ANNUAL REPORT 2012

arig

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BOARD OF DIRECTORS

Khalid Ali Al Bustani

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 Al Ghaith

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

Abdulaziz Abdulla Al Zaabi

Director and Member of the Executive Committee & the Audit Committee

Fathi M A Elhagie

Director

Majed Omran Al Shamsi

Director and Member of the Executive Committee

Saif Abdulrahman Al Shamsi

Director

Mariam Abdulraheem 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 32nd Annual Report and consolidated Financial Statements for the year that ended on 31 December 2012.

FINANCIAL RESULTS

The Group rebounded strongly, ending its 2012 Financial Year with a US$ 15.3 million profit against a loss of US$ 19.1 million for the 2011 Financial Year. The gains were supported by Arig's favorable combined ratio of 96.9% (2011: 108.6%) generating US$ 19.9 million of underwriting income, higher than expected investment returns of US$ 21.4 million and lower operational expenses at the parent organization. Results were partially offset by higher acquisition cost and losses incurred by some of Arig's subsidiaries.

THE MARKET

More than a decade ago, the industry was shaken by the enormous claims that had evolved from the events around the attacks on the World Trade Center and two other locations in America. Insurers and reinsurers, who were previously considered over-capitalized, suddenly found themselves confronted with a capital shortfall resulting from under-protection of their portfolios. It was a defining moment for the industry. Since then, government regulators, risk managers, rating agencies and scores of actuaries have formed an invisible alliance to ensure that never again, insurance companies in such great numbers would find themselves on the brink of bankruptcy.

In the meantime, the concept of Enterprise Risk Management (ERM) has become standard fare for any self-respecting company. ERM strives to emulate any imaginable risk to the company, looks at mitigation measures and then defines the minimum capital amount that is required to safely sustain the operations of the company. While this practice had previously been in place for peak underwriting risks, ERM now tries to include a wider spectrum of risks across the company as well such as reserving, operational risks, finance and investments. In fact, this effort has been so successful that the insurance industry virtually sailed through the 2008 Financial Crisis without existential fallout, with one notable exception only.

Today, investments into the reinsurance industry are widely considered an attractive option, despite the fact that equity returns are ranging far below pre-2008 levels. But in an environment where national budgets are surviving on low interest rates to manage exploding debt levels, any return above 5% is likely to catch investors' attention. The other attraction in reinsurance stock is based on its relatively low correlation with other financial products. Portfolio managers around the world consider us as a good complement to balance their book.

The net result of this development has been a steady influx of capital into our industry, which is estimated to have increased by another 10% to the startling level of US$ 500[1] billion at the end of the 3rd quarter 2012. Despite the global experience around the 2008 Financial Crisis and record high underwriting losses in 2011, reinsurers' capital has increased by 46% world-wide over the past five years alone.

However, investors' interest in our industry contrasts with the global demand curve for reinsurance products. Total premium growth in advanced markets[2], whose sheer size outnumbers that of emerging economies by more than 5:1, has fallen behind already weak GDP growth. Even higher premium increase in the emerging world has settled into single-digit range as the world economy is taking a breather at an expected 3.3% growth in 2012[3]. At the same time, strong capitalization is encouraging insurance companies to retain more risk. Clearly, it has been a buyers' market in 2012 with a flat premium curve but increased underwriting profits from an uncommonly benign claims experience.

With investment income from less volatile asset classes ranging at historical lows and no end to the low interest regime in sight, attention has shifted to underwriting performance. Companies, who have traditionally relied on investment income for profitability, are seeing declining surpluses. This has had an effect on the markets: underwriters have become more selective in their acceptance strategies and under-performing accounts are becoming harder to place. It appears as if the ever declining underwriting terms are finally finding their floor.

ARIG POSITION

2011 was a disastrous year for the industry, and especially reinsurers in Asia. In order to retain their ratings, most of our regional peers required fresh or contingent capital from outside parties. Owing to its technical underwriting approach, relatively better loss position and sufficient level of capital, Arig was in a position to continue without raising additional funds.

Just in time, it seems our Company has managed to shift its key performance to the underwriting area. Our non-life loss ratio improved to 57.9% (2011: 72%), generating a technical result[4] of US$ 27 million (2011: loss of US$ 0.4 million). Investment income used to play a major role for Arig's profitability. While it still is highly important, there is a limit as to how much can be achieved with current market returns from less volatile asset classes. Investment returns of 3.3% are not sufficient to cover cost, or even generate a surplus. For that reason, the increased profitability of

1 Aon Benfield: Reinsurance Market Outlook, January 2013

2 North America, Western Europe, Japan, Hong Kong, Singapore, South Korea, Taiwan and Oceania

3 IMF, World Economic Outlook, October 2012

4 Technical result is defined as net earned premium less acquisition cost and claims

“Volatility is the nature of our business; we believe we have done our homework ensuring that we can turn volatility into a profitable business across the business cycles, and thus become less dependent on the moods of the financial markets.”

Khalid Ali Al Bustani

Chairman

REPORT OF THE BOARD OF DIRECTORS

our reinsurance book in 2012 has been paramount for achieving a profit from operations that is broadly in line with the historical average. In other words, Arig managed to shift profitability from investments to reinsurance at a time when it really counted.

On the other hand, a sluggish world economy, lower demand for reinsurance and selective underwriting put a limitation on our growth prospects if we are to retain our profitability. Regional markets have remained highly price competitive, making sacrifices on profitability. According to one study, "overall, technical profitability across business segments has reduced by 10 points over the past four years across the GCC", while "administrative and staff expenses have increased two times faster than business activity."[5] In such environment, aggressive growth strategies can quickly erode profits. In addition, political disturbances in the region together with U.N. induced sanctions suspended or significantly reduced income from Iran, Syria and, at least temporarily, Libya. It is therefore no surprise that non-life GWP in 2012 reduced by 4% over the previous Financial Year, mostly owing to the effects of political turmoil, applied sanction measures and price competition. Some of this reduction may be regarded as temporary though it is clear that Arig will need to continue looking outside the MENA region for growth. After some restructuring in our Life portfolio, through which we managed to increase its profitability by 120% year-on-year, the share of long-term business has further declined, leading to a marginal increase in GWP of 0.1%.

Our cooperation with the Hardy Lloyd's syndicate is continuing through our very profitable joint venture HAIM. However, following large losses from the 2011 Thai floods in particular, our joint venture partner Hardy had put itself up for sale last year in an effort to protect the financial status of its shareholders. Interest in this established syndicate was keen and the company was eventually taken over by the Chicago based CNA Financial Group at an extraordinary 1.6 times book value. Arig, being the largest single shareholder at 7.1%, benefitted from the sale and was able to realize an extra US$ 1 million of investment income. But on the business side this meant that approximately US$ 51 million of premium income, or roughly 21% of the Company's GWP volume would eventually discontinue at the end of 2012. Fortunately, Arig's management team was successful in replacing Hardy and partnering with three new Lloyd's syndicates after a careful screening and selection process that took most of last year to complete. We are therefore pleased to announce that future premium income from the Apollo, Novae and Torus Lloyd's syndicates will even surpass Hardy's mark with an estimated premium income of just under US$ 60 million in 2013. In our selection, we focused on writing lower content of natural catastrophe exposed risks in favor of a higher spread between Specialty lines, which are currently showing the best profitability overall and where only limited income is available from our region. As we are writing a fixed quota of the total portfolio of the syndicates, our interest is firmly aligned with theirs, while we are also protected by the syndicates' own reinsurance programs. In addition, the quota shares allow Arig to participate in classes where it would be uneconomical and commercially risky to build our own infrastructure.

Summarizing, we are pleased to say that while we slightly came out short of our growth target in 2012, Arig met its investment budget and achieved the highest technical return on net written premium since the early 1990s. Profits were supported by the low frequency of large claims, while our markets continued to be extremely challenging.

OUTLOOK

Ironically, it is the largest classes of insurance that are producing the poorest results in the Middle East: Motor, Medical and Property. Until very recently, this was of no particular concern to local insurance companies as they were successful in ceding the largest portion of these lines to their reinsurers and receiving attractive commissions in return. For foreign reinsurers, the region was attractive as it is perceived to be under-insured, and any business written here would help diversify risks written from larger markets. But there are signs that this comfortable arrangement may be changing. With investment income down and following a particularly painful 2011 underwriting year, the more aggressive reinsurers have been re-grouping, asking themselves why they should continue to subsidize their business written from under-performing markets. Insurers are now finding it increasingly difficult to place troubled accounts while at the same time their own profitability has been on a slide since 2008. As a result, Arig has been able to re-negotiate leader's terms in a number of cases during the recent 2013 treaty renewals. This is all the more remarkable since there continues to be considerable overcapacity on all fronts: among the local insurance industries, among regional reinsurance markets, and globally.

In its October Report[6], the IMF is forecasting a slight global growth for 2013 measured on constant prices, up from 3.3% to 3.6% in the current year (GCC: 3.7%). This corresponds to a projected increase from 5.3% to 5.6% for the emerging and developing markets, and growth of 7.2% for developing Asia (mostly China and India), but a decline from 5.3% to 3.6% for the MENA region. While oil prices are expected to decline slightly, challenges remain in the creation of private sector jobs, political stability and the rising level of government subsidies . All growth figures continue to remain well below their 10-year averages, indicating that the world economy will still be short of an incentive spark in 2013, while the major economic zones are looking to pull themselves out of a slump.

Even though there is uncertainty around economic forecasts, it is safe to assume that the overcapacity in the reinsurance markets will prevail. It will continue

5 *A.T. Kearney, GCC insurers face crossroads as profitability declines, Business Intelligence Middle East, 2 July 2012; according to the same study, profits from investments declined 17.5% over the same period due to 'unsuitable investment strategies'.*

6 *IMF, World Economic Outlook, October 2012*

REPORT OF THE BOARD OF DIRECTORS

to put downward pressure on prices, but the need to increase earnings is going to put a limit on how cheap well informed companies will be willing to sell reinsurance. This development has been apparent since the end of the 2008 Financial Crisis. Some markets have adjusted their underwriting approach, while others are still waiting for better times. Since 2007, Arig has been investing time and money into ways of increasing the profitability of its underwriting activities, which now need to make good for the shortfall in investment income. Volatility is the nature of our business; we believe we have done our homework ensuring that we can turn volatility into a profitable business across the business cycles, and thus become less dependent on the moods of the financial markets.

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

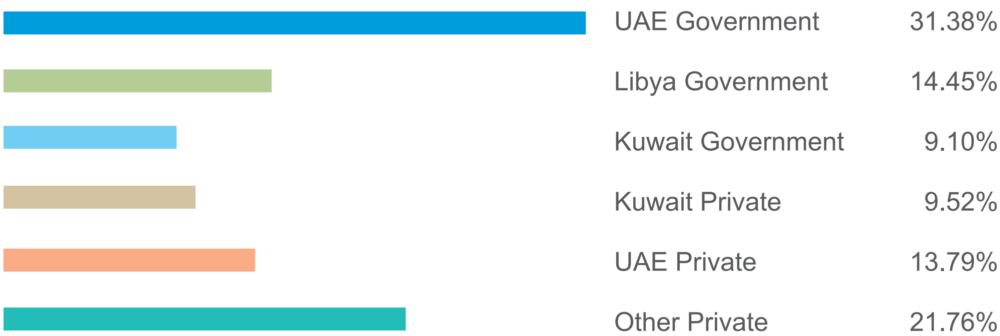
Khalid Ali Al Bustani
Chairman
13 February 2013

FINANCIAL HIGHLIGHTS

KEY FIGURES

(US$ Millions)	**2012**	2011	2010	2009	2008
Gross premiums written	238.6	247.5	239.5	279.4	280.7
Net written premiums	216.4	215.8	211.9	270.7	269.2
Net profit (Loss)	15.3	(19.1)	20.8	21.9	(28.6)
Investment assets	653.4	652.8	646.9	663.7	678.5
Total assets	999.9	1,022.1	1,038.4	1,132.3	1,082.9
Net technical provisions	543.7	564.8	569.4	589.8	524.7
Shareholders' equity	247.1	222.4	260.1	267.3	239.6

PERCENTAGE OF SHAREHOLDING



As of 31 December 2012

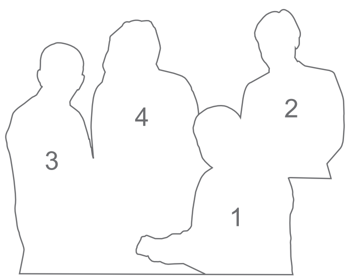
GENERAL MANAGEMENT

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

“Across the year, our focus remained firmly set on the quality of our portfolio. We would rather walk away from under-priced accounts than write future losses.”

Yassir Albaharna

Chief Executive Officer

OPERATING AND FINANCIAL REVIEW

REINSURANCE

The low interest rate regime, which is expected to last for some time, is starting to change the face of the reinsurance market. Reinsurers typically need a generous capital cushion to protect themselves against extreme loss events, particularly if they intend to write catastrophe risks where exposures are on the increase as a result of rising values and the effects of global warming. Previously, that still made good commercial sense as industry leaders managed to return ROEs ranging between 15% to 25%. But with investment income down, 8.5% has effectively become the new 25%.

For some, this is no longer an attractive proposition. 2010, and especially 2011, saw average combined ratios of 102% and 106% respectively, meaning that the majority of underwriters were losing between 2% and 6% on every premium Dollar. Even though fortunes turned to favor them in 2012, it is no surprise that reinsurers are increasingly looking to lower the cost of risk capital through the use of non-equity based capital funds. According to Aon Benfield, the world's largest reinsurance broking firm, "This rotation will lead to more reinsurer share repurchases, consolidations and the creation of more reinsurer managed funds businesses. In five years, more than half of the top reinsurers will manage insurance-linked funds for investors.[1]"

What we are finally about to witness is the convergence between the financial markets and reinsurance. Tapping funds, that are measured in tens of trillions, will ensure that the expected effects of any future mega catastrophe or the increased capital requirements under the Solvency II regime can be met with relative ease. So from the capital side, reinsurers may look into the future with confidence. Yet, in order to attract investors to a particular portfolio, there needs to be a track record of returns that pass investors' scrutiny. This is where it could become complicated: while a greater influx of capital funds could drive down rates, a certain minimum profitability must be achieved to keep investors interested. There is little doubt that this developing market would eventually find its equilibrium. But it could well be at a lower level than current market rates would suggest.

While institutional investors are developing an appetite for catastrophe risk portfolios, the more mundane segment of the market still needs to be managed in the traditional manner. Here, maintaining underwriting discipline appears to be the order of the day while the global premium pool is broadly expected to remain flat during the current underwriting year. Shifts are expected to be incremental, while even the emerging and developing markets are currently trading at single-digit growth. Companies that manage to produce profits from their net retained business will have the DNA to succeed. Those who have become overly reliant on investment income and reinsurance commissions, while neglecting their underwriting infrastructure, may get subjected to growing pains as reinsurance capacity is getting harder to come by and profits continue to slide.

1 Aon Benfield, Reinsurance Market Outlook, January 2013

While most of the industry was affected by the 2011 catastrophe losses, regional reinsurers appeared to be the worst hit. As a result, we have recently seen considerably more underwriting scrutiny, making it more laborious for some ceding companies to place their 2013 programs. This could be good news, as some markets seem to recover those underwriting senses that were neglected during the Eldorado of exponential growth. It also plays to Arig's strengths, as it follows our dogma of "profits first".

Only Hurricane Sandy set an exclamation mark behind the 2012 underwriting year. As most of the larger catastrophes, it was caused by an unusual coincidence of contributing weather conditions. The storm that happened very late into the season is estimated to have caused between US$18 to US$25 billion in insured damages, despite of its relatively lesser wind force. But a massive storm front, with a diameter of 1800 km hitting one of the most developed areas in the world, did its fair share of causing considerable loss to properties and infrastructure, and leading to record claims for Marine and Fine Arts reinsurers. Yet it happened late into a year that offered a relatively benign loss experience to most in the industry, thus only had a segmental effect on the terms of our trade.

BUSINESS REVIEW

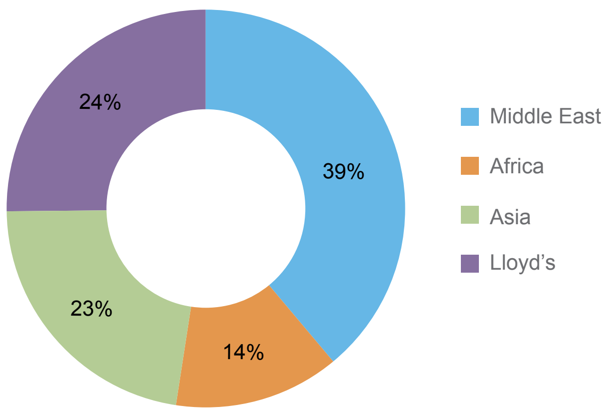
Portfolio Development

Across the year, our focus remained firmly set on the quality of our portfolio. We would rather walk away from under-priced accounts than write future losses. In the Far East, we discontinued a number of Personal Accident quota share arrangements whereas in the MENA region, premium was reduced in the aftermath of the political turmoil in parts of North Africa and sanctions effective for Iran, Syria and Sudan. Subsequently, Arig's overall GWP decreased by 4% to US$ 238.6 million (2011: US$ 247.5 million) even though Life business slightly grew by 1% year-on-year at US$ 23.2 million (2011: US$ 22.9 million).

There was a territorial shift in our search for the most attractive markets as the volume of premium produced from the Middle East and Far East reduced by 1% and 6% respectively, and the size of the business generated from the London Lloyd's market increased by 6% of total. Even though the Lloyd's market suffered catastrophe losses from underwriting years 2010 and 2011, we still regard it as an attractive source of business that should earn its reinsurers good returns over time, as history has shown.

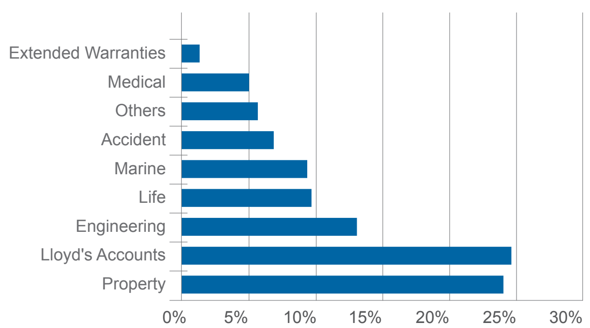
OPERATING AND FINANCIAL REVIEW

Geographical distribution of GWP in 2012



The Property class continued to dominate Arig's portfolio, contributing 24% to our total GWP; Engineering risks followed at 13% before Life business at 10%. Marine represented another 9% while Medical business reduced to 5% in view of the deteriorating returns from the markets. The share of the international Lloyd's business in our book reached 25% in 2012 (2011: 21.9%). For the most part, this segment consists of a basket or different classes of business from Property catastrophe accounts to Marine, Construction and all the way to Fine Arts or Kidnap & Ransom risks, which all diversify against each other as the portfolio is rather granular in its composition.

% of total GWP in 2012



Performance

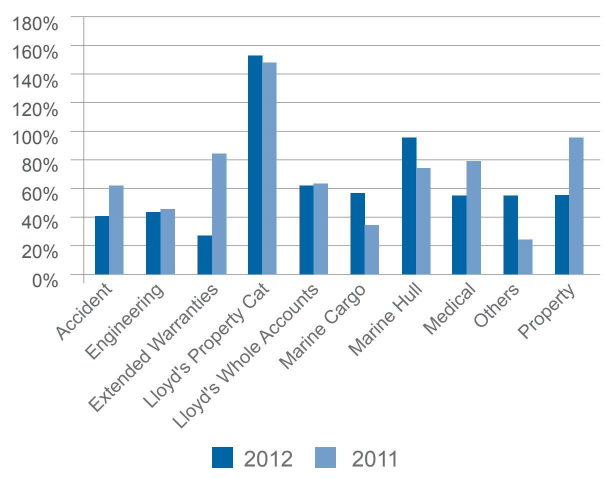
Arig, similar to most of its peers, shared the good underwriting fortunes that went a long way in earning back most of the losses from 2011. In fact, the Technical Result[2] from the Company's underwriting activities turned out to be one highest in recent history. To a large part, this is owed to the absence of major losses, but the positive trend in the attritional loss performance of our book contributed much in the same way:

- On our regional non-life treaty book, which makes up around 50% of the company's GWP income, we benefit from cedents wanting to protect their portfolios and thus, high levels of reinsurance commissions. By rigorously applying our underwriting tools and consistently adjusting their parameters, we are making sure that the bulk of this portfolio meets our expectations. Helped by the positive development in older underwriting years, our treaty book showed a massive turnaround in 2012 compared to the previous year.

- On our facultative business, where Arig has the ability to select each risk individually, we have been successful in trading volatility for increased profit margins. With 33 years of risk performance data on record and some of the region's best underwriters on the team, Arig is in a good position to select risks for their expected profitability.

Except for Marine, where the Company posted some additional reserves for claims developing from previous underwriting years, the indigenous book written by Arig performed well. The Lloyd's Property accounts continued to be negatively affected by loss development from the New Zealand and Japan earthquakes in 2011, as well as the Thai floods from the same year. Hurricane Sandy generated a new large loss event in 2012; however, the overall performance of the underwriting year 2012 in our Lloyd's book is expected to be positive.

Loss Ratio Comparison Non-Life Business



Accordingly, the development in our class-by-class non-life loss ratio compares favorably against the previous year, shaving off 14 points to come in at 57.9% (2011: 72.0%), producing a Technical Result of US$ 22.6 million (2011: loss US$ 2.4 million). Together with acquisition cost and operating expenses, this translated into a combined ratio of 96.9% for the non-life book in 2012 (2011: 108.6%) and an Underwriting Profit of US$ 15.4 million (2011: loss of US$ 14.7 million).

2 Technical Result is equal to the profit from underwriting activities without the consideration of reinsurance related investment income or operational cost. It is therefore considered a good measure for analyzing the technical performance of the underlying business

OPERATING AND FINANCIAL REVIEW

Our Life portfolio equally performed well with a Technical Result of US$ 4.4 million (2011: US$ 2.0 million). Despite a highly competitive market, Arig's underwriters developed a keen understanding of how to write profits from Group Life accounts, which today represent the majority of our book. For the remainder, we benefitted from a restructuring of the portfolio that eventually enabled the Company to hold lower reserves against future years.

Risk Capital Position

Despite a negative Financial Year result in 2011, Arig continues to be generously capitalized. Beyond meeting the statutory funding requirements, we model our capital needs with the assistance of one of the largest actuarial consulting firms globally. Despite the volatility experienced in 2011 and the more recent shifts in our portfolio, and despite decreasing returns on investments worldwide, Arig's Economic Capital, i.e. the funds required to operate the Company's business with a sufficient safety margin against extremely large losses, amounted to US$ 139 million based on the business plan for 2013 (2012: US$ 121 million). Our modeling exercise takes into account recent developments in the global economy and also assumes a view on the estimated impact of all other corporate risk exposures in 2013. It is further supported by the additional protection the Company purchased for natural catastrophe risks emanating from certain exposed territories with growing business volumes.

Outlook

With a record high level of industry capitalization, slower growth in the world economy and largely stagnating demand for reinsurance, general consensus is that global premium income for the current underwriting year would remain relatively flat. However, any major loss event, or higher than expected economic growth in key markets could change that view, again.

Arig's geographic reach is far and extends from the most dynamic markets in Asia to almost every other market in the remainder of Asia and in Africa. Through our quota shares in London, we further cover the industrialized nations and more markets in the Americas. In other words, our portfolio is sufficiently diversified so that single-market effects are small, and even regional events can be compensated – unless they reach global proportions, such as the 2008 Financial Crisis or the spate of natural catastrophes in 2011. Based on our current portfolio, we can see our book grow in the upper single-digit to lower double-digit range. We witnessed stronger dynamics from Turkey and some of the GCC countries during the recent renewal season, and we expect additional impulses to come from our book at Lloyd's. The Far East is expected to remain subdued as the industry consolidates, while recovery in North Africa or from any of the other politically challenged markets has been slow and is still expected to take some time.

Arig's focus will mainly rest with the achievement of our targeted profitability. Our underwriting regime will continue to be disciplined, steering the company away from uncontrolled growth. At the same time, we are looking to increase our involvement in profitable facultative lines and are investigating into new innovative ways to capture the better side of the Personal Lines business in the region. For the moment, our key markets remain flush with capacity but we see reinsurers becoming more selective, which has led to a slight improvement in terms in some areas. At any rate, Arig is well positioned to catch an upswing in the market, should it occur, and through our partnerships at Lloyd's we are now in a position to participate in positive developments further away from our core region.

INVESTMENTS

2012 will be remembered as the year in which the financial markets came back from the brink. Decisive action by a number of central banks, notably the ECB, reduced the risk of financial contagion. Relaxed monetary policies on a global basis ensured a tightening of sovereign bond spreads for the troubled Euro markets and led to a general increase in the price of higher risk assets, notably equities. Most major stock markets recorded double digit gains for the year. Due to sluggish demand and low interest rates, inflation could be contained in industrialized economies and most of the Emerging Markets.

In line with the defined risk tolerance within the Group, our investment strategy remained unaltered. Despite the rally in the equity markets, we generally continued to be conservative in our allocation, thereby avoiding over-exposure to market volatility. Most of the investment portfolio was deployed in less risky assets. At the year-end, the Group's investments stood at US $ 653.4 million (2011: US $ 652.8 million) with 89% allocated to cash, short-term securities and bonds. Investment income generated in 2012 amounted to US $ 21.4 million. (US $ 4.0 million in 2011), equaling a 3.3% return on investible assets.

Looking ahead, the issues of fiscal consolidation and financial sector reforms remain to be resolved. These issues are as much political as they are economic. Political posturing could lead to increased volatility in asset prices. Additionally, the prevailing low rates of interest will continue to challenge investors who need to rely on less volatile asset classes, such as insurance and reinsurance companies.

Arig will continue to stay its course, managing a diversified low-risk portfolio within the Company's avowed investment risk appetite. We will carefully balance market opportunities against our standing obligations to policyholders and shareholders. As we continue to witness unstable conditions for the world economy at large, preservation and the safety of our stakeholders' capital is of paramount importance to us at this stage.

OPERATING AND FINANCIAL REVIEW

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary based in the Dubai International Financial Centre, Takaful Re Limited (TRL), reported a net loss of US$ 6.3 million (2011: net loss of US$ 3.9 million) for the year. The loss was mainly attributable to a rationalization of Wakala rates, resulting in a US$ 5.9 million rebate of Wakala fees in respect of prior years.

Retakaful operations recorded gross underwriting contributions of US$ 37.9 million (2011: US$ 40 million), a year-on-year decrease of 5.3%. The retakaful portfolio has been reviewed to reduce volatility of the book and improve underwriting performance.

TRL's investments yielded an average return of 2.1% with investment earnings of US$ 2.1 million in 2012 (2011: loss US$ 2.6 million). Maintaining a conservative and prudent strategy with a high degree of liquidity, about 67% of the US$ 102 million (2011: US$ 98.7 million) of invested assets were held in cash and short term Islamic deposits.

Gulf Warranties (GW)

Gulf Warranties (GW) posted a net loss of US$ 2.8 million (2011: net loss US$ 1.8 million) for the year 2012 after a difficult year. The challenging economic environment kept Motor Warranty revenues flat at US$ 1.0 million (2011: US$ 0.9 million) and Non-warranty income at US$ 0.4 million (2011: US$ 0.3 million). Operations are being reorganised to enable the subsidiary to return to financial health.

Arima Insurance Software (ARIMA)

ARIMA, the Group's information technology provider, offers a scalable suite of software solutions for insurers and reinsurers (including Takaful operators), covering General, Life and Medical classes as well as Bancassurance. ARIMA, with its expanding client base, reported revenues of US$ 2.6 million (2011: US$ 2.5 million) and a net profit of US$ 0.2 million (2011:net profit US$ 0.04 million) for the year.

Arig Capital Limited (ACL)

ACL holds the status as a corporate member of Lloyd's of London and allows Arig to participate in the business written by Lloyd's syndicates. In 2012, ACL wrote a 10% share of Hardy's syndicate 382, generating gross written premium of US$ 48.1 million (2011: US$ 32.2 million) to Arig. As there had been some deterioration under the extensive Asian catastrophe claims incurred during 2011, ACL recorded a small net loss of US$ 0.4 million for the year (2011: net loss US$ 0.1 million).

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 - 2007 to 2011 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	2007	66.3967	809.0	369.4	309.7	77.7	756.8	93.5%	52.2	6.5%
	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	1,098.6	542.2	373.8	81.3	997.3	90.8%	101.3	9.2%
	2011	72.9379	1,154.9	595.0	422.1	77.4	1094.5	94.8%	60.4	5.2%
Bahrain	2007	0.3769	371.7	124.7	128.7	18.3	271.7	73.1%	100.0	26.9%
	2008	0.3769	495.1	145.0	193.3	20.0	358.3	72.4%	136.8	27.6%
	2009	0.3769	532.2	151.3	207.9	20.9	380.1	71.4%	152.1	28.6%
	2010	0.3769	559.2	152.9	248.4	21.3	422.6	75.6%	136.6	24.4%
	2011	0.3769	546.1	147.9	249.4	18.8	416.1	76.2%	130.0	23.8%
Egypt(1)	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	1,612.8	319.7	304.6	222.2	846.5	52.5%	766.3	47.5%
	2011	5.9328	1,592.7	345.7	301.8	220.3	867.8	54.5%	724.9	45.5%
Jordan	2007	0.7090	426.9	194.6	156.2	34.8	385.6	90.3%	41.3	9.7%
	2008	0.7100	487.1	208.4	184.3	43.6	436.3	89.6%	50.8	10.4%
	2009	0.7080	527.6	220.5	221.1	36.6	478.2	90.6%	49.4	9.4%
	2010	0.7080	589.3	257.7	241.5	36.2	535.4	90.9%	53.9	9.1%
	2011	0.7080	598.3	256.6	240.9	43.3	540.8	90.4%	57.5	9.6%
Kuwait	2007	0.2770	549.6	178.1	196.7	68.8	443.6	80.7%	106.0	19.3%
	2008	0.2703	641.4	198.7	229.4	83.0	511.1	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	627.4	198.3	232.1	61.7	492.1	78.4%	135.3	21.6%
	2011	0.2760	698.2	244.4	228.8	72.1	545.3	78.1%	152.9	21.9%
Lebanon	2007	1,507.5000	776.3	155.9	322.1	25.4	503.4	64.8%	272.9	35.2%
	2008	1,507.5000	898.8	221.5	361.2	32.1	614.8	68.4%	284.0	31.6%
	2009	1,507.5000	1,022.8	283.5	414.8	27.6	725.9	71.0%	296.9	29.0%
	2010	1,504.5000	1,102.6	n/a	n/a	n/a	812.0	73.6%	290.6	26.4%
	2011	1,504.0000	1,221.0	n/a	n/a	n/a	878.0	71.9%	343.0	28.1%
Libya(3)	2007	1.2334	168.8	47.5	84.3	32.3	164.1	97.2%	4.7	2.8%
	2008	1.2935	229.0	52.5	138.7	33.0	224.2	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%
	2011	1.2251	140.7	24.2	95.9	15.1	135.2	96.1%	5.5	3.9%
Mauritania(4)	2007	259.2500	13.1	4.4	4.8	2.9	12.1	92.4%	1.0	7.6%
	2008	252.1250	15.2	5.1	5.6	3.4	14.1	92.8%	1.1	7.2%
	2009	262.0000	16.4	5.6	6.1	3.7	15.4	93.9%	1.0	6.1%
	2010	279.0000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2011	288.0800	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Morocco	2007	7.8339	2,157.0	662.6	695.3	83.3	1,441.2	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	2,588.0	818.4	857.1	87.9	1,763.4	68.1%	824.6	31.9%
	2010	8.2013	2,592.6	846.2	873.7	84.5	1,804.4	69.6%	788.2	30.4%
	2011	8.2013	2,920.4	931.0	953.5	90.2	1,974.7	67.6%	945.7	32.4%
Oman	2007	0.3850	446.5	167.2	165.0	32.0	364.2	81.6%	82.3	18.4%
	2008	0.3850	551.0	232.8	170.0	41.4	444.2	80.6%	106.8	19.4%
	2009	0.3852	644.7	270.0	229.7	38.7	538.4	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%
	2011	0.3850	733.0	313.2	252.5	46.3	612.0	83.5%	121.0	16.5%

(1) Egypt: Financial Year end as at 30 June **(2) Sudan:** 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:** 2007-2009 premium figures are estimate **(5) Qatar:** Life premium figures are estimate **(6) Saudi Arabia:** Property & Miscellaneous Accident includes Energy.

ARAB INSURANCE MARKET REVIEW

Gross Premium By Class and Country - 2007 to 2011 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	2007	4.1081	49.9	42.5	6.3	0.2	49.0	98.2%	0.9	1.8%
	2008	3.7714	62.6	51.3	10.1	0.3	61.7	98.6%	0.9	1.4%
	2009	3.5880	72.8	60.6	11.1	0.3	72.0	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
	2011	3.5880	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Qatar(5)	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	1,051.0	n/a	n/a	n/a	997.0	94.9%	54.0	5.1%
	2011	3.6408	974.0	n/a	n/a	n/a	914.0	93.8%	60.0	6.2%
Saudi Arabia(6)	2007	3.7412	2,290.4	651.2	1,298.0	253.9	2,203.1	96.2%	87.3	3.8%
	2008	3.7515	2,911.8	677.9	1,817.6	257.9	2,753.4	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	4,370.1	863.7	2,940.0	307.1	4,110.8	94.1%	259.3	5.9%
	2011	3.7500	4,934.4	1,045.9	3,309.2	337.9	4,693.0	95.1%	241.4	4.9%
Sudan(2)	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	285.8	129.9	94.0	47.1	271.0	94.8%	14.8	5.2%
	2010	2.3725	294.1	144.6	73.2	59.0	276.8	94.1%	17.3	5.9%
	2011	2.6769	289.1	124.6	98.8	50.8	274.2	94.8%	14.9	5.2%
Syria	2007	50.0000	184.3	115.1	45.0	22.8	182.9	99.2%	1.4	0.8%
	2008	50.0000	241.1	160.3	49.7	28.1	238.1	98.8%	3.0	1.2%
	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%
	2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tunisia	2007	1.2367	705.2	317.1	256.7	54.4	628.2	89.1%	77.0	10.9%
	2008	1.3970	696.3	306.8	260.3	51.0	618.1	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%
	2011	1.4078	900.7	382.4	250.4	52.2	685.0	76.1%	215.7	23.9%
U.A.E.	2007	3.6745	3,895.7	910.9	1,815.6	448.3	3,174.8	81.5%	720.9	18.5%
	2008	3.6734	4,974.5	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	6,003.7	1,230.8	3,065.6	609.4	4,905.8	81.7%	1097.9	18.3%
	2011	3.6725	6,513.8	1,121.2	3,479.6	635.2	5,236.0	80.4%	1277.8	19.6%
Yemen	2007	198.9500	68.1	15.6	37.3	11.6	64.5	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	93.6%	4.8	6.4%
	2010	213.9000	84.0	22.7	40.0	14.4	77.1	91.8%	6.9	8.2%
	2011	213.8000	80.6	18.3	42.6	12.5	73.4	91.1%	7.2	8.9%
The Premium figures are in Local Currency for Iraq only										
Iraq	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		90,496.0	14,976.0	85,059.0	20,007.0	50,482.0	55.8%	40,014	44.2%
	2011		98,686.0	29,952.0	170,001.0	40,014.0	50,482.0	51.2%	48,204	48.8%

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 - 2007 to 2011

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	2007	66.3967	809.0	23.86	3,864	0.6%	33.90	131,000
	2008	67.7500	1,001.9	29.13	5,055	0.6%	34.40	173,882
	2009	72.6474	1,064.6	30.50	4,642	0.7%	34.90	162,000
	2010	74.3860	1,098.6	31.03	4,322	0.7%	35.40	153,000
	2011	72.9379	1,154.9	32.08	4,917	0.7%	36.00	177,000
Bahrain	2007	0.3769	371.7	464.63	24,625	1.9%	0.80	19,700
	2008	0.3769	495.1	618.88	34,013	1.8%	0.80	27,210
	2009	0.3769	532.2	665.25	27,500	2.4%	0.80	22,000
	2010	0.3769	559.2	466.00	18,333	2.5%	1.20	22,000
	2011	0.3769	546.1	413.71	19,697	2.1%	1.32	26,000
Egypt(1)	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	18.88	2,265	0.8%	83.00	188,000
	2010	5.5700	1,612.8	19.09	2,592	0.7%	84.50	219,000
	2011	5.9328	1,592.7	19.03	2,820	0.7%	83.70	236,000
Jordan	2007	0.7090	426.9	69.53	2,769	2.5%	6.14	17,000
	2008	0.7100	487.1	77.32	3,365	2.3%	6.30	21,200
	2009	0.7080	527.6	83.75	3,492	2.4%	6.30	22,000
	2010	0.7080	589.3	90.66	4,154	2.2%	6.50	27,000
	2011	0.7080	598.3	94.97	4,444	2.1%	6.30	28,000
Kuwait	2007	0.2770	549.6	189.52	40,345	0.5%	2.90	117,000
	2008	0.2703	641.4	221.17	52,172	0.4%	2.90	151,300
	2009	0.2851	568.9	189.63	49,333	0.4%	3.00	148,000
	2010	0.2806	627.4	202.39	42,903	0.5%	3.10	133,000
	2011	0.2760	698.2	193.94	46,667	0.4%	3.60	168,000
Lebanon	2007	1,507.5000	776.3	189.34	5,459	3.5%	4.10	22,382
	2008	1,507.5000	898.8	211.98	6,759	3.1%	4.24	28,660
	2009	1,507.5000	1,022.8	243.52	7,381	3.3%	4.20	31,000
	2010	1,504.5000	1,102.6	256.42	9,070	2.8%	4.30	39,000
	2011	1,504.0000	1,221.0	283.95	9,767	2.9%	4.30	42,000
Libya(3)	2007	1.2334	168.8	27.67	9,443	0.3%	6.10	57,600
	2008	1.2935	229.0	36.35	15,861	0.2%	6.30	99,926
	2009	1.2034	309.3	49.10	13,681	0.4%	6.30	86,190
	2010	1.1898	325.8	51.31	14,016	0.4%	6.35	89,000
	2011	1.2251	140.7	21.65	12,262	0.2%	6.50	79,700
Mauritania(4)	2007	259.2500	13.1	4.09	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	5.13	803	0.6%	3.20	2,569
	2010	279.0000	n/a	n/a	843	n/a	3.20	2,697
	2011	288.0800	n/a	n/a	1,158	n/a	3.54	4,100
Morocco	2007	7.8339	2,157.0	69.13	2,030	3.4%	31.20	63,324
	2008	8.8166	2,548.1	81.67	2,767	3.0%	31.20	86,329
	2009	7.6145	2,588.0	79.88	2,840	2.8%	32.40	92,000
	2010	8.2013	2,592.6	81.02	2,844	2.8%	32.00	91,000
	2011	8.2013	2,920.4	90.41	3,065	2.9%	32.30	99,000
Oman	2007	0.3850	446.5	171.73	15,000	1.1%	2.60	39,000
	2008	0.3850	551.0	196.79	12,760	1.5%	2.80	35,729
	2009	0.3852	644.7	217.80	17,905	1.2%	2.96	53,000
	2010	0.3852	617.7	208.68	19,257	1.1%	2.96	57,000
	2011	0.3850	733.0	244.33	24,333	1.0%	3.00	73,000

ARAB INSURANCE MARKET REVIEW

Key Economic & Demographic Indicators - 2007 to 2011

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	2007	4.1081	49.9	13.49	1,162	1.2%	3.70	4,300
	2008	3.7714	62.6	17.06	1,127	1.5%	3.67	4,135
	2009	3.5880	72.8	19.68	1,505	1.3%	3.70	5,568
	2010	3.5880	n/a	n/a	1,409	n/a	4.15	5,846
	2011	3.5880	n/a	n/a	1,549	n/a	4.17	6,460
Qatar(5)	2007	3.6402	861.1	717.58	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	1,051.0	700.67	79,333	0.9%	1.50	119,000
	2011	3.6408	974.0	n/a	96,111	n/a	1.80	173,000
Saudi Arabia(6)	2007	3.7412	2,290.4	91.98	15,100	0.6%	24.90	376,000
	2008	3.7515	2,911.8	114.19	18,337	0.6%	25.50	467,601
	2009	3.7502	3,896.0	151.60	20,700	0.7%	25.70	532,000
	2010	3.7500	4,370.1	166.80	20,668	0.8%	26.20	541,500
	2011	3.7500	4,934.4	176.23	21,321	0.8%	28.00	597,000
Sudan(2)	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	285.8	6.92	1,475	0.5%	41.30	60,898
	2010	2.3725	294.1	144.6	1,546	0.4%	42.30	65,400
	2011	2.6769	289.1	124.6	1,537	0.4%	42.30	65,000
Syria	2007	50.0000	184.3	9.36	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	14.64	2,497	0.6%	22.51	56,200
	2011	n/a	n/a	n/a	2,814	n/a	21.00	59,100
Tunisia	2007	1.2367	705.2	68.47	3,369	2.0%	10.30	34,700
	2008	1.3970	696.3	67.60	3,901	1.7%	10.30	40,180
	2009	1.2824	800.3	77.70	3,883	2.0%	10.30	40,000
	2010	1.4122	774.9	74.51	4,327	1.7%	10.40	45,000
	2011	1.4078	900.7	84.18	4,299	2.0%	10.70	46,000
U.A.E.	2007	3.6745	3,895.7	893.51	45,573	2.0%	4.36	198,700
	2008	3.6734	4,974.5	1,105.44	69,978	1.6%	4.50	314,900
	2009	3.6731	5,455.5	1,185.98	58,761	2.0%	4.60	270,300
	2010	3.6728	6,003.7	1,305.15	64,696	2.0%	4.60	297,600
	2011	3.6725	6,513.8	1,357.04	70,625	1.9%	4.80	339,000
Yemen	2007	198.9500	68.1	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	84.0	3.49	1,347	0.3%	24.05	32,400
	2011	213.8000	80.6	3.25	1,452	0.2%	24.80	36,000
			Total GPI in Local Currency for Iraq only					
Iraq	2007		22,000.0				26.70	87,900
	2008		26,913.5				28.20	91,316
	2009		67,037.5				30.39	84,700
	2010		90,496.0				31.47	118,000
	2011		98,686.0				32.96	115,500

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 shareholder 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 Company follows the Bahrain Corporate Governance Code ("Code"). A Corporate Governance Report is included as a separate item as part of agenda for the Annual General Meeting.

Framework

The Company through its Board of Directors maintains a governance framework that 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 members of the Board are elected and can be terminated by the shareholders of the Company in accordance with the provisions under the Articles of Association. The Board holds the ultimate responsibility for the overall direction, supervision and control of the Company. It regularly assesses the Company's financial and commercial performance and approves its business plan. The Board continuously oversees the corporate governance processes in order to ensure good standards within the Company. The Board further reviews and assesses the adequacy of the management of all risks the Company may be exposed to.

The current Board was elected in 2011 for a term of three years. Formalized Board procedures enhance the professional development of the Board members and include induction training to new directors, continuous learning and self-evaluation. The names of the current directors and biographical details are set out in page 28.

Members of the Board are all non-executive and five out of nine members are independent non-executive directors. The Board formally reviews and evaluates its own performance together with the performance of the individual Directors, as required by the Code.

Board Committees

While principal matters are handled by the Board, separate Committees are mandated to assist the Board in carrying out its duties in an efficient manner. The Executive Committee aids in the co-ordination, guidance and monitoring of the Company's management and performance. The Audit Committee oversees financial reporting, internal controls and compliance with consideration of all applicable laws and regulations. The Nomination & Remuneration Committee is tasked to review the nomination and compensation of the Board of Directors and the members of the Company's General Management. All Board Committees meet periodically to achieve their objectives and to assess their own efficiency.

Board Meetings

According to the Articles of Association and local regulations, the Board is required to meet at least 4 times in a year. In addition to the six meetings held in person during 2012, the Board approved quarterly results through circulation of a resolution.

The following table lists the number of meetings held during 2012, including Board Committees, and the individual attendance:

CORPORATE GOVERNANCE REPORT

Directors	Board meetings (6)	Executive Committee meetings (4)	Audit Committee meetings (4)	Nomination & Remuneration Committee (2)
Khalid Ali Al Bustani*	6	N	N	N
Khalid Jassim Bin Kalban(*)(****)	4	3	N	2
Dr. Fouad A A Alfalah*	6	N	4	2
Sultan Ahmed Al Ghaith (*)	6	4	N	2
Abdulaziz Abdulla Al Zaabi* (****)	4	4	2	N
Fathi M A ElHagie	6	N	N	N
Majed Omran Al Shamsi	6	4	N	N
Muzafar Alhaj Muzafar (***)	2 (2)	1 (1)	N	N
Mariam Abdulraheem Alameeri	6	N	4	N
Saif Abdulrahman Al Shamsi**	3(4)	N	N	N

- *Figures in brackets indicate number of meetings applicable to the director*
- *N - Not member*
- ** - Independent non-executive directors*
- *** - New representative of the Corporate Director GPSSA, UAE from 28th April 2012*
- **** - Represented the Corporate Director- GPSSA until 8 April 2012.*
- ***** - 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.*

Management

Responsibilities of the Chairman and the Chief Executive Officer are separated. The Chairman of the Board is responsible for the 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) executes leadership in the day-to-day management of the Company. The General Management team headed by CEO is responsible for the implementation of the Board strategies and the monitoring of its day-to-day operations. The team includes the General Manager - Reinsurance, Deputy General Manager - Finance & Administration, and Assistant General Manager – Reinsurance, as its members. The names of members of the General Management team are set out in page 30 together with their biographical details.

Directors' Remuneration AND General Management Compensation

The Directors' remuneration is determined in accordance with the Bahrain Commercial Companies Law and the provisions under the Company's Articles of Association, and is approved by the shareholders. Directors' remuneration includes remuneration, allowances & reimbursement of expenses. The compensation of the General Management is determined by the Board of Directors based on the recommendations of the Nomination and Remuneration Committee, where salaries, allowances, reimbursement of expenses, post-employment benefits and performance related incentives are discussed (further information please see page 27). Details as required under the Code are held at Company's premises for the availability of the shareholders.

Organizational Structure

The Company has put in place a detailed organizational structure (shown on page 27) to serve the company purpose, its strategic development and internal controls.

Management Committees

In order to assist the CEO in guiding and monitoring the functional departments within the Company, a number of internal management committees are operative. These would include the areas of Reinsurance Management, Human Resources Development, Information Technology, Retrocessions and Security Evaluation. Members are drawn from within the Company and in accordance to their relevant areas of expertise.

CORPORATE GOVERNANCE REPORT

Succession Planning

The Company recognizes the value of its human resource and the significance of ensuring qualified and orderly successions. It operates a succession planning framework covering key positions within the Company, and talent development programs based on periodical training needs analyses. Arig also conducts a Graduate Development program to grow professional talent that is native to the Kingdom of Bahrain.

Key Persons Dealing in Arig Securities:

Arig has an established policy on key persons dealing, which complies with the Bahrain Bourse guidelines issued by the Central Bank of Bahrain. During the year, the Company has complied with relevant reporting and monitoring requirements as they are stipulated under these regulations.

Following are the details of Arig shares held by members of the Board, including their representatives, and members of the General Management, including their spouses, children or other persons under their control:

	Directors	General Management
Shares held at 1 January 2012	101,157,073	9,166
Add :Shares acquired during the year	-	-
Less : Shares transferred during the year	-	-
Shares held at 31 December 2012	101,157,073	9,166

Investor Relations

Arig makes considerable effort to maintain active investor relations through open, fair and transparent communication. A dedicated shareholder affairs unit supervised by an investor relations officer is responsible for the timely dissemination of all relevant information to its stakeholders. The company's website (www.arig.net) provides detailed information on corporate governance, business and financial information and includes a secure portal for shareholders.

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 to the Annual General Meeting is released well in advance to shareholders, regulators and stock exchanges. Copies of the Annual Report and accounts are made available at least one week prior to the meeting ensuring that shareholders have sufficient time to prepare for the discussion of the Company's performance with the Board Directors.

Corporate Social Responsibility

Arig aspires to be a good corporate citizen. The Company operates a corporate social responsibility program, which directs its efforts towards worthy projects and individuals in need.

Capital and Shares

Arig's authorized capital is comprised of 500 million ordinary shares with a nominal value of US$ 1 each. The issued, subscribed and paid-up capital is US$ 220 million. Shares are held by more than 4,700 shareholders mostly throughout the GCC countries. They are negotiable by people of any nationality through the stock exchanges where Arig is listed: the Bahrain Bourse and the Dubai Financial Market. Furthermore, Global Depositary Receipts equivalent to 10 ordinary shares each are registered on the London Stock Exchange.

Due to limited trading and in order to reduce overheads and increase efficiencies, Arig delisted from Kuwait Stock Exchange with effect from 8 November 2012. Further information on major shareholders and shareholding patterns are given on page no. 61 of this Annual Report.

Compliance

The Company has a separate compliance unit headed by the Deputy General Manager – Finance & Administration. This unit ensures that Arig meets all regulatory requirements stipulated by the Central Bank of Bahrain, the Bahrain Ministry of Industry and Commerce, and the authorities regulating the Branch Offices in Singapore & Labuan. It also makes sure that the Company is in compliance with all rules and regulations of the stock exchanges where Arig is listed. No penalties of any kind were incurred during the course of 2012.

Internal Control

The Board is holding the ultimate responsibility for the functioning of all internal controls within the Company. A network of policies, guidelines, procedures, authorization levels and performance monitoring is operative, including periodical reviews and updates, where appropriate. All significant authority limits for underwriting, claims and other operational areas were reviewed and approved by the Board. In daily operations, the CEO safeguards the application of all control mechanisms. He further ensures that a positive control environment is maintained through ethical corporate behaviour and personal integrity. He provides leadership and direction to General Management and reviews the way the business is controlled. Transactions in excess of the approved authority limits of the General Management, and all transactions with related parties, are conducted at arm's length.

On behalf of the Board, the Audit Committee periodically reviews the application of the Company's control framework and the assessments of these controls from the evaluation reports produced by Arig's internal and external auditors. The Committee then advises the Board of Directors on the status and effectiveness of the Company's control environment and necessary action taken by the management to strengthen any identified control weaknesses.

Enterprise Risk Management (ERM)

Arig applies a corresponding ERM regime that aims at closely monitoring the risks the Company could be exposed to and their potential effects on capital as well as financial and operational performance. Regular reviews by all layers of Arig's senior and middle management are carried out to assess the development and trends in the Company's exposures and, whenever possible and reasonable, introduce measures to mitigate the potential for negative effects.

The Company maintains an ERM framework under the responsibility of a Risk Officer who reports to the DGM – Finance & Administration. The status quo is kept in a Risk Register, the positions of which are reviewed and actively managed with the goal to keep the use of capital at risk at efficient performance levels without over-exposing the shareholders' equity interest.

Arig makes use of leading international actuarial firms for independent professional advice who assist in maintaining its Internal Capital Adequacy (ICA) model, which will consider and quantify the capital amount required to support all identified risk exposures that are incurred as part of the Company's business operations.

Our key risk categories are underwriting risk, reserve risk, credit risk, market risk and operational risks. Property reinsurance with its exposure to natural and man-made catastrophes represents the largest class in Arig's book; therefore it comes as no surprise that underwriting risk dominates the quantum of our risk exposures. It is followed by reserve risk, which is a reflection of the Company's 33-year operating history and former activities in discontinued underwriting lines. Market risk, i.e. the risk of changes in the financial markets, ranks third and is followed by our basket of operational risks. Credit risk takes the least amount of capital funding.

The Company has a number of risk avoidance and mitigation strategies in place to manage its key risk exposures.

- *Risk Appetite Statement* - First and foremost, Arig maintains a defined statement of its risk appetite expressing its maximum tolerance to losses for each of the main risk categories. The Risk Appetite Statement represents a key document in guiding the Company's business conduct and it has been ratified by the Board of Directors.

- *Underwriting Risk* is contained through a mixture of underwriting guidelines that are system- and management controlled, pricing tools and (re-) insurance covers with highly rated retro markets to cap peak exposures.

- *Reserving Risk* is managed through regular internal and external reviews to ensure that reserving is prudent and adequate. Our internal reviews are supported by an annually conducted, detailed survey and report by professional actuaries.

- *Market Risk* exposure is controlled by a basket of investment guidelines and policies that would include maximum allocations to asset classes, trend analyses, and performance monitoring tools, including stop loss disposal orders.

- *Credit Risk* is managed by stringent counter-party checks and Arig's preference to deal with solid and, for the most part, highly rated market entities. At the same time, cash flow is monitored through ageing analyses and outstanding payments are actively pursued by all levels in the organization

- Finally, *Operational Risks* represent a basket of individual exposures, most of them relatively moderate in amount, which the Company closely monitors and strives to reduce individually. Following the events in 2011, the risk of business interruption caused by political violence received Arig's full attention and was quickly mitigated through the establishment of a warm site at the Company's subsidiary's offices in Dubai. With contingency plans in place, this warm site can be upgraded to a hot site within the span of a few days, should a situation ever call for it.

External Auditors

External auditors are appointed by the shareholders through the General Assembly. The current auditors, KPMG of Bahrain, being eligible for re-election, were reappointed for the Financial Year 2012 based on the recommendation of the Board.

CORPORATE GOVERNANCE REPORT

Security Ratings

Through its most recent rating published on Arig on 18 December 2012, A.M. Best reaffirmed the Company's investment grade status with a Financial Strength Rating of 'B++ (Good)' and Issuer Credit Rating of "bbb+"); the outlook for both ratings is stable. In Best's opinion, the ratings continue to reflect the Company's solid business position in the Middle East regional reinsurance market, its adequate level of risk-adjusted capitalization and sound risk management.

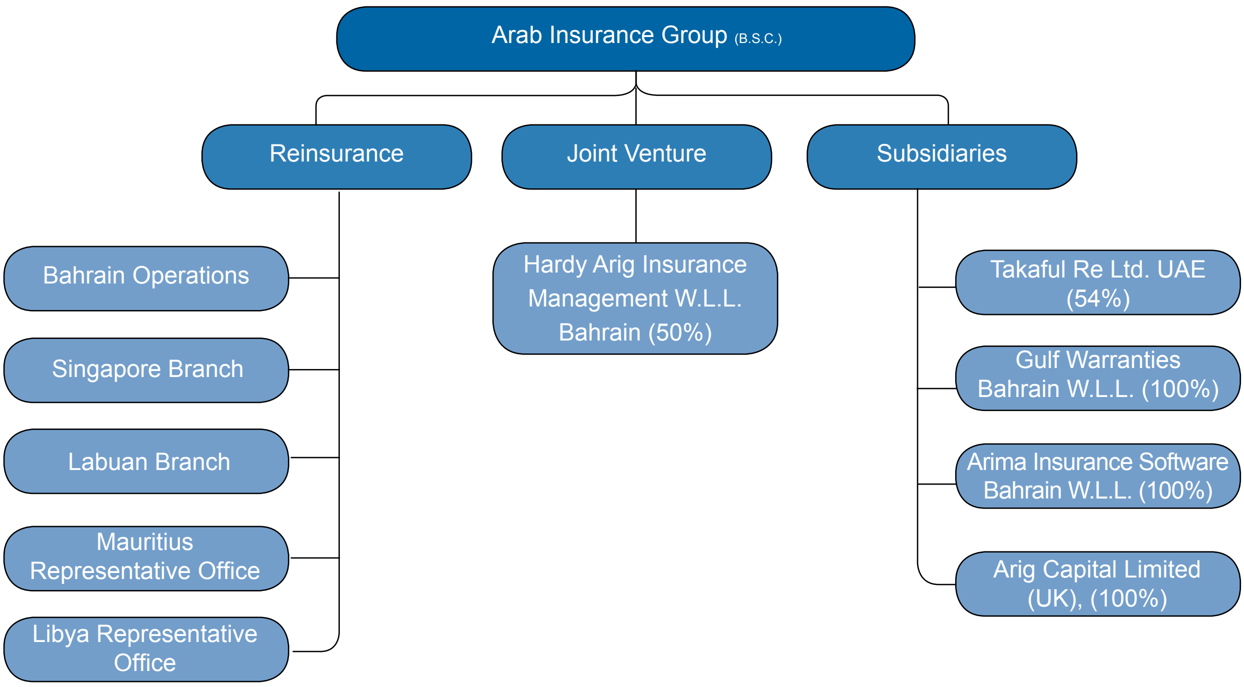
Solvency

Statutory Solvency requirements are determined by Arig's regulator in Bahrain, the Central Bank of Bahrain, and the regulators of its Branches in Singapore and Labuan. In Bahrain, minimum solvency is defined with reference to a prescribed premium and claims basis. The solvency position of the Company including its Branches as at 31 December 2012 is given below:

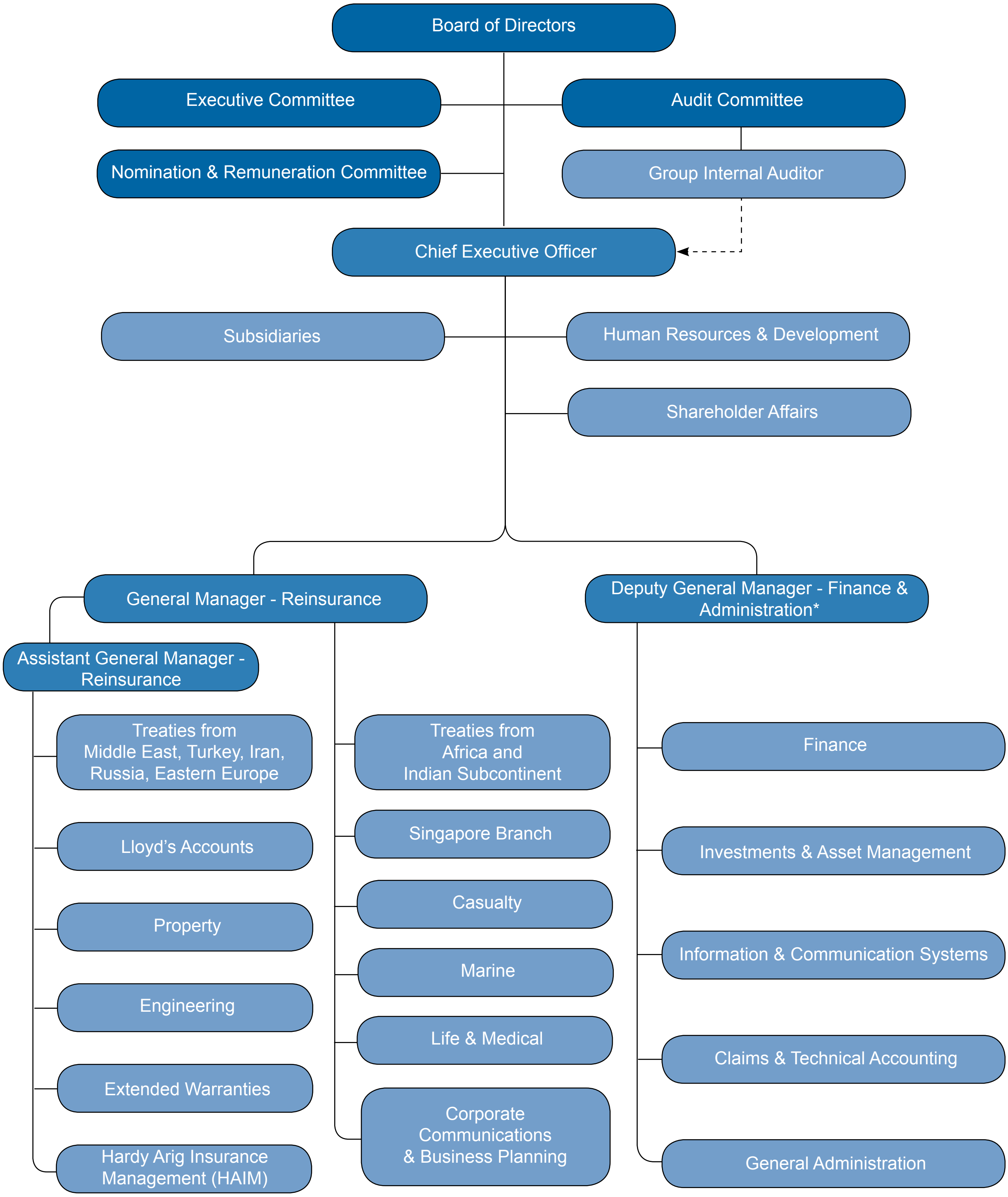
in US$ '000

	2012	2011
Capital available	**147,828**	116,377
Required margin of solvency	**38,820**	40,688
Total excess capital available over the required margin of solvency	**109,008**	75,689

ARIG GROUP STRUCTURE



ORGANIZATION CHART



* Also designated as Corporate Secretary, Compliance Officer & Money Laundering Reporting Officer

BIOGRAPHIES OF BOARD MEMBERS

BOARD MEMBERS

Khalid Ali Al Bustani
Chairman

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

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

Khalid Jassim Bin Kalban
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. 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 Al Ghaith
Director and Member of the Executive Committee and the Nomination & Remuneration Committee

B.Sc., UAE University, UAE

Sultan Ahmed Al Ghaith has been a Director of the Company since October 2004. He was Undersecretary & Director General of General 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 Al Zaabi
Director and Member of the Executive Committee & the Audit Committee

Business Administration, California State University, San Jose, USA

Abdulaziz Abdulla Al Zaabi 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 Omran Al Shamsi
(Representing Emirates Investment Authority, UAE)
Director and Member of the Executive Committee

Bachelor of Administrative Sciences, Emirates University, United Arab Emirates

Majed Omran Al Shamsi is the Director of International Financial 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 (stepped down w.e.f. 8 April 2012)

Bachelor degree in Accounting from the University of Kuwait

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.

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.

Saif Abdulrahman Al Shamsi
(Representing General Pensions & Social Security Authority (GPSSA), UAE (assumed office w.e.f. 28 April 2012)

Director

Holds a Bachelor Degree in Political Science and Business Administration, UAE University, United Arab Emirates

Saif Abdulrahman Al Shamsi is currently the Assistant Governor for Monetary Policy & Financial Stability Affairs with Central Bank of the United Arab Emirates. He has held several positions in Central Bank since he joined in the year 1981. He has replaced Muzafar Alhaj Muzafar as representative of GPSSA, in the Board w.e.f. 28.04.2012.

Mariam Abdulraheem Alameeri
(Representing Real Estate Bank, UAE)

Director & Member of the Audit Committee

Mariam Alameeri is currently the Assistant Under-Secretary for Financial Administration in the Ministry of Finance in UAE. She is also a Board Member in the Insurance Authority 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) as well as Board of Trustees of 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, 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, Gulf Warranties, GlobeMed Bahrain and Arig Capital Limited, UK. Prior to joining the Company, he served in leading insurance and manufacturing companies in India.

Salah Al Maraj
Assistant General Manager, Reinsurance

Bachelor of Arts; Kuwait University, Kuwait

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

KEY RATIOS

	2012	2011
Performance Ratios		
Premium growth (annual change in gross premiums written)	(3.6)%	3.3%
Retention ratio (gross retained premiums over gross premiums written)	90.7%	87.2%
Non-Life combined ratio (aggregate of expenses over net written premiums & losses over net earned premiums)	96.9%	108.6%
Return on investments (proportion of investment income over average investment assets)	3.3%	0.6%
Return on equity (proportion of net profit to average shareholders' equity)	6.5%	(7.9)%
Growth in shareholders' equity	11.1%	(14.5)%
Leverage Ratios		
Underwriting exposure (ratio of gross premiums written to shareholders' equity)	96.6%	111.3%
Net technical provisions/ Shareholders' equity	220.1%	254.0%
Net technical provisions/ Net premiums written	251.3%	261.7%
Liquidity Ratios		
Investment assets/ Net technical provisions	120.2%	115.6%
Liquid assets/ Net technical provisions	115.6%	110.6%
Other		
Solvency ratio (ratio of Shareholders' equity to Net earned premium)	113.2%	99.8%
Shareholders' Equity/Economic Capital	1.78	1.84
Earnings per share attributable to shareholders	0.08	(0.10)
Book value per share (US$)	1.25	1.12
Price to book value per share	28.0%	40.2%

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 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility Of The Board Of Directors For The Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, 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
13 February 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

(US$ '000)

	Note	2012	2011
ASSETS			
Cash and bank balances	5	334,345	343,844
Investments	6	316,001	305,728
Accrued income	8	79,595	94,583
Insurance receivables	9	91,008	89,404
Insurance deposits	10	42,225	48,938
Deferred policy acquisition costs		23,876	23,523
Reinsurers' share of technical provisions	11	57,248	53,889
Other assets	12	27,959	34,520
Property and equipment	14	27,675	27,657
		999,932	**1,022,086**
LIABILITIES			
Technical provisions	15	600,990	618,660
Insurance payables	18	30,015	27,703
Borrowings	19	20,000	40,000
Other liabilities	20	45,513	54,411
		696,518	740,774
EQUITY			
Attributable to shareholders of parent company	21		
Share capital		220,000	220,000
Treasury stock		(14,793)	(14,793)
Reserves		41,977	31,360
Accumulated deficit		(104)	(14,179)
		247,080	222,388
Non-controlling interests	22	56,334	58,924
		303,414	281,312
		999,932	**1,022,086**

These consolidated financial statements were approved by the Board of Directors on 13 February 2013 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 2012

(US$ '000)

	Note		2012	2011
Gross premiums written			238,642	247,463
Net earned premiums			218,231	222,869
Claims and related expenses			(129,714)	(167,797)
Policy acquisition costs			(61,513)	(55,444)
Investment income attributable to insurance funds	25		11,740	3,743
Operating expenses	26		(18,863)	(17,888)
Underwriting result	23		**19,881**	**(14,517)**
Investment income attributable to shareholders' funds	25		9,631	293
Operating expenses – non underwriting activities	26		(9,638)	(11,845)
Borrowing cost			(407)	(533)
Other income	27		8,128	8,469
Other expenses and provisions	28		(15,210)	(3,147)
Profit (loss) for the year			**12,385**	**(21,280)**
Attributable to:				
Non-controlling interests			(2,875)	(2,224)
Shareholders of Parent Company			15,260	(19,056)
			12,385	**(21,280)**
Earnings per share attributable to shareholders (basic and diluted):	29	US$	0.08	(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 2012

(US$ '000)

	2012	2011
Profit (loss) for the year	12,385	(21,280)
Other comprehensive income		
Changes on remeasurement of available-for-sale investments	3,936	(3,783)
Transfers for recognition of losses on disposal of available-for-sale investments	5,054	278
Revaluation of property	727	-
Other comprehensive income for the year	9,717	(3,505)
Total comprehensive income for the year	**22,102**	**(24,785)**
Attributable to:		
Non-controlling interests	(2,590)	(1,885)
Shareholders of Parent Company	24,692	(22,900)
	22,102	**(24,785)**

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 2012

(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 2011	**220,000**	**(14,793)**	**28,194**	**(3,327)**	**6,493**	**31,360**	**(14,179)**	**222,388**	**58,924**	**281,312**
Net profit for the year	-	-	-	-	-	-	15,260	15,260	(2,875)	12,385
Changes on remeasurement of available-for-sale investments	-	-	-	3,659	-	3,659	-	3,659	277	3,936
Transfers for recognition of losses on disposal of available-for-sale investments	-	-	-	5,046	-	5,046	-	5,046	8	5,054
Revaluation of property (Note 14)	-	-	-	-	727	727	-	727	-	727
Total comprehensive income for the year	**-**	**-**	**-**	**8,705**	**727**	**9,432**	**15,260**	**24,692**	**(2,590)**	**22,102**
Transfer of net depreciation on revalued property	-	-	-	-	(380)	(380)	380	-	-	-
Transfer to legal reserve	-	-	1,565	-	-	1,565	(1,565)	-	-	-
Balances at 31 December 2012	**220,000**	**(14,793)**	**29,759**	**5,378**	**6,840**	**41,977**	**(104)**	**247,080**	**56,334**	**303,414**
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 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**

Parent company balances at (note 37)										
31 December 2012	220,000	(14,793)	29,620	4,900	6,840	41,360	513	247,080	-	247,080
31 December 2011	220,000	(14,793)	28,094	(3,471)	6,493	31,116	(13,935)	222,388	-	222,388

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 2012

(US$ '000)

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		253,358	245,688
Reinsurance premiums paid		(35,654)	(23,554)
Claims and acquisition costs paid		(235,658)	(239,628)
Reinsurance receipts in respect of claims		30,783	22,861
Investment income (loss)		53	(3,655)
Interest received		5,304	4,781
Dividends received		1,138	1,694
Operating expenses paid		(25,194)	(24,696)
Other income/expenses, net		3,034	1,055
Insurance deposits received		6,901	16,886
Purchase of trading investments		(64,122)	(90,328)
Sale of trading investments		94,591	115,812
Directors' remuneration paid		-	(846)
Net cash provided by operating activities	33	**34,534**	**26,070**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity/sale of investments		193,214	135,043
Purchase of investments		(222,068)	(106,951)
Term deposit with bank		22,371	(49,694)
Interest received		6,024	5,773
Dividend received		24	243
Investment income received		6,395	(4,223)
Collateralised cash deposits paid		(3,814)	(6,206)
Purchase of property and equipment		(150)	(568)
Purchase of intangible assets		(422)	(171)
Investment in associate		-	(375)
Net cash provided by (used in) investing activities		**1,574**	**(27,129)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings		(20,000)	27,294
Interest on borrowings		(633)	(601)
Dividends paid		(2,501)	(11,810)
Net cash (used in) provided by financing activities		**(23,134)**	**14,883**
Net increase in cash and cash equivalents		12,974	13,824
Effect of exchange rate on cash and cash equivalents		(102)	(231)
Cash and cash equivalents, beginning of year		207,975	194,382
Cash and cash equivalents, end of year		**220,847**	207,975
Term deposit with bank		113,498	135,869
Cash and bank balances, end of year		**334,345**	**343,844**

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 2012

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 2012:

- IFRS 7 - Financial Instruments: Disclosures (amended October 2010)

  The amendments to IFRS 7 introduce new disclosure requirements relating to transfer of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The Group has applied the standard prospectively from 1 January 2012. The adoption of this amendment had no material impact on the financial statements

- Improvements to IFRSs (2011)

  Improvements to IFRS issued in 2011 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 2012 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 2012:

- 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 2013 with early adoption permitted. 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 financial statements.

- IFRS 7 - Financial Instruments: Disclosures (amended December 2011)

  Amendments to IFRS 7 introduce disclosures about the impact of netting arrangements on an entity's financial position requiring the Group to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights

FOR THE YEAR ENDED 31 DECEMBER 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

of set off under master netting arrangements or similar arrangements. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The change is not likely to have a material impact on the Group's financial statements.

- IAS 32 – Financial Instruments Presentation (amended December 2011)

  The amendments clarify the offsetting criteria for financial assets and financial liabilities explaining when an entity has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted. This amendment is not expected to have a material impact on the Group's financial statements.

- 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 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 debt investments not carried at amortised cost 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. 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 financial statements.

- 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 standard is effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the disclosure requirements for interests in subsidiaries, joint ventures and associates in comparison with existing disclosures. The standard is not likely to have a material impact on the Group's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

- 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 standard is not likely to have a material impact on the Group's financial statements.

The Group did not early-adopt new or amended standards in 2012.

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 2012. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Provision For Impairment Of Financial Assets

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

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

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

Investment In Associated Companies

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

Insurance Receivables

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

Insurance Deposits

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

Intangible Assets

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

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

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

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 on date of 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

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

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

Provisions

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

Post Employment Obligations

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

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

Employee Share Scheme

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

The shares are awarded based on the performance during the financial year (scheme year) and is expensed over the scheme year and the vesting period of two years from the end of Scheme year.

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.

FOR THE YEAR ENDED 31 DECEMBER 2012

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

Policy Acquisition Costs

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

Reinsurance Arrangements

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

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

Liability Adequacy Test

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

Investment Income

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

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

Foreign Currency Translation

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

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

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

Derivative Financial Instruments And Hedging

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

FOR THE YEAR ENDED 31 DECEMBER 2012

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Contd.)

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.

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.

FOR THE YEAR ENDED 31 DECEMBER 2012

4. MANAGEMENT OF INSURANCE RISKS (Contd.)

Credit risks relating to reinsurance arrangements are analysed as follows:

(US$ '000)

	Receivables	Share of technical provisions	Total
2012			
Balance relating to reinsurers:			
- With investment grade rating	2,136	28,146	30,282
- Other	21,594	13,850	35,444
	23,730	**41,996**	**65,726**
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**

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
2012					
Reinsurance Assets (Liabilities), net	(3,930)	(451)	(10,778)	(610)	(97,363)
Hedged	(2,815)	(870)	-	(1,011)	-
2011					
Reinsurance Assets (Liabilities), net	(4,740)	(3,826)	(8,388)	(788)	(89,624)
Hedged	(4,771)	(3,215)	-	(988)	-

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)

	2012	2011
5% increase in loss ratio	(10,445)	(11,143)
5% decrease in loss ratio	10,445	11,143
10% increase in US Dollar exchange rate	11,071	10,180
10% decrease in US Dollar exchange rate	(10,624)	(9,581)

FOR THE YEAR ENDED 31 DECEMBER 2012

5. CASH AND BANK BALANCES

(US$ '000)

	2012	2011
Cash and bank balances	73,322	68,039
Deposits with maturity within 3 months	147,525	139,936
Deposits with maturity over 3 months	113,498	135,869
	334,345	**343,844**

Bank deposits amounting to US$ 24.8 million (2011: US$: 49.7 million) 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:

	2012	2011
Interest receivable basis:		
- Bank balances	Daily/Monthly	Daily/Monthly
- Deposits with short term maturities	On maturity	On maturity
Effective rates	0.125% to 2.50 %	0.125% to 3.00%

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

Currency Risk:

(US$ '000)

	2012	2011
U.S. Dollar	141,747	132,568
UAE Dirham	66,142	69,829
Bahraini Dinar	83,368	75,999
Qatari Riyal	32,941	46,899
Other	10,147	18,549
	334,345	**343,844**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

6. INVESTMENTS

(US$ '000)

	2012	2011
At fair value through profit or loss		
Held for trading		
Common stock of listed companies	45,476	61,921
	45,476	61,921
Designated at fair value on initial recognition		
Debt Securities		
- Other investment grade	23,851	21,931
- Other	8,449	6,835
	32,300	28,766
Held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	36,975	48,041
- Other investment grade	26,045	43,131
- Non OECD country governments	2,655	2,656
	65,675	93,828
Available for sale		
Debt securities		
- Supra-nationals and OECD country governments	21,995	21,525
- Other investment grade	73,104	39,784
- Non-OECD country governments	6,803	5,427
- Other	44,584	14,598
Common stock of listed companies	813	11,521
Common stock of unlisted companies	6,808	8,613
Other	18,164	19,370
	172,271	120,838
Investment in associate	279	375
	316,001	**305,728**

FOR THE YEAR ENDED 31 DECEMBER 2012

6. INVESTMENTS (Contd.)

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

(US$ '000)

	2012	2011
At 1 January	17,460	13,310
New provision:		
- Unlisted companies	86	1,344
- Others	1,416	2,806
Provision reversed on sale	(302)	-
At 31 December	**18,660**	**17,460**

Debt securities amounting to US$ 66.3 million (2011: US$ 67.1 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:

2012	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Monthly/Semi-annual/ Annual	0.13% - 4.14%	0.125% - 4.25%
Other investment grade debt securities	Semi-annual/Annual	1.25% - 6.81%	1.25% - 7.38%
Non-OECD country government securities	Semi-annual/Annual	1.80 % - 4.30%	1.80% - 4.3%
Other securities	Monthly/Semi-Annual	2.08% - 4.02%	2.10% - 4.15%
2011			
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%

FOR THE YEAR ENDED 31 DECEMBER 2012

6. INVESTMENTS (Contd.)

Debt Securities – Currency Risk:

(US$ '000)

2012	U.S. Dollar	Euro	Bahraini Dinar	Other	Total
Supra-nationals and OECD country government securities	58,969	-	-	-	58,969
Other investment grade debt securities	110,902	8,964	-	3,134	123,000
Non-OECD country governments	-	-	8,099	1,360	9,459
Other debt securities	53,033	-	-	-	53,033
	222,904	**8,964**	**8,099**	**4,494**	**244,461**
2011					
Supra-nationals and OECD country government securities	69,566	-	-	-	69,566
Other investment grade debt securities	95,553	7,829	-	1,464	104,846
Non-OECD country governments	-	-	6,794	1,289	8,083
Other debt securities	21,433	-	-	-	21,433
	186,552	**7,829**	**6,794**	**2,753**	**203,928**

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)

	2012		2011	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	18,000	18,023	17,025	17,075
- One to five years	39,000	39,255	51,000	51,089
- More than five years	2,000	1,691	1,290	1,402
	59,000	58,969	69,315	69,566
Debt securities of other investment grade issuers:				
- Due in one year or less	10,200	10,420	17,340	17,395
- One to five years	85,343	90,658	79,588	80,555
- More than five years	20,488	21,922	7,255	6,896
	116,031	123,000	104,183	104,846
Non-OECD country government securities:				
- Due in one year or less	1,360	1,360	1,490	1,485
- One to five years	5,316	5,505	6,676	6,598
- More than five years	2,658	2,594	-	-
	9,334	9,459	8,166	8,083
Other debt securities :				
- Due in one year or less	1,000	999	2,300	2,278
- One to five years	36,139	36,085	12,037	12,078
- More than five years	15,975	15,949	7,513	7,077
	53,114	53,033	21,850	21,433
	237,479	**244,461**	**203,514**	**203,928**

FOR THE YEAR ENDED 31 DECEMBER 2012

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)

	2012	2011
U.S. Dollar	27,685	46,170
Euro	2,065	2,864
Bahraini Dinar	593	843
Saudi Riyal	7,117	2,970
Pound Sterling	2,777	15,508
Japanese Yen	2,168	2,353
Other	10,692	11,347
	53,097	**82,055**

Commitments:

The Group has commitments in respect of uncalled capital in available for sale investments amounting to US$ 6.4 million (2011: US$ 8.37 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)

	2012		2011	
	Income	Equity	Income	Equity
Interest rate				
+ 100 basis points shift in yield curves- debt instruments	(859)	(4,233)	(639)	(1,801)
– 100 basis points shift in yield curves- debt instruments	888	3,972	653	1,920
Currency risk				
10% increase in US Dollar exchange rate	20,253	215	21,755	204
10% decrease in US Dollar exchange rate	(16,570)	(176)	(17,784)	(160)
Equity price				
10% increase in equity prices	4,614	212	6,371	218
10% decrease in equity prices	(4,614)	(212)	(6,371)	(218)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

8. ACCRUED INCOME

(US$ '000)

	2012	2011
Accrued insurance premiums		
Expected to be received :		
- Within 12 months	56,169	72,602
- After 12 months	20,355	18,767
	76,524	91,369
Accrued interest		
- Expected to be received within 12 months	3,071	3,214
	79,595	**94,583**

9. INSURANCE RECEIVABLES

(US$ '000)

	2012	2011
Balances due :		
- Within 12 months	90,660	88,814
- After 12 months	348	590
	91,008	**89,404**

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

(US$ '000)

	2012	2011
At 1 January	18,398	18,091
Provision for impairment	1,740	307
31 December	**20,138**	**18,398**

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

(US$ '000)

	2012	2011
Over two years	10,869	10,849
	10,869	**10,849**

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

(US$ '000)

	2012	2011
Upto 6 months	12,012	12,704
6 to 12 months	15,322	14,018
	27,334	**26,722**

FOR THE YEAR ENDED 31 DECEMBER 2012

10. INSURANCE DEPOSITS

(US$ '000)

	2012	2011
Balances due :		
- Within 12 months	29,086	34,652
- After 12 months	13,139	14,286
	42,225	**48,938**

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

(US$ '000)

	2012	2011
At 1 January	5,882	6,232
Provision for impairment written back	(1,242)	(350)
31 December	**4,640**	**5,882**

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

(US$ '000)

	2012	2011
Under ten years	891	1,030
Over ten years	6,278	5,995
	7,169	**7,025**

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

(US$ '000)

	2012	2011
Up to 1 year	6,596	8,965
1 to 3 years	26,267	28,447
	32,863	**37,412**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

11. REINSURERS' SHARE OF TECHNICAL PROVISIONS

(US$ '000)

	2012	2011
General insurance business		
- Claims outstanding	41,550	43,084
- Unreported claims	12,137	5,727
- Deferred retrocession premium reserve	3,115	4,563
	56,802	53,374
Life insurance business		
- Claims outstanding	446	515
	446	515
	57,248	**53,889**

12. OTHER ASSETS

(US$ '000)

	2012	2011
Intangible assets :		
- Computer software	10,944	10,522
	10,944	10,522
Less : accumulated amortisation	(9,796)	(9,434)
Net intangible assets	1,148	1,088
Other assets due within 12 months:		
- Collateralised cash deposits	16,506	12,692
- Prepayments and other receivables	10,305	20,740
	26,811	33,432
	27,959	**34,520**

(US$ '000)

	2012	2011
Movement in intangible assets :		
Net book value at 1 January	1,088	4,637
- Additions	422	171
- Write-off	-	(1,921)
- Amortisation charge	(362)	(1,799)
Net book value at 31 December	**1,148**	**1,088**

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

FOR THE YEAR ENDED 31 DECEMBER 2012

13. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

Statement Of Financial Position

(US$ '000)

	2012	2011
ASSETS		
Cash & cash equivalents	14,605	16,090
Accrued income	21,964	26,617
Insurance receivable	6,456	8,464
Insurance deposits	3,367	2,540
Deferred acquisition costs	4,117	4,660
Reinsurers' share of Takaful Participants' fund	2,044	7,607
Deferred wakala fees	1,724	2,087
	54,277	**68,065**
LIABILITIES		
Accounts payable	5,760	12,540
	5,760	12,540
TAKAFUL PARTICIPANTS' FUND		
Unearned contributions	15,307	18,451
Outstanding claims	27,924	34,288
Unreported losses	27,233	28,979
	70,464	81,718
Accumulated deficit	(21,947)	(26,193)
	54,277	**68,065**

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$ 11.9 million (2011: US$ 14.1 million).

Statement Of Participants' Revenue

(US$ '000)

	2012	2011
Gross contributions	37,875	40,048
Outward reinsurance premiums	(4,894)	(2,385)
Unearned contributions	3,506	(3,674)
Net earned contributions	36,487	33,989
Reported losses	(26,018)	(23,556)
Provision for unreported losses	2,379	1,221
Claim and related expenses	(23,639)	(22,335)
Policy acquisition costs	(8,749)	(11,316)
Deferred policy acquisition costs	(546)	362
Policy acquisition costs	(9,295)	(10,954)
Fee payable to operator (Wakala fee)	(4,109)	(4,381)
Rebate on wakala fees of prior years	5,936	-
Investment income	224	261
Other expenses & provisions	(1,358)	56
Surplus (deficit) for the year	**4,246**	**(3,364)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

14. PROPERTY AND EQUIPMENT

(US$ '000)

	2012	2011
Land	1,340	1,340
Building	7,221	9,270
Work in progress – building	19,058	19,058
Information systems, furniture, equipment and other	13,941	13,902
	41,560	43,570
Less: accumulated depreciation	(13,885)	(15,913)
	27,675	**27,657**
Movements in property and equipment		
Net book value at 1 January	27,657	27,390
- Revaluation of property	727	-
- Additions	150	1,173
- Disposals	(1)	(2)
- Depreciation charge	(858)	(904)
Net book value at 31 December	**27,675**	**27,657**

Land and Building comprises the head office property owned and occupied by the Company since 1984. The property was revalued in March 2012 by independent external valuers. Based on open market valuation, the fair value of land remained unchanged at US$ 1,340,000. The fair value of the building has been determined at US$ 7,221,000 as against a carrying value of US$ 6,494,000. The increase in fair value of US$ 727,000 has been included in Property Revaluation Reserve. The carrying value of the property would have been US$ 1,972,000 had the asset been carried under the cost model.

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)

	2012	2011
General insurance business		
Claims outstanding	273,607	267,709
Unreported losses	148,430	161,204
Unearned premiums	95,211	95,871
	517,248	524,784
Life insurance business		
Claims outstanding	14,649	17,375
Unreported losses	63,905	70,228
Unearned premiums	5,188	6,273
	83,742	93,876
	600,990	**618,660**

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 2012

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						
	2007	2008	2009	2010	2011	2012	**Total**
Gross							
Estimate of incurred claims costs:							
- At end of underwriting year	145,803	104,722	109,672	105,119	111,266	101,180	
- One year later	226,499	184,130	175,223	178,633	177,420		
- Two years later	225,636	186,828	176,852	198,703			
- Three years later	228,594	194,434	172,574				
- Four years later	230,843	192,761					
- Five years later	227,440						
Current estimate of incurred claims	227,440	192,761	172,574	198,703	177,420	101,180	1,070,078
Cumulative payments to date	(190,421)	(157,765)	(126,727)	(141,898)	(71,581)	(6,494)	(694,886)
Liability recognised	37,019	34,996	45,847	56,805	105,839	94,686	375,192
Liability in respect of prior years							125,399
Total liability included in the statement of financial position							**500,591**

	2007	2008	2009	2010	2011	2012	**Total**
Net							
Estimate of incurred claims costs:							
- At end of underwriting year	137,457	102,165	107,514	89,173	95,116	92,523	
- One year later	217,719	180,010	173,266	164,854	147,327		
- Two years later	218,690	182,613	172,923	164,174			
- Three years later	221,626	190,155	168,532				
- Four years later	223,969	188,568					
- Five years later	220,662						
Current estimate of incurred claims	220,662	188,568	168,532	164,174	147,327	92,523	981,786
Cumulative payments to date	(185,093)	(154,088)	(123,359)	(108,068)	(58,528)	(4,423)	(633,559)
Liability recognised	35,569	34,480	45,173	56,106	88,799	88,100	348,227
Liability in respect of prior years							98,231
Total liability included in the statement of financial position							**446,458**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

17. MOVEMENTS IN INSURANCE LIABILITIES AND ASSETS

(US$ '000)

	Gross	Reinsurance	Net
2012			
Claims			
Claims outstanding	285,084	43,599	241,485
Unreported losses	231,432	5,727	225,705
Total at beginning of year	516,516	49,326	467,190
Change in provision during the year	160,926	31,637	129,289
Claims settled during the year	(176,851)	(26,830)	(150,021)
Balance at end of year	**500,591**	**54,133**	**446,458**
Unearned premium			
At beginning of year	102,144	4,563	97,581
Change in provision during the year	(1,745)	(1,448)	(297)
Balance at end of year	**100,399**	**3,115**	**97,284**
Accrued insurance premium			
At beginning of year	97,236	5,867	91,369
Movement during the year	(17,060)	(2,215)	(14,845)
Balance at end of year	**80,176**	**3,652**	**76,524**
Deferred policy acquisitions costs			
At beginning of year	23,816	293	23,523
Movement during the year	129	(224)	353
Balance at end of year	**23,945**	**69**	**23,876**
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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

18. INSURANCE PAYABLES

(US$ '000)

	2012	2011
Due Within 12 months	30,015	27,703
	30,015	**27,703**

19. BORROWINGS

(US$ '000)

	2012	2011
Balances Due:		
- Within 12 months	20,000	40,000
	20,000	**40,000**

Borrowings amounting to US$ 20 million (2011: US$ 40 million) are secured by bank deposits. The effective interest rate on the borrowings was 1.7% (2011: 2.2%).

20. OTHER LIABILITIES

(US$ '000)

	2012	2011
Post employment benefits (note 31)	12,484	14,696
Reinsurance premiums accrued	8,619	13,107
Dividends payable	1,971	4,468
Accrued expenses	6,251	5,433
Employee share scheme (note 30)	2,480	3,278
Other	13,708	13,429
	45,513	**54,411**
Balances due:		
- Within 12 months	30,547	36,437
- After 12 months	14,966	17,974
	45,513	**54,411**

21. SHAREHOLDERS' EQUITY

Share Capital

Composition

(US$ '000)

	2012	2011
Authorised 500 million ordinary shares of US$ 1 each	500,000	500,000
Issued, Subscribed & Fully Paid-up 220 million (2011: 220 million) ordinary shares of US$ 1 each	220,000	220,000

FOR THE YEAR ENDED 31 DECEMBER 2012

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	
		2012	2011	**2012**	2011
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	
	2012	2011	**2012**	2011	**2012**	2011
Less than 1%	46.3	46.3	4,779	4,779	23.4	23.4
1% to 5%	30.9	30.9	6	6	15.6	15.6
5% to 10%	11.0	11.0	1	1	5.6	5.6
10% and above	109.8	109.8	4	4	55.4	55.4

Treasury Stock

The company held 21,967,818 of its own shares at 31 December 2012 (2011: 21,967,818 shares) and is carried at cost US$ 14,793,000 (2011: 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 2012

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 as follows:

(US$ '000)

	2012	2011
Gains or losses on remeasurement of investment assets:		
Balance at 1 January	-	(1)
Transfers on disposal	-	1
Balance at 31 December	-	-

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)

	2012	2011
At 1 January	58,924	61,055
Share of comprehensive income	(2,590)	(1,885)
Acquisition of minority interest	-	(246)
At 31 December	**56,334**	**58,924**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

23. SEGMENT INFORMATION

Analysis Of Revenue By Primary Business Segment

The Group's reinsurance business consists of two main business segments, non-life and life. Non-life business primarily consists of Property, Engineering, Marine, Accident & 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		
2012	Property	Engineering	Marine	Accident	Others	Short term	Long term	Total
REVENUES								
Gross premiums written	91,528	31,356	26,707	24,217	41,612	17,556	5,666	238,642
Outward reinsurance premiums	(14,594)	(1,291)	(788)	(2,208)	(3,073)	(292)	(11)	(22,257)
Change in unearned premiums – gross	2,133	1,926	112	(1,954)	(2,010)	1,354	(270)	1,291
Change in unearned premiums - reinsurance	(329)	(83)	(178)	151	994	-	-	555
Net earned premiums	78,738	31,908	25,853	20,206	37,523	18,618	5,385	218,231
Investment income attributable to insurance funds	2,655	1,312	707	1,883	2,574	970	1,639	11,740
	81,393	33,220	26,560	22,089	40,097	19,588	7,024	229,971
COSTS AND EXPENSES								
Gross claims paid	(70,537)	(18,997)	(16,329)	(13,895)	(30,622)	(16,202)	(10,269)	(176,851)
Claims recovered from reinsurers	21,986	826	634	2,471	906	7	-	26,830
Change in provision for outstanding claims - gross	(12,098)	2,534	2,528	(2,589)	4,369	857	2,001	(2,398)
Change in provision for outstanding claims - reinsurance	(47)	(621)	(918)	350	(1,263)	(68)	(1)	(2,568)
Change in provision for unreported losses – gross	4,481	1,536	(1,934)	3,359	8,313	2,327	4,021	22,103
Change in provision for unreported losses - reinsurance	2,221	937	338	1,727	(2,039)	(7)	(7)	3,170
Claims and related expenses	(53,994)	(13,785)	(15,681)	(8,577)	(20,336)	(13,086)	(4,255)	(129,714)
Policy acquisition costs	(24,025)	(10,311)	(8,763)	(7,928)	(10,440)	(2,670)	225	(63,912)
Policy acquisition costs recovered from reinsurers	10	227	313	80	(1)	(4)	-	625
Change in deferred policy acquisition costs – gross	(116)	(589)	(427)	596	1,937	136	55	1,592
Change in deferred policy acquisition costs - reinsurance	41	37	10	94	-	-	-	182
Policy acquisition costs	(24,090)	(10,636)	(8,867)	(7,158)	(8,504)	(2,538)	280	(61,513)
Operating expenses	(7,250)	(2,706)	(2,194)	(1,520)	(2,619)	(1,531)	(1,043)	(18,863)
Underwriting result	**(3,941)**	**6,093**	**(182)**	**4,834**	**8,638**	**2,433**	**2,006**	**19,881**

FOR THE YEAR ENDED 31 DECEMBER 2012

23. SEGMENT INFORMATION (Contd.)

(US$ '000)

	Non-life					Life		
2011	Property	Engineering	Marine	Accident	Others	Short term	Long term	Total
REVENUES								
Gross premiums written	107,524	33,834	22,615	26,467	34,073	20,022	2,928	247,463
Outward reinsurance premiums	(23,680)	(1,442)	(3,843)	(1,306)	(822)	(517)	(8)	(31,618)
Change in unearned premiums - gross	(9,770)	(208)	1,432	(2,309)	5,902	581	10,309	5,937
Change in unearned premiums - reinsurance	973	(189)	(327)	390	240	-	-	1,087
Net earned premiums	75,047	31,995	19,877	23,242	39,393	20,086	13,229	222,869
Investment income attributable to insurance funds	1,400	319	90	133	1,025	370	406	3,743
	76,447	32,314	19,967	23,375	40,418	20,456	13,635	226,612
COSTS AND EXPENSES								
Gross claims paid	(60,182)	(19,236)	(14,372)	(11,820)	(50,530)	(19,094)	(10,551)	(185,785)
Claims recovered from reinsurers	17,797	1,077	2,813	620	549	4	1	22,861
Change in provision for outstanding claims - gross	(8,420)	9,052	603	2,192	17,347	331	(2,003)	19,102
Change in provision for outstanding claims - reinsurance	(241)	(664)	156	(499)	(498)	(5)	-	(1,751)
Change in provision for unreported losses - gross	(17,612)	(4,318)	117	435	4,531	7,235	(7,174)	(16,786)
Change in provision for unreported losses - reinsurance	(5,185)	(478)	465	(201)	(39)	-	-	(5,438)
Claims and related expenses	(73,843)	(14,567)	(10,218)	(9,273)	(28,640)	(11,529)	(19,727)	(167,797)
Policy acquisition costs	(27,787)	(10,642)	(5,861)	(9,090)	(7,110)	(169)	115	(60,544)
Policy acquisition costs recovered from reinsurers	169	231	855	257	1	(4)	(1)	1,508
Change in deferred policy acquisition costs - gross	3,706	187	(673)	477	(268)	(38)	-	3,391
Change in deferred policy acquisition costs - reinsurance	(17)	71	163	(16)	-	-	-	201
Policy acquisition costs	(23,929)	(10,153)	(5,516)	(8,372)	(7,377)	(211)	114	(55,444)
Operating expenses	(7,011)	(2,667)	(1,635)	(1,682)	(2,353)	(1,955)	(585)	(17,888)
Underwriting result	**(28,336)**	**4,927**	**2,598**	**4,048**	**2,048**	**6,761**	**(6,563)**	**(14,517)**

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FOR THE YEAR ENDED 31 DECEMBER 2012

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)

	2012		2011	
	Premium	Non-current assets	Premium	Non-current assets
from				
- Middle East	94,168	42,868	100,728	47,871
- Africa	33,681	5,024	34,286	4,932
- Asia	55,684	8,305	70,852	10,193
- Others	55,109	8,817	41,597	1,349
	238,642	**65,014**	**247,463**	**64,345**

Analysis Of Segment Assets And Liabilities

(US$ ’000)

	Non Life					Life			
2012	Property	Engg.	Marine	Accident	Others	Short Term	Long term	Corporate	Total
Reinsurance assets	103,993	48,350	32,974	28,819	61,306	10,031	5,408	-	290,881
Cash	41,580	22,891	16,786	6,722	36,132	9,336	23,074	177,824	334,345
Investments	44,000	24,578	18,332	7,341	40,114	10,024	24,775	146,837	316,001
Others	5,728	2,694	2,404	858	5,007	-	-	42,014	58,705
	195,301	98,513	70,496	43,740	142,559	29,391	53,257	366,675	999,932
Reinsurance liabilities	196,301	96,544	72,768	52,370	129,280	29,611	54,131	-	631,005
Others	2,958	1,391	1,241	443	2,586	-	-	56,894	65,513
	199,259	**97,935**	**74,009**	**52,813**	**131,866**	**29,611**	**54,131**	**56,894**	**696,518**
2011									
Reinsurance assets	95,951	65,256	36,877	21,040	70,590	878	16,531	-	307,123
Cash	39,293	22,519	9,477	8,428	45,674	17,961	22,161	178,331	343,844
Investments	37,808	21,668	9,119	8,110	43,948	17,522	21,674	145,879	305,728
Others	3,543	1,954	1,158	541	4,348	983	487	52,377	65,391
	176,595	111,397	56,631	38,119	164,560	37,344	60,853	376,587	1,022,086
Reinsurance liabilities	173,942	110,797	57,893	31,435	174,115	36,903	61,278	-	646,363
Others	4,023	2,218	1,315	615	4,936	734	364	80,206	94,411
	177,965	**113,015**	**59,208**	**32,050**	**179,051**	**37,637**	**61,642**	**80,206**	**740,774**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

24. OUTWARD REINSURANCE PREMIUMS

(US$ '000)

	Treaty	Facultative	Life	Total
2012				
Proportional retrocession premium	4,270	-	-	4,270
Protection premium	3,858	13,826	303	17,987
Reinstatement premium	-	-	-	-
	8,128	**13,826**	**303**	**22,257**
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**

25. INVESTMENT INCOME

(US$ '000)

	Insurance funds	Shareholders' funds	Total
2012			
Interest income			
- Investments designated at fair value through profit or loss	546	333	879
- Others	5,522	5,041	10,563
Dividends	622	539	1,161
Realised gains			
- Trading investments	843	428	1,271
- Investment designated at fair value through profit or loss	482	293	775
- Available-for-sale	2,528	2,357	4,885
Gain on remeasurement of investments at fair value through profit & loss			
- Trading investments	2,172	2,224	4,396
- Investments designated at fair value through profit or loss	20	12	32
Impairment loss – available-for-sale	(354)	(1,148)	(1,502)
Other	(641)	(448)	(1,089)
	11,740	**9,631**	**21,371**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

25. INVESTMENT INCOME (Contd.)

(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 gains (loss)			
- 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
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**

26. OPERATING EXPENSES

(US$ '000)

	Underwriting	Non-Underwriting	Total	2011
2012				
Salaries and benefits	13,563	6,614	20,177	21,932
General and administration	5,300	3,024	8,324	7,801
	18,863	**9,638**	**28,501**	**29,733**

27. OTHER INCOME

(US$ '000)

	2012	2011
Fees on managing Islamic reinsurance operations	4,109	4,381
Software sales and related services	2,176	2,049
Third party administration services	1,338	1,655
Other	505	384
	8,128	**8,469**

FOR THE YEAR ENDED 31 DECEMBER 2012

28. OTHER EXPENSES AND PROVISIONS

(US$ '000)

	2012	2011
Foreign exchange loss (gain)	3,998	(2,359)
Amortisation / impairment of Intangible assets	-	3,422
Provision for doubtful receivables and deposits	3,469	1,801
Rebate of fees on managing Islamic reinsurance operations	5,936	-
Other	1,807	283
	15,210	**3,147**

29. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

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

		2012	2011
Weighted average number of shares outstanding	'000	198,032	198,032
Net profit (loss)	US$'000	15,260	(19,056)
Earnings per share	US$	0.08	(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)

	2012	2011
Liability	2,480	3,278
Expense	1,809	81

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:

	2012	2011
Discount rate	2.0%	1.1%
Expected return on assets	2.0%	1.1%
Future salary increases	3.3%	3.3%

FOR THE YEAR ENDED 31 DECEMBER 2012

31. POST EMPLOYMENT BENEFITS (Contd.)

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

(US$ '000)

	2012	2011
Balance at 1 January	14,696	15,319
Accruals for the year	962	1,722
Payments during the year	(3,174)	(2,345)
Balance at 31 December	**12,484**	**14,696**

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)

	2012		2011	
	Notional amount purchases	Notional amount sales	Notional amount purchases	Notional amount sales
Euro	2,815	10,606	8,296	14,242
Pound Sterling	5,565	10,599	3,461	19,411
Japanese yen	-	2,026	-	2,143
Other	1,011	1,728	988	2,696
	9,391	**24,959**	**12,745**	**38,492**

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 2012

32. FORWARD FOREIGN EXCHANGE CONTRACTS (Contd.)

(US$ '000)

	2012		2011	
	Purchases	Sales	Purchases	Sales
Unrealised gains	277	91	29	1,147
Unrealised losses	(3)	(607)	(487)	(41)
	274	**(516)**	**(458)**	**1,106**

33 RECONCILIATION OF NET RESULT TO CASH FLOWS FROM OPERATING ACTIVITIES

(US$ '000)

	2012	2011
Profit (loss) for the year	12,385	(21,280)
(Decrease) increase in insurance funds	(14,669)	8,561
Change in insurance receivable/payable, net	708	(20,223)
Change in accrued insurance premiums	15,115	27,335
Change in other assets/liabilities, net	20,995	31,677
Net cash provided by operating activities	**34,534**	**26,070**

34. FAIR VALUE DISCLOSURE

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

(US $ '000)

	Book Value						Fair value
2012	At fair value through profit & loss	Loans and receivables	Held to maturity	Available for sale	Amortised Cost	Total	
ASSETS							
Cash and cash equivalents	-	334,345	-	-	-	334,345	334,345
Investments	77,776	-	65,675	172,271	-	315,722	318,432
Accrued income	-	1,118	77,459	1,018	-	79,595	79,595
Insurance receivables	-	91,008	-	-	-	91,008	91,008
Insurance deposits	-	42,225	-	-	-	42,225	42,225
Other assets	-	26,811	-	-	-	26,811	26,811
LIABILITIES							
Insurance payables	-	-	-	-	30,015	30,015	30,015
Borrowings	-	-	-	-	20,000	20,000	20,000
Other liabilities	-	-	-	-	39,262	39,262	39,262

FOR THE YEAR ENDED 31 DECEMBER 2012

34. FAIR VALUE DISCLOSURE (Contd.)

(US$ '000)

2011	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	-	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	-	89,404	-	-	-	89,404	89,404
Insurance deposits	-	48,938	-	-	-	48,938	48,938
Other assets	-	33,432	-	-	-	33,432	33,432
LIABILITIES							
Insurance payables	-	-	-	-	27,703	27,703	27,703
Borrowings	-	-	-	-	40,000	40,000	40,000
Other liabilities	-	-	-	-	48,978	48,978	48,978

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 2012

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)

2012	Level 1	Level 2	Level 3	Total
At fair value through profit or loss				
Held for trading				
Common stock of listed companies	45,476	-	-	45,476
Designated at fair value on initial recognition				
Debt Securities				
- Other investment grade	23,851	-	-	23,851
- Other	8,449	-	-	8,449
Available for sale Debt securities - Supra-nationals and OECD country Governments	21,995	-	-	21,995
- Other investment grade	73,104	-	-	73,104
- Non-OECD country governments	6,803	-	-	6,803
- Other	44,584	-	-	44,584
Common stock of listed companies	813	-	-	813
Common stock of unlisted companies	-	1,721	5,087	6,808
Other	-	2,628	15,536	18,164
	225,075	**4,349**	**20,623**	**250,047**

2011				
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	6,835	-	-	6,835
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	-	2,478	16,892	19,370
	182,056	**5,018**	**22,965**	**210,039**

FOR THE YEAR ENDED 31 DECEMBER 2012

34. FAIR VALUE DISCLOSURE (Contd.)

Investments amounting to US $ nil (2011 US$ 1.5 million) is being carried at cost as it's fair value cannot be ascertained.

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

	Unlisted equity	Others	Total
Balance at 1 January 2012	6,073	16,892	22,965
Gain (loss) recognised in:			
- Income statement	(86)	(1,302)	(1,388)
- other comprehensive income	(122)	445	323
Investments made during the year	1,307	1,000	2,307
Investments redeemed during the year	(2,085)	(1,499)	(3,584)
Change in value due to exchange rate movements	-	-	-
Balance at 31 December 2012	**5,087**	**15,536**	**20,623**

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, 2012, there were no transfers in and out of level 1, level 2 and level 3 (2011: 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 2012, 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 2011. 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. The Group also holds 25% of the equity shares in Globemed Bahrain W.L.L., Bahrain

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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)

	2012	2011
a) Gross premium retroceded by subsidiary to parent company	31,433	21,126
b) Service fees for administration services provided by parent company	6,014	5,244
c) Balances outstanding		
- Receivables	12,468	14,077
- Payables	-	1,518
d) Software royalty fees	114	129
e) Sale/purchase of intangible assets between subsidiaries	250	-

Joint Venture

(US$ '000)

	2012	2011
a) Service fees for administration services provided	74	66
b) Balances receivable	64	115

Compensation To Directors And Key Management Personnel

(US$ '000)

	2012	2011
a) Directors		
- Remuneration (Attendance fees)	108	97
- Travel expense	148	128
b) Key management compensation		
- Salaries and other short-term employee benefits	1,525	2,033
- Post-employment benefits	261	221
- Share-based compensation	404	30
c) Balances payable (net)		
Key management		
- Maximum balance	4,496	4,867
- Closing balance	4,496	4,867

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 2012 and 2011 for any outstanding amounts due from related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

37. PARENT COMPANY

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

(US$ '000)

	2012	2011
ASSETS		
Cash and bank balances	260,336	277,590
Investments	279,525	267,102
Accrued income	103,205	94,449
Insurance receivables	63,780	74,119
Insurance deposits	42,225	48,938
Deferred policy acquisition costs	18,233	23,171
Reinsurers' share of technical provisions	40,004	49,550
Other assets	35,861	31,552
Investment in subsidiaries and associates	64,025	70,172
Property and equipment	8,566	8,504
	915,760	**945,147**
LIABILITIES		
Technical provisions	584,875	612,488
Insurance payables	24,430	27,252
Borrowings	20,000	40,000
Other liabilities	39,375	43,019
	668,680	722,759
SHAREHOLDERS' EQUITY (note 21)		
Share capital	220,000	220,000
Treasury stock	(14,793)	(14,793)
Reserves	41,360	31,116
Retained earnings (accumulated deficit)	513	(13,935)
	247,080	222,388
	915,760	**945,147**

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