ANNUAL REPORT 2011

arig

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BOARD OF DIRECTORS

Khalid Ali Albustani

Chairman

Khalid Jassim Bin Kalban

Vice Chairman of the Board, Chairman of the Executive Committee and the Nomination & Remuneration Committee

Dr. Fuad A A Alfalah

Director and Chairman of the Audit Committee and Member of the Nomination & Remuneration Committee

Sultan Ahmed Alghaith

Director and Member of the Executive Committee and the Nomination & Remuneration Committee

Abdulaziz Abdulla Alzaabi

Director and Member of the Executive Committee & the Audit Committee

Fathi M A Elhagie

Director

Majed Ali Ahmed Omran Alshamsi

Director and Member of the Executive Committee

Muzafar Alhaj Muzafar

Director and Member of the Executive Committee

Mariam Mohamed Hasan A. Raheem Alameeri

Director & Member of the Audit Committee

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 31st Annual Report and Consolidated Financial Statements for the year ended 31 December 2011.

FINANCIAL RESULTS

2011 proved to be one of the most challenging periods for professional reinsurers. As Arig is part of a globalized industry, our company was affected as well. Following a spate of natural catastrophes and other sizeable losses closer to home, the combined ratio for our Non-life portfolio climbed to 108.6% (2010: 104.1%). At the same time, returns achievable from the regional and global financial markets recorded a historical low point, reducing the yield from our investible assets to US$ 4.0 million (2010: US$ 34 million). With an additional deficit of US$ 4.3 million from Arig's subsidiaries, the annual result for the reporting period is a net loss of US$ 19.1 million (2010: profit US$ 20.8 million).

THE MARKET

Reinsurers prefer to think in cycles; in fact, many of them plan their returns as an average over the cycle. This implies that there are periods with very good results, and periods when earnings are depressed. The reasons for that could be diverse but usually results are driven by the level of claims received from the insured clients, and the investment income earned on shareholders' and policyholders' funds. In many years, earnings factors are complementary, that is if investment returns are high, insurance pricing tends to come under pressure, or vice versa. Then there are years, where trends are aligned, which can lead to either exceptionally profitable results or negative returns. Without any doubt, 2011 belongs to the latter category. One could even go as far as to call it a 'Perfect Storm'.

Despite several natural catastrophes, 2010 still produced rather acceptable results when financial markets turned friendly towards the end of the year. In 2011, however, the industry sector took hits on both accounts:

1. With estimated economic losses of US$ 380 billion[1], 2011 turned out to be the costliest year for natural catastrophes ever recorded. Over US$ 105 billion of the losses were insured with reinsurers carrying the major load, namely 65% of the losses from Australia, New Zealand and Japan, and 80% of the claims from Thailand. What also made this year so different is the fact that 70% of the economic loss occurred in Asia and Australasia, highlighting the continuous shift of economic gravity from the West to the Far East, but also the extreme exposure to natural hazards and changing risk scenario driven by a sharp increase in insured values.
2. While internationally operating insurers and reinsurers were battered by underwriting losses, financial markets offered no relief. The after-effects of the 2008 financial crisis were still felt in many of the world economies while demand for capital remained low. At the same time, severe uncertainties around rising debt levels, the Euro zone and asset bubbles forming in India and China kept investors searching for safer grounds. This all contributed to historically low returns that could be achieved on fixed term deposits (FTD's) and high-grade treasuries - traditionally the preferred asset classes of the insurance industry. In some cases we even witnessed the emergence of negative interest paid on some treasury bonds. Riskier asset classes also remained depressed, or at least highly volatile. 2011 proved to be an extremely difficult year for quality conscious investors looking to protect their principal while seeking a decent return. While there may have been small pockets of opportunities to buck the trend, it was a challenging period for managers with limited risk appetite looking to invest hundreds of millions of Dollars.

ARIG'S POSITION

The 2011 claims experience was unique. More than half of the insured natural catastrophe claims originated from the earthquakes in New Zealand and Japan. Seismic activity of this magnitude has long return periods. The Tohoku earthquake that occurred in March last year registered a magnitude of 9.0, triggering a Tsunami of epic proportions. The last time the northeast of Japan experienced an event of this size was in the year 869. In other words, it may be a long time before the region gets struck again. However, the industry has to be aware that insured values have sharply increased in recent history. There is no hiding of the fact that in Asia, risks emanating from natural hazards were under-priced in many markets, whereas in the Old Economies continue to be better funded, simply because insurers have a more complete picture of their real exposures. Clearly, there is now a rising opportunity to benefit from the increased prices currently charged for natural catastrophe related covers, particularly in areas that were hit by recent claims.

Experience teaches us that volatile business lines, if priced correctly, can offer healthy margins to companies with strong balance sheets. This is especially true where large capacities are required - as it is the case with Japan, North America or Europe. It does, however, not apply to the bread-and-butter business we write from the Middle East, where our policies usually allow insurance clients to make their own pricing decisions. Keen observers would have noticed that since the end of 2008, growth and profitability within the GCC have been reducing, even though, miraculously, there still appear to be investors keen to fund new start-ups.

1 Munich Re: "Review of natural catastrophes in 2011: Earthquakes result in record loss year"

"The industry has taken a hit in 2011 and Arig was no exception; however, there is at least one new opportunity in every crisis."

Khalid Ali Albustani

Chairman

REPORT OF THE BOARD OF DIRECTORS

In the meantime, the market continues to compete on price rather than products and services. In other words, while the riskiness of the portfolios largely stays the same, insurers are willing to accept lower premiums for their products, which is effectively driving up loss ratios over time. Because the majority of reinsurance demand is in the form of proportional treaty arrangements, Arig is affected by the dwindling margins in its clients' business, for which we additionally have to pay commissions. With no changes in the going market practices, we have little choice but to exercise selective underwriting, turning clients away each year because writing their business would place us in a loss position. In the meantime, it has become a key success factor for Arig to keep developing alternative sources of revenue from other territories.

In addition to the regular claims we saw from the MENA markets and elsewhere, 2011 also brought about some unexpected events. First, there was the reoccurrence of the Jeddah floods after officials had asserted remedial action following the previous flooding in 2009. Furthermore, we were confronted with substantial losses from the Arab Spring events in North Africa. Though we would argue that many of the claims should be outside of the coverage provided under our reinsurance contracts, we would have stood limited chances to put our arguments across to local courts that may feel more sympathetic to the national cause than to a foreign reinsurer. Total claims reserves relating to the unrest in Tunisia and Egypt currently amount to US$ 4.1 million.

Since 2009 we have maintained a business partnership with the Hardy Group domiciled in Bermuda that provides Arig with access to markets and business lines which would be too expensive to develop on our own. We are currently participating across Hardy's Lloyd's syndicate, additionally on their world-wide Property programs and we participate in a joint venture operation in Bahrain targeting high-value projects and industrial accounts. In 2011, Hardy related premium made up 22.4% of Arig's total, and in 2012 this number is estimated to be 23.5%. We are also the company's largest shareholder with a stake of slightly over 7%.

Arig follows a conservative investment approach. Not investing in real estate or derivatives has kept us out of trouble while the proportion of our equity holdings is kept at manageable levels. In most years, the returns from investments would be able to compensate for Arig's operational expenses, often still producing a profit in addition. In 2011 this was not the case. With yields from FTD's at historically low levels and most equity and alternative investment markets registering losses towards the end of the year, investment returns fell far short of our targets. The Company's reported investment earnings of US$ 4 million only (2010: US$ 34 million), representing an average rate of return on investments of 0.6% (2010: 5.2%). Invested assets at the end of 2011 stood at US$ 652.8 million (2010: US$ 646.9 million).

OUTLOOK

Slowing growth throughout the world economy, sluggish demand in most insurance classes and a low interest rate environment will continue to challenge shareholders' expectations in 2012. As Deloitte's worded it in their 2012 Global Insurance Outlook: "Generating growth in a challenging economy takes operational excellence and innovation." In our own terms, this translates into tightening of Group efficiencies and the realization of opportunistic benefits as they may offer themselves.

The Board feels compelled to look at innovative and alternative ways so that the Arig Group is placed in a better position of maneuvering a successful course through a difficult period. We realize that standstill is not an option. The industry has taken a hit in 2011 and Arig was no exception; however, there is at least one new opportunity in every crisis. Subsequently, the management has submitted fresh ideas to the Board, which have been - and will continue to be - duly considered.

For 2012, we have our work carved out: in times of reduced premium and investment income, operational expenses must be closely managed. This refers to human resources as much as expenses arising from our Group structure. Current investment income is no longer sufficient to compensate for our operational expenses. The Group's management is leaving no stone unturned in order to uncover inefficiencies that can be avoided. In addition, we are actively pursuing ways to increase our bottom line from the Group's underwriting activities.

There is some cautious optimism that our active business may receive support from a gradual improvement in the underlying Terms of Trade. This is less visible in the Middle East, but rather in overseas markets, especially those that have been affected by recent losses. With proper risk management in place, we will make informed decisions on promising opportunities where we see a healthy balance between risk and reward. Continued participation in the global market place is essential if we want to capture the pricing uplift emerging from developed overseas markets.

Concentration in the reinsurance industry is continuing. Only players with a meaningful position in their markets will survive. Different to most regional reinsurers, especially if they are quasi government owned, Arig does not receive any special support from its public sector owners. The Company competes on a level playing field against the best in the world. Not an easy task while our formidable competitors continue to invest into their businesses. Forming partnerships has been one way out of this dilemma but we remain vulnerable to shifts in the market that may also affect our partnerships. Still, we are confident that with the existing expertise hosted within our company, Arig will continue to chart its course against all odds.

REPORT OF THE BOARD OF DIRECTORS

ACKNOWLEDGEMENTS

The Board takes this opportunity to 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 extend their thanks to our business partners, clients, shareholders and regulators for their support and cooperation throughout the year. The Directors thank the management and staff for their commitment, professionalism and sincere efforts.

On behalf of the Board of Directors

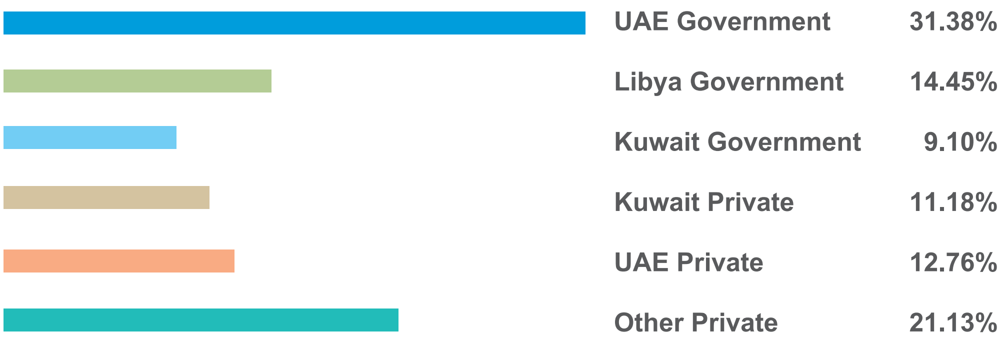
Khalid Ali Albustani
Chairman
14 February 2012

FINANCIAL HIGHLIGHTS

KEY FIGURES

(US$ Millions)	**2011**	2010	2009	2008	2007
Gross Premiums Written	247.5	239.5	279.4	280.7	250.0
Net Written Premiums	215.8	211.9	270.7	269.2	235.2
Net Profit (Loss)	(19.1)	20.8	21.9	(28.6)	23.7
Investment Assets	652.8	646.9	663.7	678.5	711.7
Total Assets	1,024.3	1,038.4	1,132.3	1,082.9	1,049.8
Net Technical Provisions	564.8	569.4	589.8	524.7	459.1
Shareholders' Equity	222.4	260.1	267.3	239.6	298.4

PERCENTAGE OF SHAREHOLDING



As of 31 December 2011

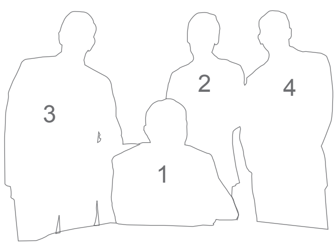
GENERAL MANAGEMENT

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

"Dramatically reduced investment income makes it ever more important to generate sufficient income from underwriting activities. Prices must go up, especially in areas where previous levels were not aligned to the true exposures."

Yassir Albaharna

Chief Executive Officer

OPERATING AND FINANCIAL REVIEW

REINSURANCE

2011 will always be remembered as the year of natural catastrophe events, as much as 2001 has stuck to our minds as the year of '9/11', which has been the largest man-made catastrophe loss to insurers to date. As much as natural catastrophes play a vital role in companies' risk management scenarios, 2011 proved to be different and somewhat unexpected for a number of reasons:

- Previously, all major insurance losses tended to originate from matured, industrialized countries. In particular, this was true for the periodic hurricane claims experienced in the Gulf of Mexico. But while the U.S. had yet another rather benign hurricane season, 70% of last year's catastrophe losses originated from Asia and Australasia.

- In recent periods, wind has been the most expensive loss generator. However, in 2011, it was the seismic activity in Japan and New Zealand, and the great flood in Thailand that wreaked havoc on reinsurers' balance sheets.

- Typically, traditional catastrophe losses would mostly affect larger, global operators with sufficient capital to "ride the storm" in loss-heavy years, while taking benefit in benign periods. But in 2011 virtually everyone suffered – also regional Asian reinsurers who had been comfortable with their aggressive expansion in prior years. This all changed after the floods in Thailand, a country that was assumed safe from natural catastrophes. Here, all reinsurers were equally hit hard as covers granted typically had no ceiling to liabilities.

Even though we do not expect a sea change in the global market situation, we are witnessing trends that continue to consolidate. The continuous slide in the terms of our business prevalent since 2006 has stopped and partially been reversed. Whereas the 2011 catastrophe claims bill of more than US$ 100 billion has just eroded 4% of reinsurers' built-up capital, there is a growing desire to turn the table:

- Dramatically reduced investment income makes it ever more important to generate sufficient income from underwriting activities. Prices must go up, especially in areas where previous levels were not aligned to the true exposures.

- Reserve releases are no longer providing support to current underwriting results. Insurance companies' profits have been reducing since 2008 and there is clear indication that premiums at the current levels are no longer sustainable.

- Especially in Asia, commonly considered the favorite growth market for many, a sense for re-pricing is sinking into the minds of those who have paid heavy losses. It has been well established that markets like China, India, Japan or Korea have high potential for large-scale catastrophes. Now Thailand, and perhaps others, will need to be added to that map.

On the other hand, there is plenty of room for opportunistic plays. Though the industry has had a horrible year, it is highly unlikely that we would see a similar scenario on a recurring basis. Most of the recent losses were caused by seismic events, which tend to have long return periods. We would still expect the majority of future events to be caused by windstorm, generally causing lower claims loads. Claims remain part and parcel of our business and the very reason why our customers purchase reinsurance covers. Meanwhile, and with proper risk management in place, informed reinsurers should be able to benefit from the general and particular price increases emerging across the board, provided they are in possession of the key ingredients necessary for riding the markets: capital, professional expertise and reach.

BUSINESS REVIEW

Portfolio Development

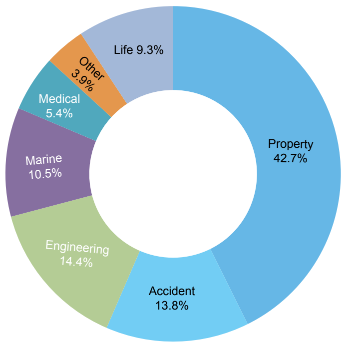
Arig increased its premium income by 3.3% over the reporting period (2010: -14.3%) to a total of US$ 247.5 million.

While most of the non-life lines written reflected depressed rating levels and a general slow-down of our client's revenues, Property and Marine Cargo lines grew. New premium written through our Lloyd's corporate membership contributed US$ 32.2 million of additional income to Arig's book. Non-life premium reached US$ 224.5 million at year-end (2010: US$ 207 million), thereby growing by 8.5%.

Property remained our largest individual line, accounting for 42.7% of total GWP, followed by Engineering at 14.4%, Accident at 13.8% and Life at 9.3%. Through our participation at Lloyd's, Arig Capital Limited (ACL), we are writing a cross section of the Hardy Syndicate including lines not represented under Arig. This has added balance and diversity to our portfolio.

Life business shows a decrease by 29.4% for 2011 (2010: -35.2%). But different to 2010, the reduction is almost exclusively due to the delayed renewal of our largest account. Life premium represented US$ 23 million of our book (2010: US$ 32.5 million).

Gross Premiums Written By Class



OPERATING AND FINANCIAL REVIEW

It has become obvious that Arig needs to look outside the region for new growth, while the insurance industry in the Middle East appears to linger in a stalemate. In the Far East, writing for growth turned out to be a double-edged sword for many, especially as the recent barrage of natural catastrophe events has highlighted some of the pricing insufficiencies. For that reason, the Lloyd's market, representing a hub for technically rated global accounts, continues to be the centre of our focus. Despite the extraordinary claims experience in 2011, our Lloyd's book performed significantly better than the remainder of our business, thereby proving the value of our chosen strategy.

Lloyd's business partnerships allow us to participate in global markets without the necessity and enormous expense of building our own infrastructure. Without the added overheads, we can be opportunistic and write the markets that are attractive. The downside of this approach, however, is the fact that without owning substantial equity at Lloyd's, we have little control over our partners' corporate decisions. In December last year, Hardy placed itself up for sale. Our relationship with the Hardy Syndicate accounted for 22.4% of Arig's premium in 2011.

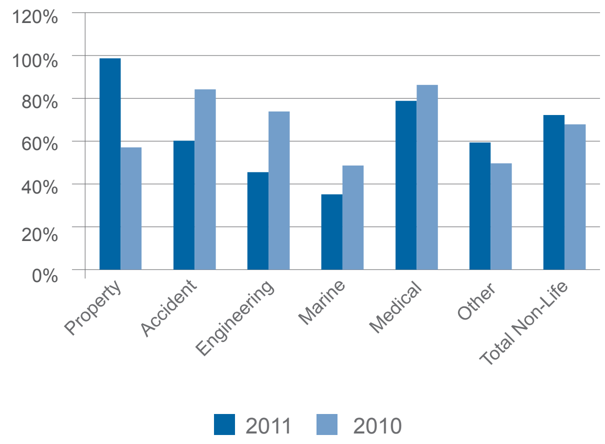
Operations at our Libyan Representative Office remained suspended during the civil war activities in 2011. It has since been reopened but we expect that it will take time until conditions return to normal. Nevertheless, we are hopeful that our investment will pay off once rebuilding works get off to a start.

Performance

No doubt, 2011 will be remembered for the enormous claims the reinsurance industry suffered. This includes territories that had been profitable for many years, and some of which were even considered to be safe from natural perils. Most of our competitors would be recording combined ratios in excess of 100%, and Arig is no exception. Yet overall exposure to natural catastrophes is still considered moderate and our portfolio remained highly diversified throughout the year.

In 2011, our non-life combined ratio stood at 108.6% (2010: 104.1%). The increase is exclusively due to losses from the earthquake and Tsunami in Japan, earthquakes in New Zealand and the Thai flood. Without these extraordinary events, our combined ratio would have come in at 97.8% or 10.8% lower. In fact, except for Property, all major lines reported improved results over the year. Apart from cat losses, Property accounts were additionally hit with claims from the Arab Spring movement, amounting to US$ 4.1 million.

Loss Ratio Comparison Non-Life Business



Our quota share written across Hardy's Syndicate 382 recorded a favorable combined ratio of only 87.3%.

Our largest claims in 2011 were the Thai flood (US$ 14 million), Tohoku earthquake (US$ 4.2 million), Arab Spring claims from Tunisia and Egypt (US$ 4.1 million), the Jeddah floods (US$ 2.9 million), and Christchurch earthquakes (US$ 2.3 million).

In Life, results were profitable following the termination of certain long-term accounts in Oman. The majority of our book now consists of annually renewable accounts, where we take short-term underwriting decisions.

While acquisition cost has expanded in tandem with the increase of Lloyd's written business, operational expenses continue to be a challenge for the Group. Despite a substantial reduction during the reporting period, we cannot be satisfied with the current level. For further improvement, the management has placed a number of proposals before the Board of Directors for review. Arig will continue to cut expenses wherever the opportunity arises, while applying caution that our profitable business is not jeopardized.

Risk Capital Position

The Company is actively managing its corporate risk exposures, mainly through risk diversification and risk mitigation. As a result, the capital required to support our book of business shows little movement despite the growth in our portfolio and recent claims events. Our 2011 Economic Capital stands at US$ 121 million, against shareholders equity of US$ 222.4 million at the end of the year. Our capital position remains "strong" as it was recently confirmed by the ratings agency A.M. Best.

Arig's reserves and capital model results are determined by external consultants.

Outlook

In the wake of the enormous losses suffered by the industry in 2011, there appears to be a growing sense that finally, a general rate increase is needed. This move is led

OPERATING AND FINANCIAL REVIEW

by the retrocession markets, which have been hit hardest, but also the fact that no new levels of reserve releases can be employed to subsidize underwriting results. The same goes for investment returns, which in many cases may not provide the same level of support to an aggressive business expansion strategy as in prior years.

While the terms of trade in some of the emerging markets are expected to remain at challenging levels, we will intensify our efforts to expand our reach to more technically underwritten markets. Lloyd's business continues to hold attraction over investments into individual markets, as we get to make an opportunistic choice without making long-term capital investments, as it is the case with subsidiary companies or branches.

Provided that claims from natural events return to more common levels, and that there is no significant loss creep from the previous year, we would see Arig's underwriting results reverse.

INVESTMENTS

Global economic growth slowed to an estimated 4% rate in 2011 according to the latest IMF estimate, following an expansion of 5.1% in 2010. Emerging Markets continued to outperform their developed peers at 6.4% (2010: 7.3%). Inflation trended slightly higher, partially due to increased oil prices, while falling commodity prices provided some relief.

In 2011, geo-political events, the Euro zone crisis, global economic slow-down and natural catastrophes casted their shadows on the performance of financial assets. There was a sustained flight to perceived safe havens such as the Swiss Franc, Gold & US Treasuries. The yield on benchmark US 10 Year Treasuries fell below 2% over the year - a level not even seen during the credit crisis of 2008. Gold rose substantially before selling off in December. Stock markets equally declined: losses were pronounced in Europe, Japan and in Emerging Markets while U.S. equities fared slightly better.

Amidst market uncertainties, our investment strategy continued to be defensive with the majority of the assets held in cash, short-term securities and bonds. Accordingly, we have proactively increased our allocation to low risk cash, short term deposits and high quality low duration bonds reducing allocation to high risk equities and long term bonds. At year-end, the Group's investments stood at US$ 652.8 million (2010: US$ 646.9 million) with 52.9% allocated to cash and short-term instruments. Income generated in 2011 amounted to US$ 4.0 million (2010: US$ 34 million) only, mainly on account of equity losses and low interest rates.

Looking ahead, we believe the issues will remain. The sovereign debt problem has yet to be addressed in earnest. As the global economy continues to lose steam, the prevailing low interest rate environment engendered by the central banks is likely to continue in 2012. Investors with substantial cash or fixed income portfolios will be challenged to produce meaningful returns. Stock markets, especially in emerging markets such as the GCC, may still offer opportunities but at increased risk. Arig will continue to manage a diversified low-risk portfolio within the Group's investment risk appetite, carefully balancing market opportunities against our standing obligations to policyholders. At this stage of the investment cycle, we believe preservation and safety of our capital is of paramount importance.

SUBSIDIARIES

Takaful Re Limited

The Group's Islamic reinsurance subsidiary based in the Dubai International Financial Centre, Takaful Re Limited (TRL), reported a net loss of US$ 3.9 million (2010: net profit of US$6.1 million) for the year. The loss was mainly attributable to negative investment earnings of US$ 2.6 million (2010: positive earnings of US$ 5.1 million), impacted by the depressed performance of equity markets particularly in the GCC and low short-term profit rates.

Retakaful operations recorded gross underwriting contributions of US$ 40 million (2010: US$ 36.2 million), a year-on-year increase of 10.7%. Medical contributions grew by 41% to US$ 7.9 million (2010: US$ 5.6 million), representing 20% of total contributions. Property continued to be the largest class of business with contributions of US$ 12.1 million (2010: US$ 11.1 million), representing 30% of total contributions. Other important key lines were Engineering and Marine respectively representing 17% (2010: 21%) and 13% (2010: 13%) of total contributions.

Gulf Warranties

Gulf Warranties (GW) posted a net loss of US$ 1.8 million (2010: net loss US$ 0.3 million) for the year 2011 after a difficult year. The challenging economic environment kept Motor Warranty revenues flat at US$ 0.9 million (2010: US$ 0.9 million). Non-warranty income was impacted by the loss of a key account resulting in a drop of US$ 2.2 million to US$ 0.3 million (2010: US$ 2.5million).

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. The year under review saw ARIMA expand its client base particularly with its well recognized reinsurance software. ARIMA reported a nominal net profit for the year.

Arig Capital Limited (ACL)

ACL, incorporated as a wholly owned subsidiary in UK is a corporate member of Lloyd's. The subsidiary wrote a 7.5% share of Hardy's syndicate 382 contributing gross written premium of US$ 32.2 million to the Group. ACL recorded a net loss of US$ 0.1 million for the year.

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 - 2006 to 2010 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	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	72.6474	1,064.6	487.7	413.1	84.1	984.9	92.5%	79.7	7.5%
	2010	74.3860	1,098.5	542.2	373.8	81.3	997.2	90.8%	101.3	9.2%
Bahrain	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%
	2010	0.3769	574.3	152.9	248.4	21.3	422.2	73.5%	136.6	26.5%
Egypt(1)	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	1,567.1	285.9	356.5	225.2	867.6	55.4%	699.5	44.6%
	2010	5.5700	1,627.9	322.7	307.5	224.3	854.4	52.5%	773.5	47.5%
Jordan	2006	0.709	377.3	179.1	129.5	33.0	341.7	90.5%	35.7	9.5%
	2007	0.709	427.0	194.6	156.2	34.8	385.6	90.3%	41.3	9.7%
	2008	0.710	487.0	208.4	184.3	43.6	436.2	89.6%	50.8	10.4%
	2009	0.708	527.6	220.5	221.1	36.6	478.2	90.6%	49.4	9.4%
	2010	0.708	589.3	257.7	241.5	36.2	535.4	90.9%	53.9	9.1%
Kuwait	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%
	2010	0.2806	718.0	n/a	n/a	n/a	569.0	79.2%	149.0	20.8%
Lebanon	2006	1,507.500	661.8	137.7	320.1	22.0	479.8	72.5%	182.1	27.5%
	2007	1,507.500	776.3	155.9	322.1	25.4	503.3	64.8%	272.9	35.2%
	2008	1,507.500	898.8	221.5	361.2	32.1	614.8	68.4%	284.0	31.6%
	2009	1,507.500	1,022.7	283.5	414.8	27.6	725.8	71.0%	296.9	29.0%
	2010	1,504.500	1,074.0	n/a	n/a	n/a	812.0	75.6%	262.0	24.4%
Libya(3)	2006	1.2705	148.6	40.3	76.3	26.6	143.2	96.4%	5.4	3.6%
	2007	1.2334	168.8	47.5	84.3	32.3	164.1	97.2%	4.7	2.8%
	2008	1.2935	229.1	52.5	138.7	33.0	224.3	97.9%	4.8	2.1%
	2009	1.2034	309.3	69.4	198.5	36.5	304.4	98.4%	4.9	1.6%
	2010	1.1898	325.8	76.8	198.5	44.9	320.2	98.3%	5.6	1.7%
Mauritania(4)	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%
	2010	279.000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Morocco	2006	8.4278	1,675.0	555.3	584.2	66.9	1,206.3	72.0%	468.7	28.0%
	2007	7.8339	2,157.0	662.6	695.3	83.3	1,441.1	66.8%	715.8	33.2%
	2008	8.8166	2,548.1	773.1	827.2	101.6	1,701.9	66.8%	846.2	33.2%
	2009	7.6145	2,587.9	818.4	857.1	87.9	1,763.3	68.1%	824.6	31.9%
	2010	8.2013	2,592.5	846.2	873.7	84.5	1,804.3	69.6%	788.2	30.4%
Oman	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	0.3852	644.6	270.0	229.7	38.7	538.3	83.5%	106.3	16.5%
	2010	0.3852	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 **(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 - 2006 to 2010 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	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%
	2010	3.5880	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Qatar(5)	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%
	2010	3.6408	n/a	n/a	n/a	n/a	933.0	n/a	n/a	n/a
Saudi Arabia(6)	2006	3.7505	1,852.3	512.7	1,098.7	182.7	1,794.2	96.9%	58.2	3.1%
	2007	3.7412	2,290.3	651.2	1,298.0	253.9	2,203.0	96.2%	87.3	3.8%
	2008	3.7515	2,911.7	677.9	1,817.6	257.9	2,753.3	94.6%	158.4	5.4%
	2009	3.7502	3,896.0	814.7	2,546.9	266.9	3,628.5	93.1%	267.5	6.9%
	2010	3.7500	4,370.0	863.7	2,940.0	307.1	4,110.7	94.1%	259.3	5.9%
Sudan(2)	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%
	2010	2.3725	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Syria	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%
	2010	50.0000	329.5	221.0	73.5	29.3	323.8	98.3%	5.7	1.7%
Tunisia	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%
	2010	1.4122	774.9	361.4	247.5	52.9	661.8	85.4%	113.1	14.6%
U.A.E.	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%
	2010	3.6728	6,003.6	1,230.8	3,065.6	609.4	4,905.8	81.7%	1,097.9	18.3%
Yemen	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%
	2010	213.9000	84.1	22.7	40.0	14.4	77.1	91.7%	6.9	8.3%
The Premium figures are in Local Currency for Iraq only										
Iraq	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		67,037.5	12,455.8	27,014.1	11,012.0	50,482.0	75.3%	16,555.5	24.7%
	2010		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 - 2006 to 2010

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	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	72.647	1,064.6	30.41	4,642	0.7%	34.90	162,000
	2010	74.386	1,098.5	30.41	4,322	0.7%	35.4	153,000
Bahrain	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
	2010	0.3769	574.3	665.17	18,333	2.6%	1.20	22,000
Egypt(1)	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	1,567.1	18.79	2,265	0.8%	83.00	188,000
	2010	5.5700	1,627.9	18.79	2,592	0.7%	84.5	219,000
Jordan	2006	0.709	377.3	58.87	2,653	2.4%	5.90	15,654
	2007	0.709	427.0	63.53	2,769	2.5%	6.14	17,000
	2008	0.710	487.0	70.24	3,365	2.3%	6.30	21,200
	2009	0.708	527.6	76.31	3,492	2.4%	6.30	22,000
	2010	0.708	589.3	76.31	4,154	2.2%	6.50	27,000
Kuwait	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
	2010	0.2806	718.0	189.64	42,903	0.5%	3.10	133,000
Lebanon	2006	1,507.500	661.8	195.00	5,537	2.9%	4.10	22,700
	2007	1,507.500	776.3	226.67	5,459	3.5%	4.10	22,382
	2008	1,507.500	898.8	265.09	6,759	3.1%	4.24	28,660
	2009	1,507.500	1,022.7	312.03	7,381	3.3%	4.20	31,000
	2010	1,504.500	1,074.0	312.03	9,070	2.8%	4.30	39,000
Libya(3)	2006	1.2705	148.6	24.8	8,383.33	0.3%	6.00	50,300
	2007	1.2334	168.8	27.7	9,442.62	0.3%	6.10	57,600
	2008	1.2935	229.1	36.4	15,861.27	0.2%	6.30	99,926
	2009	1.2034	309.3	49.1	13,680.95	0.4%	6.30	86,190
	2010	1.1900	325.8	51.3	14,015.75	0.4%	6.35	89,000
Mauritania(4)	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	803	0.6%	3.20	2,569
	2010	279.000	n/a	4.63	843	n/a	3.20	2,697
Morocco	2006	8.4278	1,675.0	57.43	1,879	2.9%	30.50	57,300
	2007	7.8339	2,157.0	72.38	2,030	3.4%	31.20	63,324
	2008	8.8166	2,548.1	71.53	2,767	3.0%	31.20	86,329
	2009	7.6145	2,587.9	73.77	2,840	2.8%	32.40	92,000
	2010	8.2013	2,592.5	73.77	2,844	2.8%	32.00	91,000
Oman	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	0.3852	644.6	208.68	17,905	1.2%	2.96	53,000
	2010	0.3852	617.7	208.68	19,257	1.1%	2.96	57,000

ARAB INSURANCE MARKET REVIEW

Key Economic & Demographic Indicators - 2006 to 2010

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	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	62.7	17.09	1,127	1.5%	3.67	4,135
	2009	3.5880	72.7	19.66	1,505	1.3%	3.70	5,568
	2010	3.5880	n/a	19.66	1,409	n/a	4.15	5,846
Qatar(5)	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
	2010	3.6408	n/a	558.29	79,333	n/a	1.50	119,000
Saudi Arabia(6)	2006	3.7505	1,852.3	53.04	15,451	0.5%	23.70	366,200
	2007	3.7412	2,290.3	59.23	15,100	0.6%	24.90	376,000
	2008	3.7515	2,911.7	63.91	18,337	0.6%	25.50	467,601
	2009	3.7502	3,896.0	75.93	20,700	0.7%	25.70	532,000
	2010	3.7500	4,370.0	75.93	20,668	0.8%	26.20	541,500
Sudan(2)	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
	2010	2.3730	n/a	6.92	1,490	n/a	43.90	65,400
Syria	2006	50.0000	147.2	7.55	1,682	0.4%	19.50	32,800
	2007	50.0000	184.3	9.35	2,051	0.5%	19.70	40,400
	2008	50.0000	241.1	11.37	2,476	0.5%	21.20	52,500
	2009	50.0000	318.5	14.15	2,394	0.6%	22.51	53,900
	2010	50.0000	329.5	14.15	2,497	0.6%	22.51	56,200
Tunisia	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
	2010	1.412 2	774.9	77.70	4,327	1.7%	10.40	45,000
U.A.E.	2006	3.6730	2,807.7	610.36	35,478	1.7%	4.60	163,200
	2007	3.6745	3,895.8	885.40	45,573	2.0%	4.36	198,700
	2008	3.6734	4,974.6	1,105.46	69,978	1.6%	4.50	314,900
	2009	3.6731	5,455.5	1,136.56	58,761	2.0%	4.60	270,300
	2010	3.6728	6,003.6	1,136.56	39,627	2.0%	7.51	297,600
Yemen	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
	2010	213.9000	84.1	3.09	1,347	0.3%	24.05	32,400
Total GPI in Local Currency for Iraq only								
Iraq	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
	2010	n/a	n/a				31.47	118,000

CORPORATE GOVERNANCE REPORT

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 Code contains both requirements and recommendations. Arig complied with all of the requirements and almost all of the recommendations as laid out in the code. Further, as required by the Code, Corporate Governance reporting is included as a separate agenda item in the Annual General Meeting.

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.

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 2011 for a fixed term of three years valid until the Annual General Meeting due in 2014. 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 pages 28 & 29.

Members of the Board are all non-executive and five out of nine members are independent non-executive directors, 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 Nomination & Remuneration Committee assists the Board in reviewing the nomination and remuneration of the Board of Directors and members of the Company's General Management. The Board Committees periodically meet to achieve its objectives and also perform self evaluation to assess the effectiveness of their functioning.

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 2011 and attendance at these meetings (including Board Committees) is disclosed as follows:

CORPORATE GOVERNANCE REPORT

Directors	Board meetings (6)	Executive Committee meetings (4)	Audit Committee meetings (4)	Nomination & Remuneration Committee (1)
Khalid Ali Albustani*	6	N	N	N
Khalid Jassim Bin Kalban*	6	3	N	1
Dr. Fuad A A Alfalah*	6	N	4	1
Sultan Ahmed Alghaith *	6	4	N	1
Abdulaziz Abdulla Alzaabi*	6	4	3	N
Fathi M A Elhagie***	4	N	N	N
Majed Ali Ahmed Omran Alshamsi ***	4	4	N	N
Muzafar Alhaj Muzafar**	3 (4)	1 (2)	N	N
Mariam Mohamed Hasan A. Raheem Alameeri**	3 (4)	N	3	N
Mohamed Khalifa Alfahad Mehairi****	3(3)	N	1(1)	N

- *Figures in brackets indicate number of meetings applicable to the director*
- *N - Not member*
- ** - Independent non-executive directors*
- *** - Newly elected director from 27th March 2011*
- **** - Did not attend the minimum number of meetings as required by the Rule Book of the CBB. Based on the extraneous circumstances, the Board resolved to continue their memberships and the CBB advised accordingly.*
- ***** Retired effective 27 March 2011*

MANAGEMENT

There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The Chairman of the Board, Mr. Khalid Albustani, 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 30.

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 based on the recommendations of the Nomination and Remuneration Committee, which includes salaries, allowances, reimbursement of expenses, post employment benefits and performance related incentives (information as set out in page 74). 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 2011	43,099,181	9,166
Add :Shares held by new members of the Board of Directors elected during the year*	59,285,499	-
Less : Shares held by members of the Board of Directors retired during the year	1,227,607	-
Shares held at 31 December 2011*	101,157,073	9,166

** Central Bank of Libya & General Pensions & Social Security Authority, UAE have become corporate directors.*

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 its entire 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 2011, 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. The Board of Directors has approved the delisting of Arig shares from the Kuwait Stock Exchange and has recommended the proposal for consideration at the Annual General Meeting of shareholders. The details of major shareholders and the shareholding pattern are set out in page 59 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, Insurance Regulators of our Branch offices in Singapore & Labuan and mandatory requirements of the stock exchanges where Arig is listed. DGM – Finance & Administration, is responsible for this function. During 2011, no penalties were imposed on Arig by any regulatory authority for non-compliance with applicable legal or regulatory requirements.

CORPORATE GOVERNANCE REPORT

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, 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 reviews 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 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

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 has deployed 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. This application integrates management of Risk, Compliance and Internal Audit into one single platform.

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 and Audit Committees review 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), liquidity risk, 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 2011, based on the recommendations of the Board.

SECURITY RATINGS

Arig has been rated by AM 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 the outlook for both ratings is stable. The ratings continue to reflect the Company’s solid business position in the Middle East regional reinsurance market, the strong risk-adjusted capitalisation and sound risk management. 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.

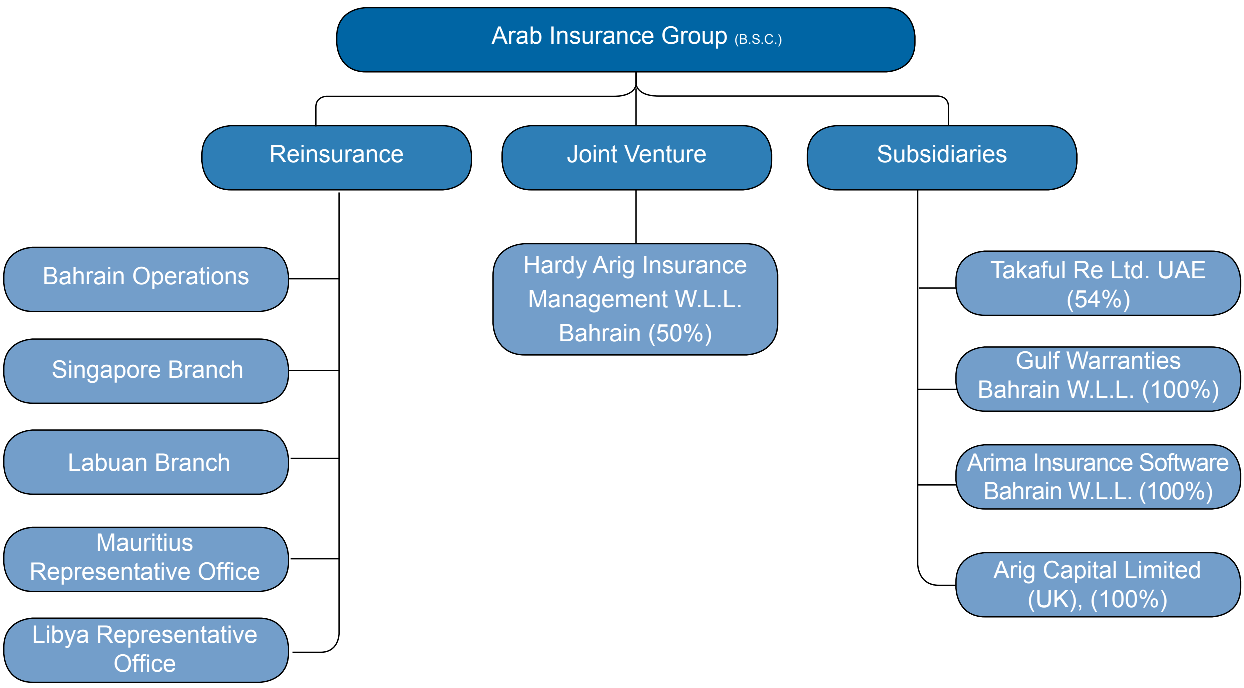
SOLVENCY

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 2011 is given below:

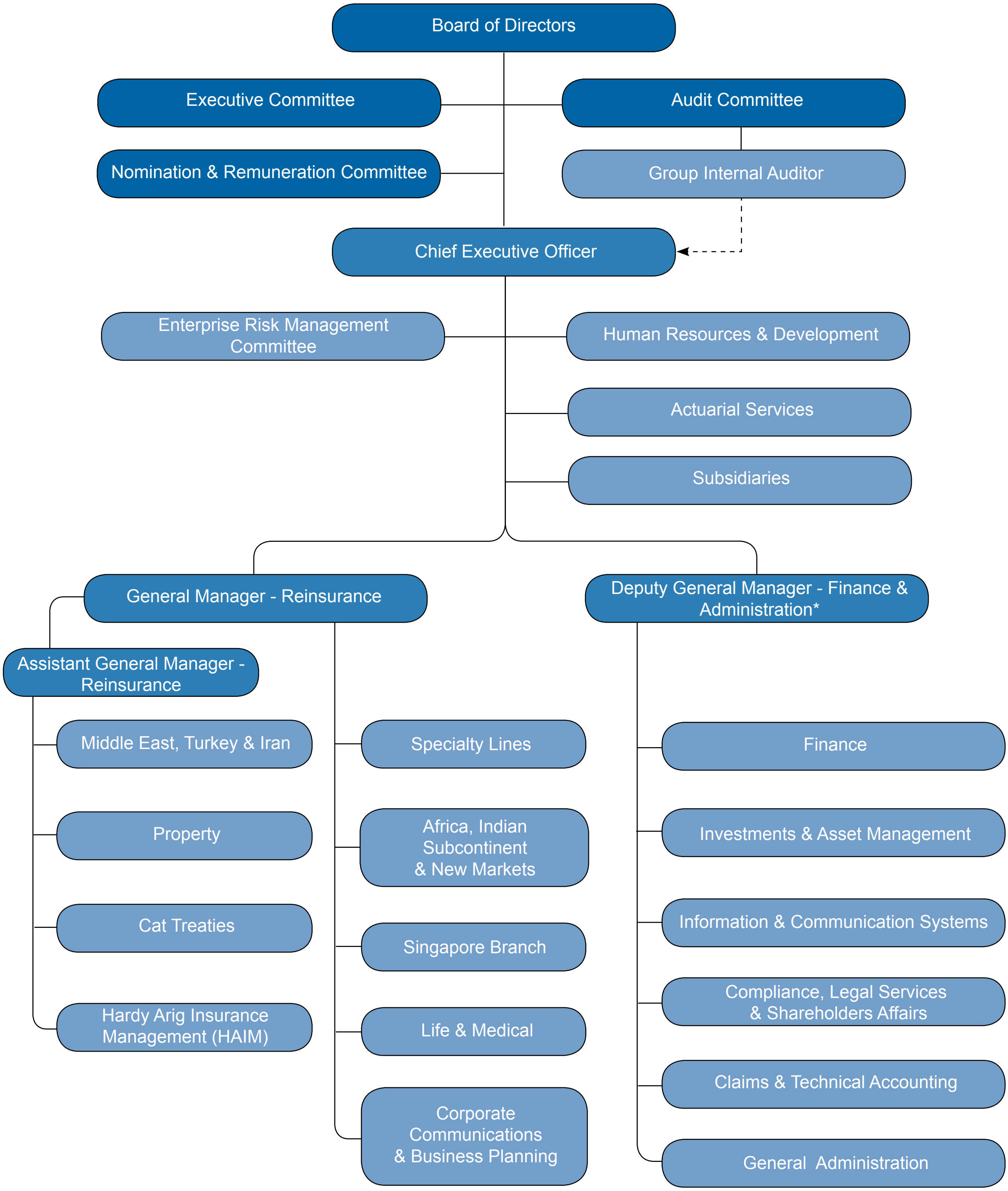
US$ ‘000

	2011	2010
Capital available	116,377	161,367
Required margin of solvency	40,688	43,478
Total excess capital available over the required margin of solvency	75,689	117,889

ARIG GROUP STRUCTURE



ORGANIZATION CHART



* Also designated as Compliance Officer and Money Laundering Reporting Officer

BIOGRAPHIES OF BOARD MEMBERS

BOARD MEMBERS

Khalid Ali Albustani
Chairman

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

Khalid Ali Albustani 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 Albustani 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
Vice Chairman of the Board, Chairman of the Executive Committee and the Nomination & Remuneration Committee

B.Sc., Management Major Metropolitan State College, Denver, Colorado, 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 the Chairman of the Executive Committee since May 2004. He is also the Chairman of the Nomination & Remuneration Committee. Khalid Jassim Bin Kalban is the M.D. & CEO of Dubai Investments PJSC in UAE. He is also the Chairman of Union Properties PJSC, UAE and Emirates NBD Capital, KSA. He also serves on the boards of several companies in the UAE and other countries including, Al Thuraya Satellite Telecommunications Co., National General Insurance, Takaful Re Ltd in UAE, First Energy Bank in Bahrain and Islamic Bank of Asia in Singapore.

Dr. Fuad A A Alfalah
Director and Chairman of the Audit Committee and Member of the Nomination & Remuneration Committee

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

Dr. Fuad Alfalah 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. He 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. Currently he serves as an Assistant Professor at the College of Administrative Sciences-Department of Public Administration, Kuwait University.

Sultan Ahmed Alghaith
Director and Member of the Executive Committee and the Nomination & Remuneration Committee

B.Sc., UAE University, UAE

Sultan Ahmed Alghaith has been a Director of the Company since October 2004. He was Undersecretary & Director General of General Pensions & Social Security Authority, UAE, until April 2008. He serves on the boards of Takaful Re Ltd, Emirates Co-operative Society and the Consumer Cooperative Union in UAE.

Abdulaziz Abdulla Alzaabi
Director and Member of the Executive Committee & the Audit Committee

Business Administration, California State University, San Jose, USA

Abdulaziz Abdulla Alzaabi has been the Director of the Company since 2005. He serves on the boards of Takaful Re Ltd, National Bank of Ras Al Khaimah, RAK Properties and other organisations in the UAE.

Fathi M A Elhagie
(representing Central Bank of Libya)
Director

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

Fathi M A Elhagie is the Manager, Banking Operations Department of the Central Bank of Libya, Libya. He has been a Director of the Company, since March 2008.

Majed Ali Ahmed Omran Alshamsi
(representing Emirates Investment Authority, UAE)
Director and Member of the Executive Committee

Bachelor of Administrative Sciences, Emirates University, United Arab Emirates

Majed Ali Ahmed Omran Alshamsi is the Director of International Relations Department, the Ministry of Finance in the United Arab Emirates. He has been a Member of the Board of Directors, since March 2008.

BIOGRAPHIES OF BOARD MEMBERS

Muzafar Alhaj Muzafar
(representing General Pensions & Social Security Authority (GPSSA), UAE
Director and Member of the Executive Committee

Holds a masters degree in Human Resources Management from the National College of Education-USA, He has also obtained a higher Diploma in International Finance and Banking from the World Center for Development & Training of USA in 1989. Bachelor degree in Accounting from the University of Kuwait

Muzafar Alhaj Muzafar is currently the General Manager of General Pensions & Social Security Authority, UAE. He has held several positions during his professional career, including Deputy Director General and Advisor at the Emirates Industrial Bank, Vice President for Corporate Resources and Services at Islamic Development Bank in Jeddah, and Cultural Counselor at the Embassy of UAE in Kuwait, Baghdad, and Washington. Currently he is also a Board member of the Sheikh Zayed Housing Programme.

Mariam Mohamed Hasan A. Raheem Alameeri
(representing Real Estate Bank, UAE)
Director & Member of the Audit Committee

B.Sc., UAE University, UAE

Mariam Alameeri is currently the Assistant Under-Secretary for Financial Administration in the Ministry of Finance in UAE. She is also a member in the Insurance Authority and the Federal Organisation of Human Resources in UAE.

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, UK.

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), Arig Capital Limited (London), and FAIR Oil & Energy Insurance Syndicate (Bahrain). Yassir further holds Board memberships in Takaful Re (Dubai International Financial Centre), Hardy Arig Insurance Management (Bahrain), the International Insurance Society (New York), Arab Jordanian Insurance Group (Amman), GlobeMed (Bahrain), Federation of Afro-Asian Insurers & Reinsurers (Cairo), Specific Council for Vocational Training - Banking Sector (Bahrain) and Human Resources Development Fund - Banking & Financial Sector (Bahrain).

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 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, GlobeMed Bahrain WLL and Arig Capital Limited, UK. Prior to joining the Company, he served in leading insurance and manufacturing companies in India.

Salah Almaraj
Assistant General Manager, Reinsurance

Bachelor of Arts; Kuwait University, Kuwait

Salah Almaraj 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

	2011	2010
Performance Ratios		
Premium growth (annual change in gross premiums written)	3.3%	(14.3)%
Retention ratio (gross retained premiums over gross premiums written)	87.2%	88.4%
Non-Life Combined ratio (aggregate of expenses over net written premiums & losses over net earned premiums)	108.6%	104.1%
Return on investments (proportion of investment income over average investment assets)	0.6%	5.2%
Return on equity (proportion of net profit to average shareholders' equity)	(7.9)%	7.9%
Growth in shareholders' equity	(14.5)%	(2.7)%
Leverage Ratios		
Underwriting exposure (ratio of gross premiums written to shareholders' equity)	111.3%	92.1%
Net technical provisions/ Shareholders' equity	254.0%	218.9%
Net technical provisions/ Net premiums written	261.7%	268.7%
Liquidity Ratios		
Investment assets/ Net technical provisions	115.6%	113.6%
Liquid assets/ Net technical provisions	110.6%	107.6%
Other		
Solvency ratio (ratio of shareholders' equity to net earned premiums)	99.8%	117.0%
Shareholders' Equity/Economic Capital	1.84	2.49
Earnings per share attributable to shareholders	(0.10)	0.10
Book value per share (US$)	1.12	1.31
Price to book value per share	40.2%	39.7%

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 2011, 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 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 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report On Other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 3), 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 the CBB Rule Book (Volume 3, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, rules and procedures of the Bahrain Bourse 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 business of the Group 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

Kingdom of Bahrain
14 February 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

(US$ '000)

	Note	2011	2010
ASSETS			
Cash and bank balances	5	343,844	280,557
Investments	6	305,728	363,520
Accrued income	8	94,583	121,515
Insurance receivables	9	94,412	75,246
Insurance deposits	10	48,938	65,636
Deferred policy acquisition costs		23,523	19,967
Reinsurers' share of technical provisions	11	53,889	59,976
Other assets	12	31,703	24,630
Property and equipment	14	27,657	27,390
		1,024,277	**1,038,437**
LIABILITIES			
Technical provisions	15	618,660	629,328
Insurance payables	18	27,703	28,760
Borrowings	19	40,000	12,706
Other liabilities	20	56,602	46,448
		742,965	717,242
EQUITY			
Attributable to shareholders of parent company	21		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		31,360	35,535
(Accumulated deficit) retained earnings		(14,179)	19,398
		222,388	260,140
Non-controlling interests	22	58,924	61,055
		281,312	321,195
		1,024,277	**1,038,437**

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

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(US$ '000)

	Note		2011	2010
Gross premiums written			247,463	239,530
Net earned premiums			222,869	222,329
Claims and related expenses			(167,797)	(160,232)
Policy acquisition costs			(53,714)	(45,886)
Investment income attributable to insurance funds	25		3,743	17,588
Operating expenses	26		(19,618)	(21,558)
Underwriting result	23		**(14,517)**	**12,241**
Investment income attributable to shareholders' funds	25		293	16,444
Operating expenses – non underwriting activities	26		(11,845)	(13,936)
Borrowing cost			(533)	-
Other income	27		10,828	11,439
Other expenses and provisions	28		(5,506)	(2,684)
(Loss) profit for the year			**(21,280)**	**23,504**
Attributable to:				
Non-controlling interests			(2,224)	2,732
Shareholders of Parent Company			(19,056)	20,772
			(21,280)	**23,504**
Earnings per share attributable to shareholders (basic and diluted):	29	US$	(0.10)	0.10

Khalid A. Al Bustani
Chairman

Khalid J. Bin Kalban
Vice Chairman

Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

		(US$ '000)
	2011	2010
(Loss) profit for the year	(21,280)	23,504
Other comprehensive income		
Changes on remeasurement of available for sale investments	(3,783)	(5,161)
Transfers for recognition of losses/(gains) on disposal of available for sale investments	278	(2,136)
Other comprehensive income for the year	(3,505)	(7,297)
Total comprehensive income for the year	**(24,785)**	**16,207**
Attributable to:		
Non-controlling interests	(1,885)	2,748
Shareholders of Parent Company	(22,900)	13,459
	(24,785)	**16,207**

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

(US$ '000)

	Share capital	Treasury stock	Reserves				(Accumulated deficit) Retained earnings	Attributable to shareholders of parent company	Non-controlling interests	Total equity
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2010	**220,000**	**(14,793)**	**28,160**	**518**	**6,857**	**35,535**	**19,398**	**260,140**	**61,055**	**321,195**
Net loss for the year	-	-	-	-	-	-	(19,056)	(19,056)	(2,224)	(21,280)
Changes on remeasurement of available for sale investments	-	-	-	(4,064)	-	(4,064)	-	(4,064)	281	(3,783)
Transfers for recognition of losses/(gains) on disposal of available for sale investments	-	-	-	219	-	219	1	220	58	278
Total comprehensive income for the year	**-**	**-**	**-**	**(3,845)**	**-**	**(3,845)**	**(19,055)**	**(22,900)**	**(1,885)**	**(24,785)**
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Dividend	-	-	-	-	-	-	(14,852)	(14,852)	-	(14,852)
Acquisition of minority share in subsidiary	-	-	34	-	-	34	(34)	-	(246)	(246)
Balances at 31 December 2011	**220,000**	**(14,793)**	**28,194**	**(3,327)**	**6,493**	**31,360**	**(14,179)**	**222,388**	**58,924**	**281,312**
Balances at 31 December 2009	220,000	(8,163)	25,998	7,833	7,221	41,052	14,456	267,345	60,594	327,939
Net profit for the year	-	-	-	-	-	-	20,772	20,772	2,732	23,504
Changes on remeasurement of available for sale investments	-	-	-	(5,192)	-	(5,192)	-	(5,192)	31	(5,161)
Transfers for recognition of (gains)/losses on disposal of available for sale investments	-	-	-	(2,123)	-	(2,123)	2	(2,121)	(15)	(2,136)
Total comprehensive income for the year	-	-	-	(7,315)	-	(7,315)	20,774	13,459	2,748	16,207
Transfer of net depreciation on revalued property	-	-	-	-	(364)	(364)	364	-	-	-
Purchase of treasury stock	-	(6,630)	-	-	-	-	-	(6,630)	-	(6,630)
Transfer to legal reserves	-	-	2,162	-	-	2,162	(2,162)	-	-	-
Dividend	-	-	-	-	-	-	(13,170)	(13,170)	-	(13,170)
Directors' remuneration	-	-	-	-	-	-	(864)	(864)	-	(864)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(2,287)	(2,287)
Balances at 31 December 2010	**220,000**	**(14,793)**	**28,160**	**518**	**6,857**	**35,535**	**19,398**	**260,140**	**61,055**	**321,195**

Parent company balances at (note 37)

31 December 2011	220,000	(14,793)	28,094	(3,471)	6,493	31,116	(13,935)	222,388	-	222,388
31 December 2010	220,000	(14,793)	28,094	772	6,857	35,723	19,210	260,140	-	260,140

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

(US$ '000)

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		245,688	246,356
Reinsurance premiums paid		(23,554)	(27,669)
Claims and acquisition costs paid		(239,628)	(228,853)
Reinsurance receipts in respect of claims		22,861	16,289
Investment (loss) income		(3,655)	1,358
Interest received		4,781	8,181
Dividends received		1,694	1,617
Operating expenses paid		(24,696)	(30,186)
Other income/expenses, net		1,055	1,486
Insurance deposits received		16,886	2,947
Purchase of trading investments		(90,328)	(184,976)
Sale of trading investments		115,812	152,752
Directors' remuneration paid		(846)	(864)
Net cash provided by (used in) operating activities	33	**26,070**	**(41,562)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity/sale of investments		135,043	182,425
Purchase of investments		(106,951)	(203,677)
Deposits with maturity over 3 months		(49,694)	-
Interest received		5,773	6,553
Dividends received		243	515
Investment income received		(4,223)	4,705
Collateralised cash deposits paid		(6,206)	(2,163)
Purchase of property and equipment		(1,169)	(829)
Purchase of intangible assets		(171)	(254)
Investment in associate		(375)	-
Net cash used in investing activities		**(27,730)**	**(12,725)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings		27,294	-
Dividends paid		(11,810)	(12,819)
Purchase of treasury shares		-	(6,630)
Net cash provided by (used in) financing activities		**15,484**	**(19,449)**
Net increase (decrease) in cash and cash equivalents		13,824	(73,736)
Effect of exchange rate on cash and cash equivalents		(231)	(20)
Cash and cash equivalents, beginning of year		280,557	354,313
Cash and cash equivalents, end of year		**294,150**	**280,557**
Deposits with maturity over 3 months		49,694	-
Cash and bank balances, end of year		**343,844**	**280,557**

The accompanying notes 1 to 37 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated 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 2011:

- IAS 24(Revised) "related party disclosures"

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The standard requires the Group and the parent to disclose transactions between its subsidiaries and its associates. The Group has applied the standard prospectively from 1 January 2011 to transactions between its subsidiaries and associates. 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 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 annual periods beginning on or after 1 January 2011 with earlier adoption permitted. There were no material changes to the current accounting policies of the Group as a result of these amendments.

The following standards and interpretations have been issued but not yet effective for the year ended 31 December 2011:

- IAS 1 - Presentation of items of other comprehensive income (amended June 2011)

  The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application. This amendment is not expected to have a material impact on the Group's financial statements.

- IAS 19 - Employee benefits (amended June 2011)

  The amendments mainly require recognition in other comprehensive income of any actuarial gains and losses resulting from increases or decreases in the present value of defined benefit obligations because of changes in actuarial assumptions and experience adjustments. Currently all change in the defined benefit obligations are recognised in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2012 with early adoption permitted. The Group is yet to fully assess the effect of this change. However, it is not expected to have a significant impact on the Group's financial statements.

- IAS 28 – Investment in Associates and Joint Ventures (amended May 2011)

  The amended standard requires investments in joint ventures, determined on the basis of IFRS 11 - Joint Arrangements, to be accounted for using the equity method. The earlier standard applied only to investment in associates. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided the entire suite of consolidation standards namely, IFRS 10, IFRS 11 and IFRS 12, is adopted at the same time. This amendment will require the consolidation of the Group's joint venture Hardy Arig Insurance Management W.L.L. using the equity method instead of the proportionate method adopted at present. The change is not likely to have a material impact on the Group's financials.

- IFRS 9 'Financial Instruments'

  Standard issued November 2009 (IFRS9 (2009))

- IFRS 9 (2009) "Financial Instruments" is the first standard issued as part of a wider project to replace

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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 (IFRS9 (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 2015, earlier adoption is permitted. Prior periods need not be restated. Instead additional transition disclosures will be required on the effect of initial application of IFRS 9 on the classification and measurement of financial instruments.

- IFRS 10 - Consolidated financial statements

  IFRS 10 establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. It defines the principle of control as, an investor controls an investee when it is exposed or has rights to variable returns from its involvement with that investee and has the ability to affect those returns through its power over that investee. Control is reassessed as facts and circumstances change. The standard supersedes IAS 27 Consolidated and Separate Financial Statements. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite of consolidation standards is adopted at the same time. This amendment is not expected to have a material impact on the Group's financial statements.

- IFRS 11 – Joint Arrangements

  IFRS 11 requires classification of joint arrangements as joint operations or joint ventures by assessing the rights and obligations arising from the arrangement. It prescribes the equity method for consolidation of joint ventures and the proportionate method for consolidation of joint operations. IFRS 11 supersedes IAS 31 – Interests in Joint Ventures. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite of consolidation standards is all adopted at the same time. The standard will require the consolidation of the Group's joint venture Hardy Arig Insurance Management W.L.L. using the equity method instead of the proportionate method adopted at present. The change is not likely to have a material impact on the Group's financials.

- IFRS 12 - Disclosures of interests in other entities
  IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows.

- The Group is yet to assess the full impact of IFRS 12. The standard is effective for annual periods beginning on or after 1 January 2013. Early adoption is permitted provided that the entire suite is adopted at the same time. Entities are encouraged to provide information required by IFRS 12 before the effective date, but this early disclosure would not compel the entity to apply either IFRS 12 in its entirety or the other new consolidation standards.

- IFRS 13 - Fair value measurement

  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption. The Group is yet to assess the full impact of IFRS 13.

The Group did not early-adopt new or amended standards in 2011.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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 2011. 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. Therefore, the participants' assets and liabilities including the fund balance are not shown separately in the consolidated statement of financial position. Takaful Participants' Fund Accounts comprising of statement of financial position and Statement of Participants' Revenue is set out in note 13.

A listing of the principal subsidiaries is set out in note 35. In the parent company, these investments are accounted under IAS 39, Financial Instruments: Recognition and Measurement.

Investments

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

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

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

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

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

Provision For Impairment Of Financial Assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Investment In Associated Companies

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

Insurance Receivables

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

Insurance Deposits

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

Intangible Assets

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

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

Expenditure, which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. The carrying amount of intangible assets is reviewed annually and adjusted for impairment where it is considered necessary.

Goodwill

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

Property & Equipment And Related Depreciation

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

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

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

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

of the obligation can be made. Employee entitlements are recognised when they accrue to employees, with a provision being carried for the estimated liability as a result of services rendered upto the statement of financial position date.

Post Employment Obligations

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

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

Employee Share Scheme

The Group operates a cash settled, share-based compensation scheme. The fair value of the employee services received in exchange for virtual shares is recognised as an expense.

The total amount to be expensed is spread over the financial year to which the award pertains (Scheme year) and the vesting period of two years from the end of Scheme year in the proportion 60:20:20.

At each statement of financial position date, the liability is revalued with reference to the book value of the virtual shares allocated and the impact of the revaluation is recognised in the income statement with a corresponding adjustment to the liability.

Treasury Stock

Treasury stock representing shares purchased by the parent company or its consolidated subsidiaries are carried at cost with the exception of holdings as on the date of capital reduction, 4 July 2002, which are carried at nominal value. All treasury stock is presented as a deduction from shareholders' equity and gains and losses from sale of these shares are presented as a change in shareholders' equity.

Recognition Of Underwriting Result

Insurance business is accounted for in a manner consistent with prevailing practice within the insurance industry, more specifically, on an annual accounting basis. Specific accounting policies relating to individual items of insurance revenues and costs and technical provisions are explained below for each relevant item.

Premiums

Gross premiums written comprise the total premiums in relation to contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. It includes an estimate of pipeline premiums, being those premiums written but not reported to the Group at the statement of financial position date. Pipeline premiums are reported as accrued insurance premiums.

Premiums, net of reinsurance, are taken to income over the terms of the related contracts or policies. Unearned premiums are those proportions of the premiums accounted for, which relate to periods of risk that extend beyond the end of the financial year; they are calculated based on a time apportionment basis. A provision for unexpired risks is made for estimated amounts required over and above provisions for unearned premiums to meet future claims and related expenses on business in force at the statement of financial position date. Such provision, where necessary, is made on the basis of an assessment of segments in which policies with similar risk profile are grouped together.

Claims And Related Expenses

Claims and related expenses are accounted for based on reports received and subsequent review on an individual case basis. Provision is made to cover the estimated ultimate cost of settling claims arising out of events, which have occurred by the end of the financial year, including unreported losses, and claims handling expenses. Provision for unreported claims is established based on actuarial analysis and application of underwriting judgment having regard to the range of uncertainty as to the eventual outcome for each category of business.

Policy Acquisition Costs

Commissions, taxes, brokerages and other variable underwriting costs directly associated with acquiring business are amortised over the period in which the related premiums are earned. Policy acquisition costs that relate to periods of risk that extend beyond the end of the financial year are reported as deferred policy acquisition costs.

Reinsurance Arrangements

As part of managing its insurance risks, the Group enters into contracts with other reinsurers for compensation of losses on insurance contracts issued by the Group.

Compensations receivable from reinsurers are estimated in a manner consistent with the corresponding claim liability. The benefits and obligations arising under reinsurance contracts are recognised in income and the related assets and liabilities are recognised as accounts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

receivable, reinsurers' share of technical reserves and accounts payable.

Liability Adequacy Test

At each statement of financial position date, liability adequacy tests are performed to ensure adequacy of the contractual liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual undiscounted cash flows and claims handling and administrative expenses are considered. The tests are performed on a portfolio basis where policies with similar risk profile are grouped together as a portfolio.

Investment Income

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

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

Foreign Currency Translation

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

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

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

Derivative Financial Instruments And Hedging

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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.

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.

FOR THE YEAR ENDED 31 DECEMBER 2011

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

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

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.

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.

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

	Receivables	Share of technical provisions	Total
2011			
Balance relating to reinsurers:			
- With investment grade rating	8,670	29,998	38,668
- Other	22,101	13,601	35,702
	30,771	**43,599**	**74,370**
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**

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
2011					
Reinsurance Assets (Liabilities), net	(4,740)	(3,826)	(8,388)	(788)	(89,624)
Hedged	(4,771)	(3,215)	-	(988)	-
2010					
Reinsurance Assets (Liabilities), net	(7,620)	(1,909)	(9,354)	(687)	(83,235)
Hedged	(7,519)	(855)	-	-	-

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.

Sensitivity Analysis

The sensitivity of the Group's income and equity to market risks is as follows:

(US$ '000)

	2011 Income	**2010** Income
5% increase in loss ratio	(11,143)	(11,117)
5% decrease in loss ratio	11,143	11,117
10% increase in US Dollar exchange rate	10,180	9,795
10% decrease in US Dollar exchange rate	(9,581)	(9,156)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

5. CASH AND BANK BALANCES

(US$ '000)

	2011	2010
Cash and bank balances	68,039	58,365
Deposits with maturity within 3 months	221,582	222,192
Deposits with maturity over 3 months	54,223	-
	343,844	**280,557**

Bank deposits amounting to US$ 49.7 million (2010: US$: Nil) have been pledged against borrowings.

Details of significant terms and conditions, exposures to credit, interest rate and currency risks are as follows:

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.

Interest Rate Risk

	2011	2010
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.125% to 3.00%	0.125% to 3.35%

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

Currency Risk

(US$ '000)

	2011	2010
U.S. Dollar	132,568	85,896
UAE Dirham	69,829	69,561
Bahraini Dinar	75,999	70,060
Qatari Riyal	46,899	47,322
Other	18,549	7,718
	343,844	**280,557**

FOR THE YEAR ENDED 31 DECEMBER 2011

6. INVESTMENTS

(US$ '000)

	2011	2010
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	61,921	102,271
	61,921	102,271
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	21,931	24,497
- Other	6,835	5,821
	28,766	30,318
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	48,041	59,225
- Other investment grade	43,131	53,606
- Non-OECD country government	2,656	2,658
	93,828	115,489
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	21,525	27,440
- Other investment grade	39,784	39,211
- Non-OECD country governments	5,427	2,736
- Other	14,598	11,280
Common stock of listed companies	11,521	718
Common stock of unlisted companies	8,613	12,530
Other	19,370	21,527
	120,838	115,442
Investment in associate	375	-
	305,728	**363,520**

FOR THE YEAR ENDED 31 DECEMBER 2011

6. INVESTMENTS (Contd.)

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

(US$ '000)

	2011	2010
At 1 January	13,310	11,902
New provision:		
- Unlisted companies	1,344	454
- Others	2,806	990
Provision reversed on sale	-	(36)
At 31 December	**17,460**	**13,310**

Debt securities amounting to US$ 67.1 million (2010: US$ 66.3 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

Details of significant exposures to credit, interest rate and currency risks on investments are as follows:

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.

Debt Securities - Interest Rate Risk

2011	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.13% - 5.56%	0.125% - 6.00%
Other investment grade debt securities	Semi-annual/Annual	1.60% - 6.29%	1.60% - 7.25%
Non-OECD country government securities	Semi-annual/Annual	0.86% - 5.5%	0.86% - 5.5%
Other securities	Monthly/Semi-Annual	0.91% - 3.99%	0.90% - 4.07%
2010			
Supra-nationals and OECD country government securities	Monthly/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%

FOR THE YEAR ENDED 31 DECEMBER 2011

6. INVESTMENTS (Contd.)

Debt Securities – Currency Risk

(US$ '000)

2011	U.S. Dollar	Other	Total
Supra-nationals and OECD country government securities	69,566	-	69,566
Other investment grade debt securities	95,553	9,293	104,846
Non-OECD country governments	-	8,083	8,083
Other debt securities	21,433	-	21,433
	186,552	**17,376**	**203,928**
2010			
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**

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)

	2011		2010	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	17,025	17,075	9,000	9,009
- One to five years	51,000	51,089	70,051	70,454
- More than five years	1,290	1,402	6,967	7,202
	69,315	69,566	86,018	86,665
Debt securities of other investment grade issuers:				
- Due in one year or less	17,340	17,395	13,856	13,926
- One to five years	79,588	80,555	94,010	95,733
- More than five years	7,255	6,896	7,566	7,655
	104,183	104,846	115,432	117,314
Non-OECD country government securities:				
- Due in one year or less	1,490	1,485	-	-
- One to five years	6,676	6,598	5,507	5,394
	8,166	8,083	5,507	5,394
Other debt securities :				
- Due in one year or less	2,300	2,278	1,508	1,615
- One to five years	12,037	12,078	7,360	7,189
- More than 5 years	7,513	7,077	7,099	8,297
	21,850	21,433	15,967	17,101
	203,514	**203,928**	**222,924**	**226,474**

FOR THE YEAR ENDED 31 DECEMBER 2011

6. INVESTMENTS (Contd.)

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)

	2011	2010
U.S. Dollar	46,170	68,742
Euro	2,864	3,918
Bahraini Dinar	843	3,164
Saudi Riyal	2,970	8,178
Pound Sterling	15,508	8,599
Japanese Yen	2,353	2,670
Other	11,347	20,248
	82,055	**115,519**

Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 8.37 million (2010: US$ 7.48 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)

	2011		2010	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	(639)	(1,801)	(906)	(2,323)
– 100 basis points shift in yield curves- debt instruments	653	1,920	944	2,419
Currency risk				
10% increase in US Dollar exchange rate	21,755	204	21,006	368
10% decrease in US Dollar exchange rate	(17,784)	(160)	(17,187)	(295)
Equity price				
10% increase in equity prices	6,371	218	10,518	221
10% decrease in equity prices	(6,371)	(218)	(10,518)	(221)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8. ACCRUED INCOME

(US$ '000)

	2011	2010
Accrued insurance premiums		
Expected to be received:		
- Within 12 months	72,602	92,436
- After 12 months	18,767	26,268
	91,369	118,704
Accrued interest		
- Expected to be received within 12 months	3,214	2,811
	94,583	**121,515**

9. INSURANCE RECEIVABLES

(US$ '000)

	2011	2010
Balances due:		
- Within 12 months	93,822	74,797
- After 12 months	590	449
	94,412	**75,246**

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

(US$ '000)

	2011	2010
At 1 January	18,091	17,973
Provision for impairment	307	118
31 December	**18,398**	**18,091**

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

(US$ '000)

	2011	2010
Under two years	-	14
Over two years	10,849	10,607
	10,849	**10,621**

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

(US$ '000)

	2011	2010
Upto 6 months	12,704	10,049
6 to 12 months	14,018	23,547
	26,722	**33,596**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

10. INSURANCE DEPOSITS

(US$ '000)

	2011	2010
Balances due:		
- Within 12 months	34,652	51,182
- After 12 months	14,286	14,454
	48,938	**65,636**

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

(US$ '000)

	2011	2010
At 1 January	6,232	5,381
Provision for impairment	(350)	851
31 December	**5,882**	**6,232**

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

(US$ '000)

	2011	2010
Under ten years	1,030	917
Over ten years	5,995	6,133
	7,025	**7,050**

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

(US$ '000)

	2011	2010
Up to 1 year	8,965	13,440
1 to 3 years	28,447	38,392
	37,412	**51,832**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2011	2010
General insurance business		
- Claims outstanding	43,084	44,871
- Unreported claims	5,727	11,112
- Deferred retrocession premium reserve	4,563	3,473
	53,374	59,456
Life insurance business		
- Claims outstanding	515	520
	515	520
	53,889	**59,976**

12. OTHER ASSETS

(US$ '000)

	2011	2010
Intangible assets :		
- Present value of future profits (PVFP)	5,000	5,000
- Computer software	10,522	10,366
- Goodwill	1,921	1,893
	17,443	17,259
Less : accumulated amortisation/impairment	(16,355)	(12,622)
Net intangible assets	1,088	4,637
Other assets due within 12 months:		
- Collateralised cash deposits	12,692	6,486
- Prepayments and other receivables	17,923	13,507
	30,615	19,993
	31,703	**24,630**

(US$ '000)

	2011	2010
Movement in intangible assets :		
Net book value at 1 January	4,637	5,756
- Additions	171	434
- Write-off	(1,921)	(320)
- Amortisation charge	(1,799)	(1,233)
Net book value at 31 December	**1,088**	**4,637**

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

During 2011, goodwill relating to the Group's subsidiary Gulf Warranties W.L.L. was tested for impairment and an impairment loss of US$ 1.9 million recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

Statement Of Financial Position

(US$ '000)

	2011	2010
ASSETS		
Cash & cash equivalents	16,090	11,884
Accrued income	26,617	20,620
Insurance receivable	8,464	9,725
Insurance deposits	2,540	12,886
Deferred acquisition costs	4,660	4,583
Reinsurers' share of Takaful participants' fund	7,607	345
Deferred wakala fees	2,087	2,123
	68,065	**62,166**
LIABILITIES		
Accounts payable	12,540	9,809
Other liabilities	-	2
	12,540	9,811
TAKAFUL PARTICIPANTS' FUND		
Unearned contributions	18,451	14,783
Outstanding claims	34,288	30,288
Unreported losses	28,979	30,113
	81,718	75,184
Accumulated deficit	(26,193)	(22,829)
	68,065	**62,166**

The subsidiary Takaful Re Limited has a commitment to provide an interest free loan to the extent of the accumulated deficit. The Group's share of the commitment is US$ 14.1 million (2010: US$ 12.3 million).

Statement Of Participants' Revenue

(US$ '000)

	2011	2010
Gross contributions	40,048	36,164
Outward reinsurance premiums	(2,385)	(1,523)
Unearned contributions	(3,674)	7,301
Net earned contributions	33,989	41,942
Reported losses	(23,556)	(35,941)
Provision for unreported losses	1,221	(3,430)
Claim and related expenses	(22,335)	(39,371)
Policy acquisition costs	(11,316)	(10,376)
Deferred policy acquisition costs	362	959
Policy acquisition costs	(10,954)	(9,417)
Fee payable to operator (Wakala fee)	(4,381)	(6,400)
Investment income	261	272
Other expenses & provisions	56	(168)
Deficit for the year	**(3,364)**	**(13,142)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

14. PROPERTY AND EQUIPMENT

(US$ '000)

	2011	2010
Land	1,340	1,340
Building	9,270	9,270
Work in progress – building	19,058	18,457
Information systems, furniture, equipment and other	13,902	13,650
	43,570	42,717
Less: accumulated depreciation	(15,913)	(15,327)
	27,657	**27,390**
Movements in property and equipment		
Net book value at 1 January	27,390	27,627
- Additions	1,173	795
- Disposals	(2)	(184)
- Depreciation charge	(904)	(848)
Net book value at 31 December	**27,657**	**27,390**

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.

15. TECHNICAL PROVISIONS

Technical Provisions Comprise

(US$ '000)

	2011	2010
General insurance business		
Claims outstanding	267,709	290,671
Unreported losses	161,204	144,304
Unearned premiums	95,871	91,167
	524,784	526,142
Life insurance business		
Claims outstanding	17,375	15,713
Unreported losses	70,228	70,311
Unearned premiums	6,273	17,162
	93,876	103,186
	618,660	**629,328**

The mean term of reserves is 2.9 years and 2.7 years for non-life and life business respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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	2011	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	61,939	145,803	104,722	109,672	105,119	111,266	
- One year later	122,927	226,499	184,130	175,223	178,633		
- Two years later	132,928	225,636	186,828	176,852			
- Three years later	143,254	228,594	194,434				
- Four years later	148,242	230,843					
- Five years later	147,620						
Current estimate of incurred claims	147,620	230,843	194,434	176,852	178,633	111,266	1,039,648
Cumulative payments to date	(122,238)	(180,309)	(147,961)	(113,477)	(74,812)	(14,624)	(653,421)
Liability recognised	25,382	50,534	46,473	63,375	103,821	96,642	386,227
Liability in respect of prior years							130,289
Total liability included in the statement of financial position							**516,516**
Net							
Estimate of incurred claims costs:							
- At end of underwriting year	56,934	137,457	102,165	107,514	89,173	95,116	
- One year later	111,562	217,719	180,010	173,266	164,854		
- Two years later	121,448	218,690	182,613	172,923			
- Three years later	131,429	221,626	190,155				
- Four years later	135,990	223,969					
- Five years later	135,359						
Current estimate of incurred claims	135,359	223,969	190,155	172,923	164,854	95,116	982,376
Cumulative payments to date	(112,280)	(175,826)	(145,603)	(110,531)	(63,065)	(2,189)	(609,494)
Liability recognised	23,079	48,143	44,552	62,392	101,789	92,927	372,882
Liability in respect of prior years							94,308
Total liability included in the statement of financial position							**467,190**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

	Gross	Reinsurance	Net
2011			
Claims			
Claims outstanding	306,384	45,391	260,993
Unreported losses	214,615	11,112	203,503
Total at beginning of year	520,999	56,503	464,496
Change in provision during the year	181,302	15,684	165,618
Claims settled during the year	(185,785)	(22,861)	(162,924)
Balance at end of year	**516,516**	**49,326**	**467,190**
Unearned premium			
At beginning of year	108,329	3,473	104,856
Change in provision during the year	(6,185)	1,090	(7,275)
Balance at end of year	**102,144**	**4,563**	**97,581**
Accrued insurance premium			
At beginning of year	124,636	5,932	118,704
Movement during the year	(27,400)	(65)	(27,335)
Balance at end of year	**97,236**	**5,867**	**91,369**
Deferred policy acquisitions costs			
At beginning of year	20,460	493	19,967
Movement during the year	3,356	(200)	3,556
Balance at end of year	**23,816**	**293**	**23,523**
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**

FOR THE YEAR ENDED 31 DECEMBER 2011

18. INSURANCE PAYABLES

(US$ '000)

	2011	2010
Due Within 12 months	27,703	28,760
	27,703	**28,760**

19. BORROWINGS

US$ '000

	2011	2010
Balances Due:		
- Within 12 months	40,000	-
- After 12 months	-	12,706
	40,000	**12,706**

Borrowings amounting to US$ 40 million (2010: US$ 12.7 million) are secured by bank deposits. The effective interest rate on the borrowings was 2.2% (2010: 4.7%).

20. OTHER LIABILITIES

(US$ '000)

	2011	2010
Post employment benefits (note 31)	14,696	15,319
Reinsurance premiums accrued	13,107	8,619
Dividends payable	4,302	1,260
Accrued expenses	5,433	4,995
Employee share scheme (note 30)	3,278	3,386
Accrual for scheme of arrangement fees	-	2,231
Other	15,786	10,638
	56,602	**46,448**
Balances due:		
- Within 12 months	38,628	27,742
- After 12 months	17,974	18,706
	56,602	**46,448**

21. SHAREHOLDERS' EQUITY

Share Capital

Composition

(US$ '000)

	2011	2010
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed & Fully Paid-up 220 million (2010: 220 million) ordinary shares of US$ 1 each	220,000	220,000

FOR THE YEAR ENDED 31 DECEMBER 2011

21. SHAREHOLDERS' EQUITY (Contd.)

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	
		2011	2010	**2011**	2010
Central Bank of Libya	Libya	31.8	31.8	16.1	16.1
Emirates Investment Authority	UAE	30.5	30.5	15.4	15.4
General Pension & Social Security Authority	UAE	27.5	27.5	13.9	13.9
Kuwait Investment Authority	Kuwait	20.0	20.0	10.1	10.1
Real Estate Bank	UAE	11.0	11.0	5.6	5.6

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	
	2011	2010	**2011**	2010	**2011**	2010
Less than 1%	46.3	54.5	4,779	4,828	23.4	27.7
1% to 5%	30.9	22.7	6	5	15.6	11.3
5% to 10%	11.0	11.0	1	1	5.6	5.6
10% and above	109.8	109.8	4	4	55.5	55.4

Treasury Stock

The company held 21,967,818 of its own shares at 31 December 2011 (2010: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2010: US$ 14,793,000).

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.

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.

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.

FOR THE YEAR ENDED 31 DECEMBER 2011

21. SHAREHOLDERS' EQUITY (Contd.)

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)

	2011	2010
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	(1)	(3)
Transfers on disposal	1	2
Balance at 31 December	**-**	**(1)**

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)

	2011	2010
At 1 January	61,055	60,594
Share of comprehensive income	(1,885)	2,748
Dividend declared by subsidiary	-	(2,287)
Acquisition of minority interest	(246)	-
At 31 December	**58,924**	**61,055**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

23. SEGMENT INFORMATION

Analysis Of Revenue By Primary Business Segment

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

(US$ '000)

	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
2011	Property	Engg.	Medical	Others				
REVENUES								
Gross premiums written	86,303	21,013	9,326	71,996	35,875	20,022	2,928	247,463
Outward reinsurance premiums	(20,854)	(1,177)	-	(8,322)	(740)	(517)	(8)	(31,618)
Change in unearned premiums – gross	(4,896)	969	(1,972)	430	516	581	10,309	5,937
Change in unearned premiums - reinsurance	117	(189)	-	1,161	(2)	-	-	1,087
Net earned premiums	60,670	20,616	7,354	65,265	35,649	20,086	13,229	222,869
Investment income attributable to insurance funds	622	299	137	1,036	873	370	406	3,743
	61,292	20,915	7,491	66,301	36,522	20,456	13,635	226,612
COSTS AND EXPENSES								
Gross claims	(54,049)	(11,388)	(26,899)	(41,960)	(21,844)	(19,094)	(10,551)	(185,785)
Claims recovered from reinsurers	17,421	1,021	8	3,563	843	4	1	22,861
Change in provision for outstanding claims – gross	(8,530)	1,252	12,444	4,409	11,199	331	(2,003)	19,102
Change in provision for outstanding claims - reinsurance	(26)	(513)	61	(395)	(873)	(5)	-	(1,751)
Change in provision for unreported losses – gross	(6,553)	(770)	9,231	(3,019)	(15,736)	7,235	(7,174)	(16,786)
Change in provision for unreported losses - reinsurance	(5,389)	(403)	-	546	(192)	-	-	(5,438)
Claims and related expenses	(57,126)	(10,801)	(5,155)	(36,856)	(26,603)	(11,529)	(19,727)	(167,797)
Policy acquisition costs	(22,359)	(7,821)	(2,022)	(19,037)	(7,521)	(169)	115	(58,814)
Policy acquisition costs recovered from reinsurers	169	227	-	1,072	45	(4)	(1)	1,508
Change in deferred policy acquisition costs – gross	2,739	(240)	(89)	809	210	(38)	-	3,391
Change in deferred policy acquisition costs - reinsurance	(17)	71	-	146	1	-	-	201
Policy acquisition costs	(19,468)	(7,763)	(2,111)	(17,010)	(7,265)	(211)	114	(53,714)
Operating expenses	(5,782)	(1,542)	(829)	(5,455)	(3,470)	(1,955)	(585)	(19,618)
Underwriting result	**(21,084)**	**809**	**(604)**	**6,980**	**(816)**	**6,761**	**(6,563)**	**(14,517)**

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FOR THE YEAR ENDED 31 DECEMBER 2011

23. SEGMENT INFORMATION (Contd.)

(US$ '000)

	Non-life					Life		Total
	Treaty				Facultative	Short term	Long term	
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	(39,056)	(9,787)	(26,341)	(38,441)	(35,334)	(25,128)	(9,594)	(183,681)
Claims recovered from reinsurers	642	652	-	7,994	7,001	703	(703)	16,289
Change in provision for outstanding claims – gross	2,623	(4,908)	(11,766)	(1,255)	5,184	(655)	6,870	(3,907)
Change in provision for outstanding claims - reinsurance	(637)	246	(218)	104	(7,585)	-	-	(8,090)
Change in provision for unreported losses – gross	(3,272)	3,886	11,611	(9,172)	5,299	188	3,579	12,119
Change in provision for unreported losses - reinsurance	(44)	(582)	-	7,764	(100)	-	-	7,038
Claims and related expenses	(39,744)	(10,493)	(26,714)	(33,006)	(25,535)	(24,892)	152	(160,232)
Policy acquisition costs	(14,622)	(8,979)	(1,636)	(15,032)	(5,688)	(48)	1,499	(44,506)
Policy acquisition costs recovered from reinsurers	194	542	-	281	(71)	(5)	5	946
Change in deferred policy acquisition costs - gross	(24)	410	(1,404)	(43)	(646)	(381)	9	(2,079)
Change in deferred policy acquisition costs - reinsurance	2	(65)	-	(184)	-	-	-	(247)
Policy acquisition costs	(14,450)	(8,092)	(3,040)	(14,978)	(6,405)	(434)	1,513	(45,886)
Operating expenses	(5,749)	(2,081)	(1,238)	(5,329)	(3,815)	(2,455)	(891)	(21,558)
Underwriting result	**13,315**	**4,216**	**616**	**(5,248)**	**355**	**(713)**	**(300)**	**12,241**

FOR THE YEAR ENDED 31 DECEMBER 2011

23. SEGMENT INFORMATION (Contd.)

Analysis of premiums and non-current asset based on geographical location of the risk insured and location of the asset respectively

(US$ '000)

	2011		2010	
	Premium	Non-current assets	Premium	Non-current assets
Middle East	100,728	47,871	116,052	52,778
Africa	34,286	4,932	34,574	6,182
Asia	70,852	10,193	81,115	14,505
Others	41,597	1,349	7,789	1,393
	247,463	**64,345**	**239,530**	**74,858**

Analysis Of Segment Assets And Liabilities

(US$ '000)

	Non Life					Life		Corporate	Total
	Treaty				Facultative	Short term	Long term		
2011	Property	Engg.	Medical	Others					
Reinsurance assets	80,243	35,608	14,991	78,841	82,342	878	16,531	-	309,434
Cash	30,293	13,002	2,691	46,490	37,384	17,916	22,161	173,907	343,844
Investments	29,627	12,716	2,632	45,469	36,562	17,522	21,674	139,526	305,728
Others	3,312	1,365	345	3,674	1,378	983	487	53,727	65,271
	143,475	62,691	20,659	174,474	157,666	37,299	60,853	367,160	1,024,277
Reinsurance liabilities	140,738	61,587	20,353	172,040	157,684	36,903	61,278	-	650,583
Others	2,472	1,019	258	2,743	1,029	734	364	83,763	92,382
	143,210	**62,606**	**20,611**	**174,783**	**158,713**	**37,637**	**61,642**	**83,763**	**742,965**
2010									
Reinsurance assets	60,882	34,380	21,827	90,991	73,162	9,862	30,208	-	321,312
Cash	18,379	10,711	6,602	33,784	30,073	13,763	11,884	155,361	280,557
Investments	29,034	16,921	10,430	53,370	47,509	21,743	18,774	165,739	363,520
Others	1,521	749	135	2,040	688	911	294	66,710	73,048
	109,816	62,761	38,994	180,185	151,432	46,279	61,160	387,810	1,038,437
Reinsurance liabilities	109,783	63,016	39,804	181,635	154,980	46,711	62,518	-	658,447
Others	2,069	1,018	184	2,774	935	1,239	399	50,177	58,795
	111,852	**64,034**	**39,988**	**184,409**	**155,915**	**47,950**	**62,917**	**50,177**	**717,242**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24. OUTWARD REINSURANCE PREMIUMS

(US$ '000)

	Treaty	Facultative	Life	Total
2011				
Proportional retrocession premium	19,660	130	-	19,790
Protection premium	1,615	9,664	525	11,804
Reinstatement premium	-	24	-	24
	21,275	**9,818**	**525**	**31,618**
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

25. INVESTMENT INCOME

(US$ '000)

	Insurance funds	Shareholders' funds	Total
2011			
Interest income			
- Investments designated at fair value through profit or loss	705	485	1,190
- Others	5,092	5,286	10,378
Dividends	1,152	1,055	2,207
Realised (loss) gains			
- Trading investments	502	(300)	202
- Investment designated at fair value through profit or loss	139	98	237
- Available-for-sale	2,449	1,965	4,414
Gain (loss) on remeasurement of investments at fair value through profit & loss			
- Trading investments	(3,781)	(4,237)	(8,018)
- Investments designated at fair value through profit or loss	(361)	(254)	(615)
Impairment loss - available-for-sale	(1,139)	(3,010)	(4,149)
Other	(1,015)	(795)	(1,810)
	3,743	**293**	**4,036**

FOR THE YEAR ENDED 31 DECEMBER 2011

25. INVESTMENT INCOME (Contd.)

(US$ '000)

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

26. OPERATING EXPENSES

(US$ '000)

2011	Underwriting	Non-Underwriting	Total	2010
Salaries and benefits	15,201	6,731	21,932	27,614
General and administration	4,417	5,114	9,531	7,880
	19,618	**11,845**	**31,463**	**35,494**

27. OTHER INCOME

(US$ '000)

	2011	2010
Fees on managing Islamic reinsurance operations	4,381	6,400
Foreign exchange gain (loss)	2,359	(1,355)
Software sales and related services	2,049	1,180
Third party administration services	1,655	4,468
Other	384	746
	10,828	**11,439**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

28. OTHER EXPENSES AND PROVISIONS

(US$ '000)

	2011	2010
Amortisation / impairment of Intangible assets	3,422	1,000
Provision for doubtful receivables and deposits	1,801	1,446
Other	283	238
	5,506	**2,684**

29. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2011	2010
Weighted average number of shares outstanding	'000	198,032	206,900
Net (loss) profit	US$'000	(19,056)	20,772
Earnings per share	US$	(0.10)	0.10

30. EMPLOYEE SHARE SCHEME

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

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

(US$ '000)

	2011	2010
Liability	3,278	3,386
Expense	81	(2,360)

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)

	2011	2010
Discount rate	1.1%	1.2%
Expected return on assets	1.1%	1.2%
Future salary increases	3.3%	3.3%

FOR THE YEAR ENDED 31 DECEMBER 2011

31. POST EMPLOYMENT BENEFITS (Contd.)

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

(US$ '000)

	2011	2010
Balance at 1 January	15,319	14,290
Accruals for the year	1,722	1,892
Payments during the year	(2,345)	(863)
Balance at 31 December	**14,696**	**15,319**

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.

Forward Foreign Exchange Contracts – By Currency

(US$ '000)

	2011		2010	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	8,296	14,242	11,033	16,074
Pound Sterling	3,461	19,411	1,293	7,583
Japanese yen	-	2,143	-	1,639
Other	988	2,696	-	3,891
	12,745	**38,492**	**12,326**	**29,187**

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.

Forward Foreign Exchange Contracts - Remaining Term To Maturity

All of the forward foreign exchange contracts outstanding are due in one year or less.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

32. FORWARD FOREIGN EXCHANGE CONTRACTS (Contd.)

(US$ '000)

	2011		2010	
	Purchases	Sales	Purchases	Sales
Unrealised gains	29	1,147	-	228
Unrealised losses	(487)	(41)	(246)	-
	(458)	**1,106**	**(246)**	**228**

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

(US$ '000)

	2011	2010
(Loss) profit for the year	(21,280)	23,504
Increase (Decrease) in insurance funds	8,561	(15,402)
Change in insurance receivable/payable, net	(20,223)	2,049
Change in accrued income	26,932	6,197
Change in other assets/liabilities, net	32,080	(57,910)
Net cash provided by (used in) operating activities	**26,070**	**(41,562)**

34. FAIR VALUE DISCLOSURE

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

(US$ '000)

	Book Value						Fair value
2011	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	343,844	-	-	-	343,844	343,844
Investments	90,687	-	93,828	120,838	-	305,353	307,994
Accrued income	-	1,491	92,688	404	-	94,583	94,583
Insurance receivables	-	94,412	-	-	-	94,412	94,412
Insurance deposits	-	48,938	-	-	-	48,938	48,938
Other assets	-	29,562	-	-	-	29,562	29,562
LIABILITIES							
Insurance payables	-	-	-	-	27,703	27,703	27,703
Borrowings	-	-	-	-	40,000	40,000	40,000
Other liabilities	-	-	-	-	51,136	51,136	51,136

FOR THE YEAR ENDED 31 DECEMBER 2011

34. FAIR VALUE DISCLOSURE (Contd.)

(US$ '000)

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

The information disclosed in the table above is not indicative of the net worth of the Group.

The following methods and assumptions were used to estimate the fair value of the financial instruments:

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.

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 2011

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)

2011	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	61,921	-	-	61,921
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	21,931	-	-	21,931
- Other	6,836	-	-	6,836
Available for sale Debt securities - Supra-nationals and OECD country Governments	21,525	-	-	21,525
- Other investment grade	39,784	-	-	39,784
- Non-OECD country governments	3,941	-	-	3,941
- Other	14,598	-	-	14,598
Common stock of listed companies	11,521	-	-	11,521
Common stock of unlisted companies	-	2,540	6,073	8,613
Other	-	2,477	16,892	19,369
	182,057	**5,017**	**22,965**	**210,039**

2010				
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	-	1,497	11,033	12,530
Other	-	3,169	18,108	21,277
	210,665	**5,403**	**29,141**	**245,209**

Investments amounting to US$ 1.5 million (2010: US$ 2.8 million) is being carried at cost as it's fair value cannot be ascertained.

FOR THE YEAR ENDED 31 DECEMBER 2011

34. FAIR VALUE DISCLOSURE (Contd.)

The tables below show movements in the Level 3 financial assets measured at fair value:

	Unlisted equity	Others	Total
Balance at 1 January 2011	11,033	18,108	29,141
Gain (loss) recognised in:			
- Income statement	(1,164)	(1,794)	(2,958)
- other comprehensive income	(720)	360	(360)
Investments made during the year	685	1,802	2,487
Investments redeemed during the year	(3,760)	(1,584)	(5,344)
Change in value due to exchange rate movements	(1)	-	(1)
Balance at 31 December 2011	**6,073**	**16,892**	**22,965**

The carrying values of the investment held in level 3 are based on unobservable inputs and reflects proportional share of the fair values of the respective companies and their underlying net assets. The valuations of these investments are reviewed quarterly and updated as necessary on the basis of information received from investee and investment managers. For the year ended December 31, 2011, there were no transfers in and out of level 1, level 2 and level 3 (2010: none). The fair values are estimates and do not necessarily represent the price at which the investment would sell. As the determination of fair values involve subjective judgments, and given the inherent uncertainty of assumptions regarding capitalization rates, discount rates, leasing and other factors, the amount which will be realized by the company on the disposal of its investments may differ significantly from the values at which they are carried in the consolidated financial statements, and the difference could be material.

Forward Foreign Exchange Contracts

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

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 & ASSOCIATES

At 31 December 2011, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2010 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.

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35. PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES (Contd.)

During the year, Arig acquired 34% minority interest in Gulf Warranties W.L.L. for a purchase consideration of US$ 274,000. The acquisition is accounted as a transaction between owners payable in cash.

The Group also acquired 25% of the equity shares in Globemed Bahrain W.L.L., Bahrain

36. RELATED PARTY DISCLOSURES

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

The following is the summary of transactions with related parties.

Subsidiary Companies

(US$ '000)

	2011	2010
a) Gross premium retroceded by subsidiary to parent company	21,126	-
b) Service fees for administration services provided by parent company	4,520	3,643
c) Balances outstanding		
- Receivables	14,077	1,715
- Payables	1,518	-
d) Software royalty fees	129	-

Joint Venture

(US$ '000)

	2011	2010
a) Service fees for administration services provided	66	38
b) Balances receivable	115	124

Compensation To Directors And Key Management Personnel

(US$ '000)

	2011	2010
a) Directors		
- Remuneration	-	846
- Allowances	97	96
b) Key management compensation		
- Salaries and other short-term employee benefits	2033	2,093
- Post-employment benefits	221	209
- Share-based benefit	30	1,018
c) Balances payable (net)		
Key management		
- Maximum balance	2,236	4,618
- Closing balance	2,236	4,618

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 2011 and 2010 for any outstanding amounts due from related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

37. PARENT COMPANY

The unconsolidated statement of financial position of the parent company, Arab Insurance Group (B.S.C.), is presented below.

(US$ '000)

	2011	2010
ASSETS		
Cash and bank balances	277,590	201,898
Investments	267,102	318,952
Accrued income	94,449	120,997
Insurance receivables	77,458	73,020
Insurance deposits	48,938	65,636
Deferred policy acquisition costs	23,171	19,967
Reinsurers' share of technical provisions	49,550	59,976
Other assets	27,065	13,834
Investment in subsidiaries and associates	70,172	74,644
Fixed assets	8,504	8,716
	943,999	**957,640**
LIABILITIES		
Technical provisions	612,488	629,328
Insurance payables	27,252	28,673
Borrowings	40,000	-
Other liabilities	41,871	39,499
	721,611	**697,500**
SHAREHOLDERS' EQUITY (note 21)		
Share capital	220,000	220,000
Treasury stock	(14,793)	(14,793)
Reserves	31,116	35,723
(Accumulated deficit) retained earnings	(13,935)	19,210
	222,388	260,140
	943,999	**957,640**

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