the system of internal control and the process for monitoring compliance with laws and regulations. The Board Committees periodically meet to achieve its objectives and also perform self evaluation to assess the effectiveness of their functioning. The Board has also approved the formation of Nomination & Remuneration Committee, to be constituted during 2011.

BOARD MEETINGS

The Board is required to meet at least 4 times a year in accordance with the applicable regulations and Articles of Association. The number of meetings held during 2010 and attendance at these meetings (including Board Committees) is disclosed as follows:

CORPORATE GOVERNANCE REPORT

Directors	Board meetings (5)	Executive Committee meetings (5)	Audit Committee meetings (4)
Khalid Ali Al Bustani*	4	N	N
Khalid Jassim Bin Kalban*	4	5	N
Dr. Fouad Abdul-Samad Al Falah*	4	N	3
Hamed Saleh Al Saif**	4 (4)	4 (4)	N
Mohamed Khalifa Al Fahad Mehairi*	5	N	4
Sultan Ahmed Al Ghaith*	5	5	N
Abdul Aziz Abdullah Al Zaabi	4	4	N
Fathi Emhimed El Hagi	5	N	N
Majed Ali A Omran Al Shamsi	5	N	4

- *Figures in brackets indicate number of meetings applicable to the director*
- *N - Not member*
- ** - Independent non-executive directors*
- *** - Resigned from the Board effective from 8 November 2010*

MANAGEMENT

There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The Chairman of the Board, Mr. Khalid Al Bustani, is responsible for leadership of the board, ensuring its effectiveness in all aspects of its role and setting its agenda, taking into account the issues relevant to the group and the concerns of all board members.

The Chief Executive Officer (CEO) is responsible for the executive leadership and day-to-day management of the Company. The CEO is assisted by the General Management team which is responsible for implementing Board strategies and monitoring the day-to-day operations of the Company. This team is headed by the CEO and includes General Manager, Reinsurance, Deputy General Manager, Finance & Administration (who is also appointed as Corporate Secretary) and Assistant General Manager, Reinsurance as members. Names of members of the General Management team together with their biographical details are set out in page 29.

DIRECTORS’ REMUNERATION & KEY MANAGEMENT COMPENSATION

Directors’ remuneration is determined in accordance with the requirements of the Bahrain Commercial Companies Law and provisions of Articles of Association, which is approved by the shareholders in the AGM. Directors’ remuneration includes remuneration, allowances & reimbursement of expenses etc. Compensation to General Management is determined by the Board of Directors, in accordance with the terms of employment which includes salaries, allowances, reimbursement of expenses, post employment benefits and performance related incentives (information as set out in page 71). Detailed information as required by the Code in this regard is held at Company’s premises on behalf of the shareholders.

ORGANIZATIONAL STRUCTURE

The Company has put in place a detailed organizational structure (as set out in pages 26 & 27) giving appropriate thrust to its strategies and management developments. In addition to the positive business developments, this organizational structure also focuses on enhanced customer relations and effective internal communications.

MANAGEMENT COMMITTEES

In order to assist the CEO in monitoring and guiding the functional areas within the Company, various internal management committees are being operated. The Enterprise Risk Management Committee, acts in an advisory capacity and lays focus on the overall risk management framework for the Company. In addition to this, there are various internal management committees in the areas of Reinsurance Management, Human Resources Development, Information Technology, Retrocession and Security Evaluation. These internal management committees comprise members drawn from various departments with relevant expertise and meet regularly to review their activities and monitor developments.

CORPORATE GOVERNANCE REPORT

SUCCESSION PLANNING

The Company recognizes the significance of a structured succession planning and over the years, has made successful initiatives to identity, develop and promote the best fit personnel for various managerial positions within the Company, which yielded positive results. The Company also operates a structured Talent Management programme which comprises leadership development programs for identified employees, on a long term basis. During the year, the Company conducted detailed Training Need Analysis for the employees to structure their training programmes. The Company also uses Graduate Development programmes to identify and nurture talents within the Kingdom of Bahrain.

KEY PERSONS DEALING & INSIDER TRADING

Arig has established its own Corporate Policy on Key Persons Dealing/Insider Trading in compliance with the Bahrain Bourse guidelines on key persons dealing and insider trading regulations issued by the Central Bank of Bahrain. The Audit Committee monitors the implementation of such Policy. During the year, the Company has complied with relevant reporting and monitoring requirements, as stipulated by these regulations, wherever applicable. Details of Arig shares held by members of the Board (including their representatives) and General Management, including their spouses, children or other persons under their control are:

	Directors	General Management
Shares held at 1 January 2010	43,099,181	9,166
Add: Shares transferred to the Board of Directors and General Management during the year	-	-
Less: Shares transferred by the Board of Directors and General Management during the year	-	-
Shares held at 31 December 2010 *	43,099,181	9,166

** includes 30,466,862 shares transferred by Ministry of Finance, UAE to Emirates Investment Authority, UAE, a sole entity responsible for managing UAE federal government stakes across GCC.*

INVESTOR RELATIONS

Arig places considerable importance in maintaining active investor relations through open, fair and transparent communications. The Company ensures timely dissemination of information to its investors and other stakeholders through various media. A dedicated shareholder affairs unit supervised by an investor relations officer is responsible for maintaining active interaction with the shareholders. Arig's website (www.arig.net), including a separate shareholders portal, provides detailed information to the stakeholders on corporate governance, financial information and other important disclosures.

The Annual General Meeting of shareholders is held within three months of the close of the financial year in accordance with legal and regulatory requirements, notice and information of which is released well in advance to the shareholders, regulators, stock exchanges as well as in Company's website. Copies of the Annual Report and Accounts are made available to shareholders at least one week before the meeting to ensure that shareholders have the opportunity to discuss the business performance of the Company with the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY

Arig seriously values its commitment to the local community in which it operates and the social responsibility which comes with that. It embodies this through its Corporate Social Responsibility (CSR) program. This program focuses Arig's efforts and enables all of its staff to understand the Company's wider role in economic development, and improving the quality of life of its workforce, their families and that of the local community and society at large. Arig operates its CSR program via a focused Corporate Social Responsibility Committee. During 2010, Arig has supported the needy families on various occasions and also initiated a program to financially support a deserving University student for the full graduation program.

CAPITAL AND SHARES

Arig's authorised capital comprises 500 million ordinary shares of US$ 1 each. The issued, subscribed and paid up capital is US$ 220 million. The shares are held by over 4,800 shareholders spread across in various countries across GCC and the shares are negotiable by people of all nationalities on the stock exchanges where Arig is listed. Arig's shares are listed in the Bahrain Bourse, Dubai Financial Market and the Kuwait Stock Exchange. Global Depositary Receipts, equivalent to 10 ordinary shares each, are listed on the London Stock Exchange. Details of major shareholders and the shareholding pattern are set out in page no 58 of the Annual Report.

COMPLIANCE

The Company has a separate Compliance function to handle all regulatory requirements stipulated by the Central Bank of Bahrain, Ministry of Industry and Commerce, Bahrain and mandatory requirements of the stock exchanges where Arig is listed. DGM – Finance & Administration, is responsible for this function. During 2010, no penalties were imposed on Arig by any regulatory authority for non-compliance with applicable legal or regulatory requirements.

INTERNAL CONTROL

The Board is ultimately responsible for the system of internal controls within the Company. Necessary policies, guidelines, procedures, approval limits and performance monitoring mechanisms have been established with periodical reviews and updates to these procedures,

CORPORATE GOVERNANCE REPORT

wherever necessary. The Chief Executive Officer (CEO) sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. The CEO provides leadership and direction to General Management and reviewing the way they are controlling the business. Appropriate Authority limits for underwriting, claims and other operational areas have been approved by the Board. Any material transactions (i.e. in excess of the approved authority limits of the General Management) and all transactions with the related parties are conducted on arms length basis.

These internal controls are processes, effected by Arig's board of directors, management and other personnel, is designed to provide reasonable assurance regarding the achievement of various objectives that include effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations.

On behalf of the Board, the Audit Committee periodically reviews the control framework and the assessments of these internal controls from the evaluations carried out by the internal audit function and external auditors. Based on the advices of the Audit Committee, the Board ensures an appropriate control environment within the Company.

ENTERPRISE RISK MANAGEMENT

Arig has made considerable progress in adopting Enterprise Risk Management (ERM) within the Company, since its embarkation in 2006. Risk management forms part of Arig's core values and the Company lays emphasis on adopting a structured and holistic risk management framework, in order to identify, control, mitigate and manage the risks across the Company.

Formed under the direct supervision of the CEO, the independent committee for Enterprise Risk Management (ERM committee) comprising of competent individuals within the Company, has undertaken various initiatives in establishing a formal risk management framework. This framework, as approved by the Board during 2010, provides conceptual guidance in directing various risk management processes and to promote proper risk culture within the Company.

As part of the established risk management practices, the ERM Committee also facilitates regular reviews of relevant risks across the Company through development of Risk Registers thereby prioritizing the impact of these risks for effective risk management. During 2011, the Company is also in the process of deploying a sophisticated risk management application with the assistance of a leading international consultancy firm, in order to ensure systematic monitoring and ongoing reporting of risk management activities within the Company.

The Company continues to benefit from the application of Dynamic Financial Analysis and Capital Modelling carried out by external actuaries and the results are actively applied in business planning process and determination of capital consumption.

The Company has effective processes of risk management which are being carried out by individual functional departments. Appropriate risk management mechanisms have been incorporated within policies and guidelines that govern the functioning of these departments and periodically, the Executive Committee reviews the efficacy of the risk management practices and controls which are being implemented within the Company. A brief of Company's exposure to various risks and relevant risk management practices is narrated as below:

Underwriting Risks:

Underwriting risks emanate from significant changes in the underlying business and the deviation from expected figures due to changes in market cycle, acceptances, catastrophes, pricing and reserving risks. Armed with proper underwriting guidelines, improved pricing tools and prudent reserving practices (as reviewed by professional actuaries), Arig's underwriting risks are effectively and prudently managed.

Financial Risks:

Financial risk is the risk of assets and/or liabilities that are negatively affected by movements in financial markets, interest rates, foreign exchange rates, credit risks (due to default in insurance and/or non insurance related settlements) etc.. The Company has established adequate internal controls, security evaluations and necessary investment policies and guidelines, in order to address all these financial risks pro-actively.

Operational Risks:

Operational risks are the potential losses arising from inadequate or failed internal processes, people, systems, external events or non-compliance with regulatory requirements resulting in financial penalties or inability to operate properly. The Company has appropriate operational mechanisms, including procedures and controls that are balanced to counter and manage these probable risks.

Detailed risk management practices followed by the Company are set out in the notes attached to the financial statements, wherever required.

EXTERNAL AUDITORS

External auditors are appointed by the shareholders at their General Assembly. The current auditors, KPMG, Bahrain were appointed as external auditors for the first time for the year 2005 and being eligible for re-election, were reappointed for the financial year 2010, based on the recommendations of the Board.

SECURITY RATINGS

Arig has been rated by A.M. Best and during the year, A.M. Best has affirmed the financial strength rating of B++ (Good) and the issuer credit rating of "bbb+" and

CORPORATE GOVERNANCE REPORT

the outlook for both ratings are stable. The ratings reflect the Company's solid business position in the Middle East regional reinsurance market, the strong risk-adjusted capitalisation and strengthening risk management, as well as the improving technical performance. An offsetting factor is related to the potential downward pressure on the prospective level of capitalisation following the growth plans in the international business. In A.M. Best's opinion, ARIG maintains a strong business profile in the Middle East, where it is recognized as a prominent regional reinsurer, while it is increasing its international book of business.

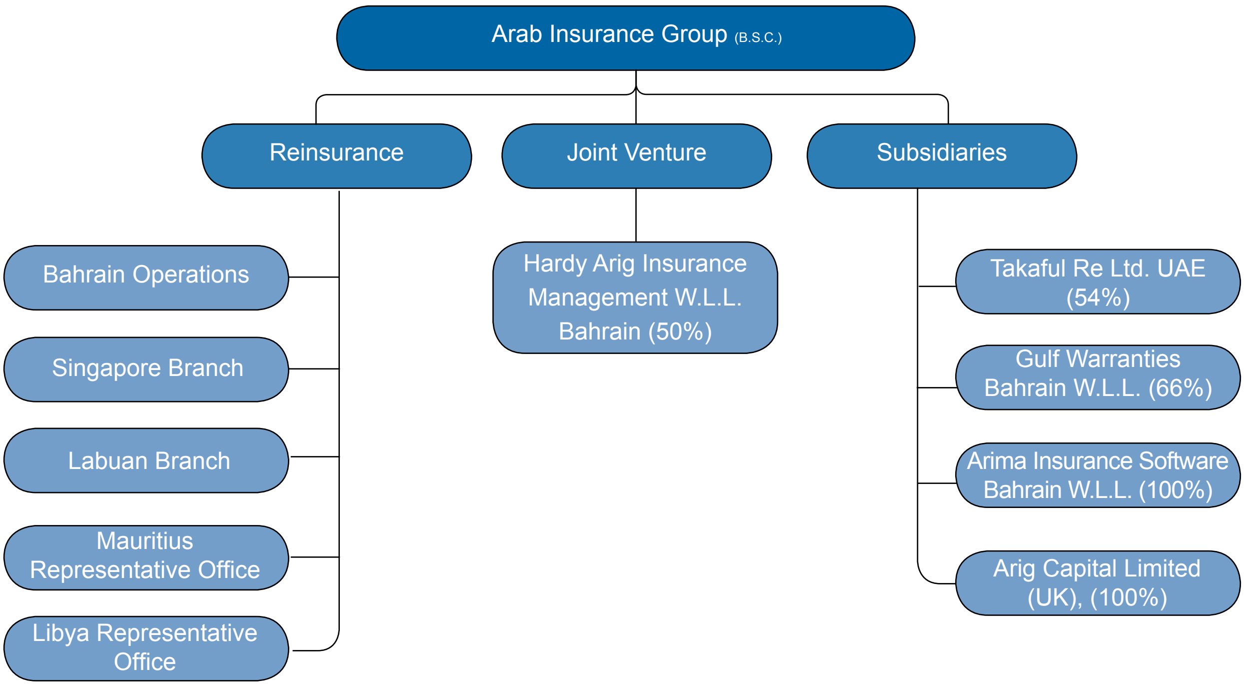
SOLVENCY

Solvency margin requirements are determined in accordance with the regulatory requirements established by the Central Bank of Bahrain and are calculated with reference to a prescribed premium and claims basis. Where these calculations result in solvency margin requirements falling below the minimum fund size prescribed by regulations, such minimum fund size is considered as the required margin of solvency. Summarised solvency position of the Company as at 31 December 2010 is given below:

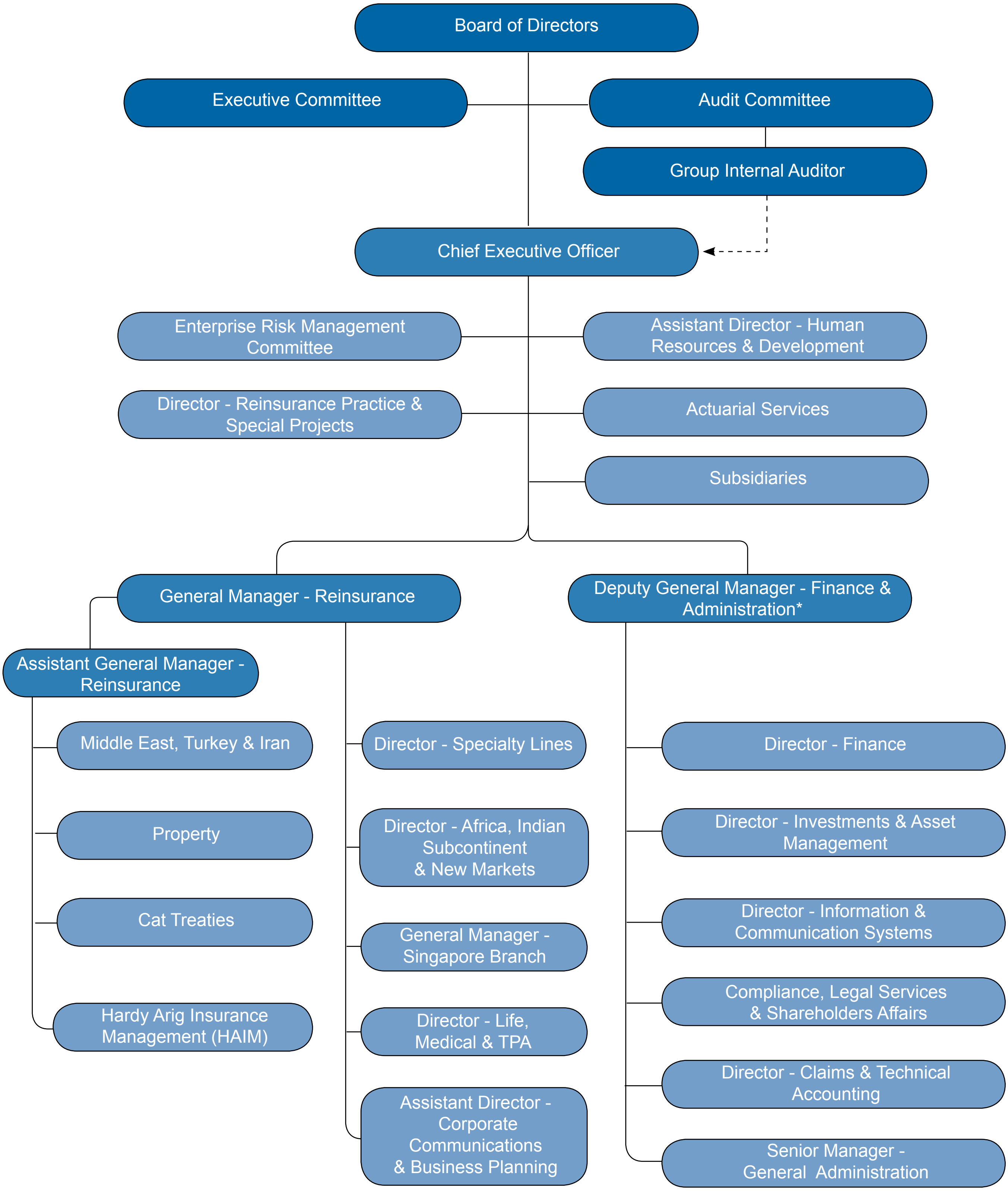
(US$ '000)

	2010	2009
Capital available	161,367	158,412
Required margin of solvency	43,478	51,103
Total excess capital available over the required margin of solvency	117,889	107,309

ARIG GROUP STRUCTURE



ORGANIZATION CHART



* Also nominated as Compliance Officer and Money Laundering Reporting Officer

BIOGRAPHIES OF BOARD MEMBERS & GENERAL MANAGEMENT

BOARD MEMBERS

Khalid Ali Al Bustani
Chairman

B.Sc. in Computer Engineering, Boston University, USA; MBA, Leicester University, UK.

Khalid Ali Al Bustani is Assistant Under Secretary for International financial relations in the Ministry of Finance in the United Arab Emirates. He is Chairman of the Board of Directors since May 2004, prior to which he was Vice Chairman of the Board of Directors from June 2003. Khalid Ali Al Bustani has been a Director and Chairman of the Executive Committee from October 2002 to April 2004. He is also Chairman of Takaful Re Ltd.

Khalid Jassim Bin Kalban
(representing Dubai Investments, UAE)
Vice Chairman and Chairman of the Executive Committee

*B.Sc., Metropolitan State College, USA; Associate degree of Arts with Business Management as major subject, Arapa*hoe Community College, USA.

Khalid Jassim Bin Kalban is Vice Chairman of the Board of Directors since April 2005. He has been a Director of the Company since May 1998 and is Chairman of the Executive Committee since May 2004. Khalid Jassim Bin Kalban is the Chairman of Union Properties and National General Insurance and Chief Executive Officer and Managing Director of Dubai Investments, in the UAE. He also serves on the boards of several companies in the UAE and other countries including Takaful Re Ltd, Emirates National Bank of Dubai in the UAE.

Dr. Fouad Abdul-Samad Al Falah
Director and Chairman of the Audit Committee

*B.A., The Ameri*can University, Lebanon; M.A. and Ph.D, The American University, USA

Dr. Al Falah has served as Director of the Company since October 2003. He was Chairman & Director General of Public Authority for Youth & Sports, Kuwait until November 2008. Dr. Al Falah has also served as Third Secretary at the Kuwait Ministry of Foreign Affairs. He is in the Board of Gulf Union Insurance and Reinsurance company in Bahrain. Now he is an Assistant Professor at The College of Administrative Sciences-Department of Public Administration, Kuwait University.

Hamed Saleh Al Saif
Director and Member of the Executive Committee
(resigned from the Board effective from 8 November 2010)

*B.Com in B*usiness Administration, Beirut Arab University, Lebanon.

Hamed Saleh Al Saif has been a Director of the Company since April 2001. Hamed Saleh Al Saif was Vice Chairman of the Board of Directors from May 2004 to April 2005. He was Chairman & Managing Director of Kuwait & Middle East Financial Investment company in Kuwait until May 2008. He has resigned from the Board effective 8 November 2010, after his appointment Director General of Kuwait Stock Exchange.

Mohamed Khalifa Al Fahad Al Mehairi
Director and Member of the Audit Committee

BBA, Boston University, USA

Mohamed Khalifa Al Fahad Al Mehairi has served as Director of the Company since October 2002. He is currently the Chief Executive Officer of Musanada, a PJSC company in the UAE. Prior to this, Mr. Al Mehairi was the Director General of the Federal Customs Authority of the UAE, and involved in a number of related government committees.

Sultan Ahmed Al Ghaith
Director and Member of the Executive Committee

B.Sc., UAE University, UAE

Sultan Ahmed Al Ghaith has been a Director of the Company since October 2004. He was Undersecretary & Director General of General Pension & Social Security Authority, UAE, until April 2008. He serves on the boards of Takaful Re Ltd & Emirates Co-operative Society.

Abdul Aziz Abdullah Al Zaabi
(representing Real Estate Bank, UAE)
Director and Member of the Executive Committee

Business Administration, San Jose State University, USA

Abdul Aziz Al Zaabi has been the Director of the Company since 2005. He is the Chief Executive Officer of Real Estate Bank, UAE. He also serves on the boards of Takaful Re Ltd., National Bank of Ras Al Khaimah, RAK Properties, Islamic Development Bank and other organisations in the UAE.

Fathi Emhimed El Hagie
(representing Central Bank of Libya, Libya)
Director

High Banking Diploma in Banking Studies, from Arab Institute of Banking Studies, Jordan

Fathi Emhimed El Hagie is the Manager, Banking Operations Department of Central Bank of Libya, Libya. Fathi Emhimed Hagie has been a Director of the Company, since March 2008.

BIOGRAPHIES OF BOARD MEMBERS & GENERAL MANAGEMENT

Majed Ali A Omran Al Shamsi
(representing Ministry of Finance, UAE)
Director & Member of Audit Committee

B.com., Emirates University, United Arab Emirates

Majed Ali A Omran Al Shamsi is the Director of International Relations Department, the Ministry of Finance in the United Arab Emirates. Majed Ali A Omran Al Shamsi has been a Director of the Company, since March 2008.

GENERAL MANAGEMENT

Yassir Albaharna
Chief Executive Officer

MBA (High Honours) & M.Eng. (Manufacturing), Boston University, Boston; B. Eng. (Mechanical), McGill University, Montreal; Fellow & Chartered Insurer, Chartered Insurance Institute, London.

Yassir Albaharna joined Arig in 1987 and held a variety of underwriting and managerial positions throughout his career. Heading up the new management team, Yassir was appointed CEO in April 2006. He also serves as Chairman of Arima Insurance Software (Bahrain), Gulf Warranties (Bahrain) and Arig Capital Limited (London). Yassir further holds Board memberships in Takaful Re (Dubai International Financial Center), Hardy Arig Insurance Management (Bahrain), Arab Jordanian Insurance Group (Amman), Federation of Afro-Asian Insurers & Reinsurers (Cairo) and FAIR Oil & Energy Insurance Syndicate (Bahrain). Yassir is also Vice Chairman of the Bahrain Insurance Association and a member in the Boards of the International Insurance Society (New York), Bahrain's Specific Council for Vocational Training - Banking Sector and Bahrain's Human Resources Development Fund - Banking & Financial Sector.

Andreas Weidlich
General Manager - Reinsurance

Graduate in Economics; Free University of Berlin, Germany

Prior to joining Arig in April 2006, Andreas held senior managerial positions at Allianz Risk Transfer (Bermuda), Allianz Reinsurance Asia Pacific, Singapore and at Munich Re in Munich & Singapore. Andreas is furthermore an Executive Director and Chief Executive Officer in Hardy Arig Insurance Management WLL, Bahrain.

Nagarajan Kannan
Deputy General Manager - Finance & Administration

Fellow member of the Chartered Insurance Institute, UK (FCII) & Chartered Institute of Management Accountants, UK (FCMA); Associate member of The Institute of Company Secretaries of India (ACS) & The Institute of Cost & Works Accountants of India (AICWA)

Nagarajan Kannan joined Arig in April 1989 and has been part of the General Management Team since April 2007. He currently holds Board memberships at ARIMA Insurance Software, Hardy Arig Insurance Management WLL, Gulf Warranties WLL and Arig Capital Limited, UK. Prior to joining the Company, he served in leading insurance and manufacturing companies in India.

Salah Al Maraj
Assistant General Manager - Reinsurance

Bachelor of Arts; Kuwait University, Kuwait

Salah Al Maraj joined the Company in May 1982. He held senior underwriting positions before being appointed to the General Management in October 2009. Among others, Salah holds immediate responsibility for Arig's core markets in the Middle East and neighbouring territories.

KEY RATIOS

	2010	2009
Performance ratios		
Premium growth (annual change in gross premiums written)	(14.3)%	(0.5)%
Retention ratio (gross retained premiums over gross premiums written)	88.4%	96.9%
Non-Life Combined ratio (aggregate of expenses over net written premiums & losses over net earned premiums)	104.1%	98.7%
Return on investments (proportion of investment income over average investment assets)	5.2%	5.0%
Return on equity (proportion of net profit to average shareholders' equity)	7.9%	8.6%
Growth in shareholders' equity	(2.7)%	11.6%
Leverage ratios		
Underwriting exposure (ratio of gross premiums written to shareholders' equity)	92.1%	104.5%
Net technical provisions/ Shareholders' equity	218.9%	220.6%
Net technical provisions/ Net premiums written	268.7%	217.9%
Liquidity ratios		
Investment assets/ Net technical provisions	113.6%	112.5%
Liquid assets/ Net technical provisions	107.6%	105.6%
Other		
Solvency ratio (ratio of shareholders' equity to net earned premiums)	117.0%	101.3%
Shareholders' Equity/Economic Capital	2.49	2.56
Earnings per share attributable to shareholders	0.10	0.10
Book value per share (US$)	1.31	1.27
Price to book value per share	39.7%	42.5%

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Arab Insurance Group (B.S.C.)

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 Legal And 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

Manama, Kingdom of Bahrain

13 February 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(US$ '000)

	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
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.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(US$ '000)

	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:	29	US$	0.10	0.10

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(US$ '000)

	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 financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(US$ '000)

	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**
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 (note 37)

31 December 2010	220,000	(14,793)	28,094	772	6,857	35,723	19,210	260,140	-	260,140
31 December 2009	220,000	(8,163)	25,932	8,106	7221	41,259	14,249	267,345	-	267,345

The accompanying notes 1 to 38 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

(US$ '000)

	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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

	Receivables	Share of technical provisions	Total
2010			
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**
2009			
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)	-	-	-
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 Income	2009 Income
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)

FOR THE YEAR ENDED 31 DECEMBER 2010

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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**

FOR THE YEAR ENDED 31 DECEMBER 2010

6. INVESTMENTS (Contd.)

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.

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			
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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

6. INVESTMENTS (Contd.)

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**
2009			
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

6. INVESTMENTS (Contd.)

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**

vi. Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 7.5 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)

FOR THE YEAR ENDED 31 DECEMBER 2010

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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)

	2010	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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).

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)**

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

	Gross	Reinsurance	Net
2010			
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			
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

21. SHAREHOLDERS' EQUITY (Contd.)

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.

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**

FOR THE YEAR ENDED 31 DECEMBER 2010

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)

	Non-life					Life		
	Treaty				Facultative	Short term	Long term	Total
2010	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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

23. SEGMENT INFORMATION (CONTD.)

(US$ '000)

2009	Non-life Treaty Property	Non-life Treaty Engg.	Non-life Treaty Medical	Non-life Treaty Others	Non-life Facultative	Life Short term	Life Long term	Total
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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
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)

	Non Life					Life		
	Treaty				Facultative			
2010	Property	Engg.	Medical	Others		Short term	Long term	Total
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**
2009								
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

24. OUTWARD REINSURANCE PREMIUMS

(US$ ’000)

	Treaty	Facultative	Life	Total
2010				
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**
2009				
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)

	Insurance funds	Shareholders’ funds	Total	
2010				
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

26. OPERATING EXPENSES

(US$ '000)

	Underwriting	Non-Underwriting	Total	2009
2010				
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

FOR THE YEAR ENDED 31 DECEMBER 2010

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:

(US$ '000)

	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**

FOR THE YEAR ENDED 31 DECEMBER 2010

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**

FOR THE YEAR ENDED 31 DECEMBER 2010

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)

	Book Value						Fair value
2010	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	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
2009							
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.

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

FOR THE YEAR ENDED 31 DECEMBER 2010

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:

(US$'000)

2010	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**
2009				
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 reco gnition				
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.

FOR THE YEAR ENDED 31 DECEMBER 2010

34. FAIR VALUE DISCLOSURE (CONTD.)

iii. Forward foreign exchange contracts:

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

iv. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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	629,328	647,551
Insurance payables	28,673	27,425
Other liabilities	39,499	40,780
	697,500	715,756
SHAREHOLDERS' EQUITY (note 21)		
Share capital	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**

The Arig Group

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