Arig Reinsurance Company B.S.C. (c)

BOARD OF DIRECTORS

Udo R. Krueger	Chairman *(since 1 Jun 2000)*
Adli A. Alaseeri	Vice Chairman *(since 13 Nov 2000)*
A. Latif S. AlRayes	Director *(since 8 Oct 2000)*
Robin R. Snook	Director *(until 22 Apr 2000)*
Nooruddin A. Nooruddin	Director *(until 12 Oct 2000)*
Farooq A. Khwaja	Director *(until 14 Nov 2000)*

MANAGEMENT

Adli A. Alaseeri	General Manager
M. Santhanagopalan	Director - International Division
Yassir T. Albaharna	Director - Treaty, Retro & Corporate **Marketing**

GROUP REINSURANCE COMPANIES

Arig Reinsurance Company B.S.C. (c) - Arig Re	Bahrain Head Office Tunis Branch East Asia Regional Office, Kuala Lumpur Hong Kong Branch Liaison Office, Seoul
Arig Insurance Company Ltd. - ARIG UK	London

Report of the Board of Directors

The Directors of Arig Reinsurance Company B.S.C. (c) "Arig Re" present the 3rd Annual Report and Consolidated Financial Statements of Arig Re for the year ended 31 December 2000.

Market Conditions

The global reinsurance market witnessed some of the worst ever trading conditions mainly attributable to weak pricing, high claims cost including those that have rolled over from the previous year and low investment income. During the later part of the year there were visible signs of modest upturns in pricing levels in certain industry segments and catastrophe prone areas, although not to sufficient levels, however, weak pricing levels prevailed for most of the year. The considerably hardened catastrophe and retrocession markets, together with mounting claims costs have put further pressure on reinsurers' performance. Despite considerable withdrawal of underwriting capacity and exit of capital from the global reinsurance industry, the continuing excess capital and resulting over capacity persisted in the reinsurance market. The year also registered increased volatility in the global financial markets, contributed by a combination of factors.

Arig Re: Consolidated Financial Highlights

	US$ Million	
	2000	1999
Gross Premium Income	**124.6**	203.2
Net Premium Income	**76.6**	108.4
Net Loss	**73.7**	86.4
Investment Assets	**481.6**	558.8
Total Assets	**654.6**	793.5
Technical Provisions	**461.4**	515.6
Shareholders' Equity	**150.2**	223.1

Business Review

Arig Re's performance for the year 2000 mirrored the unfavourable market conditions characterised by a continuing wide gap between premium earned and losses incurred and lower investment return. The company posted a net loss of US$ 73.7 million (1999: net loss - US$ 86.4 million) contributed by underwriting loss of US$ 71.5 million. Arig Insurance Company Ltd. UK, the wholly owned subsidiary of Arig Re which is under run-off, contributed a net loss of US$ 15.9 million. An amount of US$ 13.6 million of loss and portfolio transfers was effected to the parent company in order to maintain solvency of the subsidiary, taking into consideration the business interests and existing obligations of the parent company.

The company registered a gross premium income of US$ 124.6 million in 2000 compared to US$ 203.2 million in 1999, representing a drop of 38.7 per cent. The reduction in premium income is attributable mainly to the absence of contribution from ARIG UK (US$ 50.1 million in 1999). During the year, a number of underwriting measures were implemented to curtail exposure to volatile classes of business and international markets and focus on Arig Re's core markets. This led to increased writings in proportional treaty class from Arab and Asian markets, reduction in facultative Aviation, Marine Energy and International Treaty Excess of Loss business.

At year-end, shareholders' equity stood at US$ 150.2 million and total assets amounted to US$ 654.6 million. Technical provisions decreased by US$ 54.2 million to US$ 461.4 million. These provisions were reviewed and their adequacy confirmed by independent professional actuaries.

Investment income amounted to US$ 21.4 million for the year compared to US$ 45.5 million in 1999. The drop of 53% in investment income was mainly due to adverse global financial markets that resulted in wealth depletion. The investable assets of the company are maintained mainly in US dollars and invested in highly liquid and secure investment instruments.

Business Outlook

Looking forward to 2001, a trend towards higher pricing and better trading conditions is expected with more focus on underwriting for profit. Due to persistent over capacity still generated by increasing convergence between capital and reinsurance markets, free mobility of international capital overcoming time and distance barriers could still make the imminent upturn considerably less pronounced than in the past and probably shorter in duration.

The company initiated various measures by reducing the net exposures of the volatile business lines such as Aviation and Marine Energy and maintaining adequate technical reserves to insulate future operations from adverse development of the past portfolios.

Nevertheless, year 2001 is anticipated to be another demanding year, which could produce better results than the past two years, barring any unforeseen developments.

Acknowledgements

The Directors would like to express their gratitude to the management and staff of the Company for their hard work and dedication.

The Directors would also like to acknowledge the support of Arig Re's clients and business partners world-wide and express their appreciation and thank them for their continued confidence.

Finally, the Directors would like to express their gratitude to the Chairman, Directors and management of ARIG Group for their encouragement and co-operation.

Board of Directors
11 March 2001

Independent Auditors' Report to the Shareholders of Arig Reinsurance Company B.S.C. (c)

We have audited the accompanying consolidated balance sheet of Arig Reinsurance Company B.S.C. (c) ("the Company") and its subsidiary ("Arig Reinsurance Group") as at 31 December 2000 and the related consolidated statements of underwriting account, profit and loss account and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Arig Reinsurance Group management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Arig Reinsurance Group as at 31 December 2000, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Further, as required by the Bahrain Commercial Companies Law 1975, as amended, in the case of the Company, we report that:

(1) we have obtained all the information we considered necessary for the purpose of our audit;

(2) the Company has maintained proper books of account and the financial statements are in agreement therewith; and

(3) the financial information included in the Report of the Board of Directors is consistent with the books of account of the Company.

In addition, we report that nothing has come to our attention which causes us to believe that the Company has not complied with any of the applicable provisions of the Bahrain Commercial Companies Law 1975, as amended, or of the applicable provisions of Legislative Decree number 17 of 1987 and Ministerial Order number 6 of 1990 with respect to Insurance Companies and Organisations or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2000.

PricewaterhouseCoopers

PricewaterhouseCoopers
Manama, Bahrain
11 March 2001

Consolidated Financial Statements as at 31 December 2000

Arig Reinsurance Company B.S.C. (c)

Consolidated Balance Sheet

AS AT 31 DECEMBER 2000
(in thousands of U.S. Dollars)

	Note	2000	1999
ASSETS			
Cash and short term maturities	3	**36,957**	31,664
Investments	4	**434,292**	514,753
Accrued income	5	**67,909**	120,753
Accounts receivable	6	**34,190**	42,495
Insurance deposits	7	**64,053**	56,902
Deferred policy acquisition costs		**15,415**	19,909
Other assets	8	**1,460**	6,347
Fixed assets	9	**317**	706
		654,593	793,529
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Technical provisions	10	**461,437**	515,641
Accounts payable	11	**33,375**	44,283
Other liabilities	12	**9,556**	10,548
		504,368	570,472
Shareholders' equity:	13		
Share capital		**300,000**	300,000
Reserves		**8,544**	9,748
Accumulated losses		**(158,319)**	(86,691)
		150,225	223,057
		654,593	793,529

These consolidated financial statements were approved by the Board of Directors on 11 March 2001 and signed by:

Udo R. Krueger
Chairman

Adli A. Alaseeri
Vice-Chairman & General Manager

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Consolidated Underwriting Account

FOR THE YEAR ENDED 31 DECEMBER 2000
(in thousands of U.S. Dollars)

	Note	2000	1999
REVENUES:			
Gross premiums written		**124,630**	203,247
Outward reinsurance premiums	15	**(47,995)**	(94,883)
Change in unearned premiums, net of reinsurance		**28,086**	25,101
Earned premiums	16	**104,721**	133,465
Investment income	17	**13,448**	23,867
		118,169	157,332
COSTS AND EXPENSES:			
Gross claims paid		**(255,311)**	(264,082)
Claims recovered from reinsurers		**88,935**	95,354
Change in provision for outstanding claims, net of reinsurance		**6,117**	(22,531)
Change in provision for unreported losses, net of reinsurance		**19,520**	906
Claims and related expenses	16	**(140,739)**	(190,353)
Policy acquisition costs		**(33,352)**	(46,450)
Policy acquisition costs recovered from reinsurers		**5,173**	6,086
Change in deferred policy acquisition costs, net of reinsurance		**(4,450)**	(5,675)
Policy acquisition costs	16	**(32,629)**	(46,039)
Operating expenses	18	**(16,336)**	(22,783)
Transfer from investment revaluation reserve		**-**	534
Underwriting result	16	**(71,535)**	(101,309)

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2000
(in thousands of U.S. Dollars)

	Note	2000	1999
Underwriting result		**(71,535)**	(101,309)
Investment income	17	**7,928**	21,668
Other income		**2,357**	1,553
Other expenses and provisions	19	**(12,471)**	(8,859)
Transfer from investment revaluation reserve		**-**	567
Net loss for the year		**(73,721)**	(86,380)

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 DECEMBER 2000
(in thousands of U.S. Dollars)

	Share capital	Reserves				Accumulated losses	Total shareholders' equity
		Legal	General	Investment revaluation	Total		
1999							
Balances at 31 December 1998	300,000	3,628	2,500	4,721	10,849	(311)	310,538
Net loss for the year	-	-	-	-	-	(86,380)	(86,380)
Adjustments:							
Investments	-	-	-	(1101)	(1101)	-	(1101)
Balances at 31 December 1999	300,000	3,628	2,500	3,620	9,748	(86,691)	223,057
2000							
Difference between book and fair value of investments as of 1 January 2000 transferred to retained earnings (as required by IAS 39) (note 13, 14)	-	-	-	(3,620)	(3,620)	1,345	(2,275)
Restated balances at 1 January 2000	**300,000**	**3,628**	**2500**	**-**	**6,128**	**(85,346)**	**220,782**
Net loss for the year	-	-	-	-	-	(73,721)	(73,721)
Adjustments:							
Changes on remeasurement of available for sale assets (note 14)	-	-	-	2,416	2,416	-	2,416
Transfers for recognition of gains/losses on disposal of available for sale assets (note 13)	-	-	-	-	-	748	748
Balances at 31 December 2000	**300,000**	**3,628**	**2,500**	**2,416**	**8,544**	**(158,319)**	**150,225**

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2000
(in thousands of U.S. Dollars)

	Note	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Premiums received		**155,365**	179,532
Reinsurance premiums paid		**(66,224)**	(84,156)
Claims paid		**(239,229)**	(259,632)
Reinsurance receipts in respect of claims		**77,374**	92,272
Insurance deposits paid		**(10,637)**	(1,233)
Investment income received		**21,938**	44,683
Purchase of traded investments		**(19,998)**	(11,350)
Sale of traded investments		**64,065**	10,142
Operating expenses paid		**(17,744)**	(18,218)
Other income/expenses, net		**(7,799)**	(6,248)
Profit commission on termination of finite risk reinsurance contracts		**-**	56,136
Net taxes refunded/(paid)		**1,406**	(384)
Net cash (used in)/provided by operating activities	22	**(41,483)**	1,544
CASH FLOWS FROM INVESTING ACTIVITIES:			
Maturity/sale of investments		**146,657**	124,228
Purchase of investments		**(99,995)**	(140,075)
Net sale/purchase of fixed assets		**114**	(155)
Net cash provided by/(used in) investing activities		**46,776**	(16,002)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of bank borrowings		**-**	(1,094)
Dividends paid		**-**	(21,000)
Net cash used in financing activities		**-**	(22,094)
Net increase/(decrease) in cash and short term maturities		**5,293**	(36,552)
Cash and short term maturities, beginning of the year		**31,664**	68,216
Cash and short term maturities, end of the year		**36,957**	31,664

The accompanying notes 1 to 24 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

1. INCORPORATION AND PRINCIPAL ACTIVITY

Arig Reinsurance Company B.S.C. (c) ("Arig Re" or "the Company") was incorporated on 21 July 1998 as a wholly owned subsidiary of Arab Insurance Group (B.S.C.) and became responsible for its reinsurance business with effect from 1 January 1998 and assumed all related assets and liabilities as of that date.

Arig Re is an international reinsurance company registered as a Bahraini closed shareholding company having its registered office at ARIG House, Manama, Bahrain. Arig Re's reporting currency is U.S. Dollars as its share capital and a substantial proportion of its business is denominated in that currency. Arig Re is involved in general (non-life) reinsurance activities.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Accounting Standards and are consistent with prevailing practice within the insurance industry.

For the financial year ended 31 December 2000, the Company has elected early adoption of IAS 39 'Financial Instruments: Recognition and Measurement', the effects of which are more fully described in Note 14.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of certain investment assets. The prior year's consolidated financial statements have been reclassified, where necessary, to conform to the current year's presentation.

Specific accounting policies are as follows:

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Arig Re and its wholly owned subsidiary, Arig Insurance Company Limited (under run-off with effect from 22 December 1999), which is incorporated in the United Kingdom.

All inter-company transactions and balances have been eliminated on consolidation. Where necessary, the accounts of the subsidiary have been restated to ensure consistency with the accounting policies adopted by the Company.

Subsidiary is defined as an entity which is controlled by the Company, namely, entity in which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities, and thus one in which the Company owns more than 50% of the voting shares.

In the parent company's financial statements, investment in subsidiary is accounted for by using the equity method of accounting.

INVESTMENTS

Investment securities are classified as trading, available for sale or held to maturity. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation at each balance sheet date.

Securities that are acquired for the purpose of generating a profit from short-term fluctuations in price are classified as trading securities. Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity.

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.

Marketable securities held for trading and investments available for sale are carried at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

INVESTMENTS (Contd.)

Held to maturity investments are carried at amortised cost, less any adjustment necessary for impairment.

The fair value of publicly traded investments and derivatives is based on quoted market values at the balance sheet date. 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.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at anticipated realisable values. An estimate is made for doubtful receivables based on a review of all outstanding amounts. Bad debts are written off during the year in which they are identified.

INSURANCE DEPOSITS

Insurance deposits comprise premium and claim deposits with cedants in accordance with policy terms and are carried at anticipated realisable values. An estimate is made for doubtful deposits based on a review of all outstanding amounts. Irrecoverable deposits are written off during the year in which they are identified.

FIXED ASSETS AND RELATED DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation. 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 the straight-line basis over the expected useful lives of the assets, which are taken as 3-5 years for information systems, furniture, equipment and other assets.

PROVISIONS

Provisions are recognised when the Company 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 balance sheet date.

POST EMPLOYMENT OBLIGATIONS

The Company operates a number of defined benefit and defined contribution plans for its employees. The assets of the defined contribution plans are generally held in separate trustee-administered funds and those of defined benefit plans are managed internally as part of the Company's investment portfolio.

For defined benefit plans, the accounting cost is charged to the profit and loss account so as to spread it over the expected service lives of employees. The obligation 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.

The Company's contribution to defined contribution plans are charged to the profit and loss account in the year to which they relate.

RECOGNITION OF UNDERWRITING RESULT

The underwriting result is accounted for in a manner consistent with the prevailing practice within the insurance industry, more specifically, on an annual accounting basis.

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 such 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 Company at the balance sheet date. Pipeline premiums, net of policy acquisition costs and reinsurance, are reported as accrued insurance premiums.

2. SIGNIFICANT ACCOUNTING POLICIES (Contd.)

PREMIUMS (Contd.)

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 balance sheet date. Such provision is made on the basis of an overall assessment for all categories of business.

CLAIMS AND RELATED EXPENSES

Claims and related expenses are accounted for based on reports received 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 judgement, having regard to the range of uncertainty as to the eventual outcome for each category of business.

POLICY ACQUISITION COSTS

Commissions, taxes, brokerages and other variable underwriting costs 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.

INVESTMENT INCOME

Investment income comprises interest and dividend receivable for the financial year. Gains and losses arising from changes in the fair value of trading investments 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 equity. When the investment assets are disposed of or they are impaired, the related fair value adjustments are included in profit and loss statement.

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

Investment income on investment assets is allocated between the underwriting account and the profit and loss account based on the proportion of insurance provisions 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. Assets and liabilities denominated in currencies other than U.S. Dollars are translated at year-end exchange rates. Gains and losses resulting from the settlement of such transactions and from the translation of said assets and liabilities are recognised in the profit and loss account.

FOREIGN EXCHANGE HEDGES

In the ordinary course of its business, the Company uses forward foreign exchange contracts as fair value hedges to protect its exposure in respect of foreign currency denominated investments. The premiums/discounts in respect of forward foreign exchange contracts are recognised in income on an accrual basis and are included in other liabilities.

Where a fair value hedge meets the conditions prescribed by International Accounting 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 available for sale investments, which are taken to equity until they are disposed.

3. CASH AND SHORT TERM MATURITIES

	US$ '000	
	2000	1999
Cash and bank balances	**18,589**	29,011
Interest bearing time deposits	**18,368**	2,653
	36,957	31,664

Cash and short term maturities amounting to US$ 20,875,000 (1999: US$ 13,107,000) are held in the name of Arab Insurance Group (B.S.C.), as part of the Company's arrangement for centralised management of its investment assets.

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

i) Credit risk:

Bank balances and short-term maturities comprising time deposits are held with leading financial institutions. Arig Re limits its concentration of time deposits with any one financial institution to a maximum of 10% of shareholders' equity. Other short-term maturities are held in securities of investment grade issuers.

ii) Interest rate risk:

	2000	1999
Interest receivable basis:		
Bank balances	**Monthly**	Monthly
Short-term maturities	**On maturity**	On maturity
Effective rates	**0% to 6.7%**	0.3% to 7.0%

iii) Currency risk:

	US$ '000	
	2000	1999
U. S. Dollars	**29,235**	19,299
Pounds Sterling	**3,627**	2,367
Malaysian Ringgit	**2,258**	5,283
Other	**1,837**	4,715
	36,957	31,664

4. INVESTMENTS

	US$ '000	
2000	**Book value**	**Fair value**
Held for trading		
Common stock of listed companies	**33,285**	**33,285**
Investments held to maturity		
Debt securities		
- Supra-nationals and OECD country governments	**31,008**	**30,522**
- Other investment grade issuers	**119,331**	**116,271**
- Non-OECD country government securities	**3,155**	**3,155**
	153,494	**149,948**
Investments available for sale		
Debt securities		
- Supra-nationals and OECD country governments	**62,437**	**62,437**
- Other investment grade issuers	**155,064**	**155,064**
Common stock of listed companies	**8,826**	**8,826**
Common stock of unlisted companies	**7,336**	**7,336**
Other	**13,850**	**13,850**
	247,513	**247,513**
	434,292	**430,746**

	US$ '000	
1999	Book value	Fair value
Held for trading		
Common stock of listed companies	31,561	31,561
Held for investment		
Supra-nationals and OECD country government debt securities	91,179	86,544
Debt securities of other investment grade issuers	371,025	358,648
Common stock of listed companies	7,837	12,927
Common stock of unlisted companies	971	1,404
Other	12,180	12,587
	483,192	472,110
	514,753	503,671

Investments amounting to US$ 367,300,000 (1999: US$ 405,315,000) are held in the name of Arab Insurance Group (B.S.C.), as part of the Company's arrangement for centralised management of its investment assets.

4. INVESTMENTS (Contd.)

For 2000, investment assets have been classified using principles prescribed by the International Accounting Standard, IAS 39, 'Financial Instruments : Recognition and Measurement'. As the Standard does not permit retroactive application, comparative figures for 1999 are presented using the investment classification applicable for that year.

Fair values have been determined on the basis described in Note 23 and are considered to approximate market values.

Supra-nationals and OECD country government securities and debt securities of other investment grade issuers amounting to US$ 42,629,000 (1999:US$ 42,944,000) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees.

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

i) Investment policy - concentration of credit risk:

Arig Re limits its investment concentration in debt securities in any one investee and in any one industry group to 5% and 25%, respectively, of the total debt securities portfolio.

Arig Re also limits its investment concentration in common stock of listed companies of any one issue and any one issuer to 5% and 20%, respectively, of its total common stock portfolio. There is also a policy to limit Arig Re's investment in any one industry group to less than 20% of Arig Re's total investments portfolio in common stock.

ii) Debt securities - interest rate risk:

2000	**Interest receivable basis**	**Effective rates**	**Coupon rates**
Supra-nationals and OECD country government securities	**Semi-annual/ annual**	**4.6% to 9.0%**	**4.7% to 9.0%**
Debt securities of other investment grade issuers	**Monthly/semi-annual/annual**	**5.0% to 8.0%**	**4.8% to 9.0%**
Non-OECD country government securities	**Semi-annual**	**4.1% to 4.2%**	**4.4%**

1999	Interest receivable basis	Effective rates	Coupon rates
Supra-nationals and OECD country government securities	Semi-annual/annual	5.0% to 9.0%	4.8% to 11.0%
Debt securities of other investment grade issuers	Monthly/semi-annual/annual	3.4% to 7.8%	3.4% to 9.2%

4. INVESTMENTS (Contd.)

iii) Debt securities - currency risk :

US$ '000

2000	US Dollars	Euro	Other	Total
Supra-nationals and OECD country government securities	79,155	14,230	60	93,445
Debt securities of other investment grade issuers	274,395	-	-	274,395
Non-OECD country government securities	-	-	3,155	3,155
	353,550	14,230	3,215	370,995

US$ '000

1999	US Dollars	Other	Total
Supra-nationals and OECD country government securities	91,115	64	91,179
Debt securities of other investment grade issuers	367,994	3,031	371,025
	459,109	3,095	462,204

iv) Debt securities - remaining term to maturity:

The principal amount and book value of debt securities are shown in the table below by contractual maturity.

US$ '000

	2000		1999	
	Principal amount	Book value	Principal amount	Book value
Supra-nationals and OECD country government securities:				
- Due in one year or less	14,770	14,790	4,500	4,529
- One to five years	51,468	50,432	56,064	56,333
- More than five years	28,674	28,223	30,289	30,317
	94,912	93,445	90,853	91,179
Debt securities of other investment grade issuers:				
- Due in one year or less	17,250	17,256	75,300	75,436
- One to five years	221,750	221,049	259,702	260,669
- More than five years	36,000	36,090	35,000	34,920
	275,000	274,395	370,002	371,025
Non-OECD country government securities:				
- One to five years	3,155	3,155	-	-
	373,067	370,995	460,855	462,204

Notes to the Consolidated Financial Statements (Contd.)

FOR THE YEAR ENDED 31 DECEMBER 2000

4. INVESTMENTS (Contd.)

v) Common stock:

Common stock have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis.

The book value of common stock classified by currencies in which they are denominated and receivable are as follows:

	US$ '000	
	2000	1999
U.S. Dollars	**29,259**	19,068
Pounds Sterling	**1,642**	1,926
Bahraini Dinars	**10,668**	10,064
Euro	**3,161**	4,614
Other	**4,717**	4,697
	49,447	40,369

vi) Commitments:

Arig Re has commitments in respect of uncalled capital for other investments amounting to US$ 22,647,000 (1999: US$ 15,603,000).

5. ACCRUED INCOME

	US$ '000	
	2000	1999
Accrued insurance premiums		
Expected to be received:		
Within 12 months	**54,705**	106,754
After 12 months	**2,825**	1,637
	57,530	108,391
Accrued interest		
Expected to be received within 12 months	**10,379**	12,362
	67,909	120,753

6. ACCOUNTS RECEIVABLE

	US$ '000	
	2000	1999
Balances due:		
Within 12 months	**33,589**	40,400
After 12 months	**601**	2,095
	34,190	42,495

7. INSURANCE DEPOSITS

	US$ '000	
	2000	1999
Balances due:		
Within 12 months	**22,062**	20,847
After 12 months	**41,991**	36,055
	64,053	56,902

Insurance deposits include US$ 3,181,000 (1999: US$ 3,485,000) placed as collateral for letters of credit and guarantees.

8. OTHER ASSETS

	US$ '000	
	2000	1999
Prepayments and other receivables		
Balances due/recoverable :		
Within 12 months	**1,062**	3,249
After 12 months	**398**	3,098
	1,460	6,347

9. FIXED ASSETS

	US$ '000	
	2000	1999
Information systems	**1,189**	2,200
Furniture, equipment and others	**1,433**	2,648
	2,622	4,848
Less: accumulated depreciation	**(2,305)**	(4,142)
	317	706
Movement in fixed assets :		
Net book value at 1 January	**706**	800
Additions	**170**	442
Disposals	**(214)**	(269)
Depreciation charge	**(345)**	(267)
Net book value at 31 December	**317**	706

10. TECHNICAL PROVISIONS

i) Net technical provisions comprise:

	US$ '000	
	2000	1999
Claims outstanding	**286,824**	293,267
Unreported losses	**109,299**	128,817
Unearned premiums	**65,314**	93,557
	461,437	515,641

ii) Reinsurers' share of technical provisions:

Claims recoverable deducted from liabilities for claims outstanding as at 31 December 2000 amounted to US$ 200,948,000 (1999 : US$ 177,635,000).

If all or any of the reinsuring companies are unable to meet their obligations, the Company or its subsidiary will be liable for such defaulted amounts.

Notes to the Consolidated Financial Statements (Contd.)

FOR THE YEAR ENDED 31 DECEMBER 2000

11. ACCOUNTS PAYABLE

	US$ '000	
	2000	1999
Balances due:		
- Within 12 months	**33,375**	42,283
- After 12 months	**-**	2,000
	33,375	44,283

12. OTHER LIABILITIES

	US$ '000	
	2000	1999
Staff related benefits	**5,016**	5,420
Provision for reinsurance costs on run-off portfolio	**-**	2,000
Other	**4,540**	3,128
	9,556	10,548

	US$ '000	
	2000	1999
Balances due:		
- Within 12 months	**4,894**	6,245
- After 12 months	**4,662**	4,303
	9,556	10,548

13. SHAREHOLDERS' EQUITY

i) Share Capital

	US$ '000	
	2000	1999
Authorised		
500 million ordinary shares of US$ 1 each	**500,000**	500,000
Issued, Subscribed & Fully Paid-up		
300 million ordinary shares of US$ 1 each	**300,000**	300,000

ii) Legal reserve

In accordance with applicable legal provisions, Arig Re 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. No such transfer has been made in the current year since the Company has incurred a loss.

iii) General reserve

General reserve represents unrestricted reserves created by appropriation from net profits of the Company or its subsidiary.

13. SHAREHOLDERS' EQUITY (Contd.)

iv) Catastrophe reserve

Additional reserves calculated in accordance with statutory regulations applicable to the overseas subsidiary are reversed on consolidation and an amount equal to their after-tax value is transferred by the Company to a non-distributable catastrophe reserve.

v) Investment revaluation reserve

Investment revaluation reserve comprises the gain or loss arising from remeasurement of available for sale assets. These gains or losses are carried in the reserve until the assets are disposed of at which time the gain or loss will be included in income.

Until the end of 1999, the reserve comprised unrealised gains on general insurance business investments that were held for trading. In accordance with the requirements of IAS 39, these balances representing the excess of fair value of financial assets and liabilities as of 1 January 2000 have been included in accumulated losses at that date.

14. CHANGE IN ACCOUNTING POLICIES

During 2000, the Company changed its accounting policy with respect to classification and recognition of financial assets and liabilities to be in line with the requirements of International Accounting Standard, IAS 39 : Financial Instruments: Recognition and Measurement, as a result of which all investments are carried at fair values except for investments held to maturity which are carried at amortised cost. As required by the standard, the difference between book and fair values of investment assets as of 1 January 2000 amounting to a deficit of US$ 2,275,000 (net of previously recognised unrealised gains included in investment revaluation reserve amounting to US$ 3,620,000) has been transferred to accumulated losses at that date. Gains and losses arising from remeasurement of these investments during 2000 resulted in a increase in reported losses by US$ 977,000 and investment revaluation reserve of US$ 2,416,000 in respect of available for sale assets.

15. OUTWARD REINSURANCE PREMIUMS

	US$ '000	
	2000	1999
Proportional retrocession premium	**12,544**	19,704
Protection premium	**28,551**	61,197
Reinstatement premium	**6,900**	13,982
	47,995	94,883

16. SEGMENTAL RESULTS

i) Primary Segment : By line of business

The Company's business is organised on a world-wide basis involving underwriting of facultative business mainly in Aviation, Marine Energy, Marine and Property classes and treaty business.

US$'000

2000	Facultative: Aviation	Facultative: Marine Energy	Facultative: Marine	Facultative: Property	Facultative: Other	Treaty	Total
REVENUES:							
Gross premiums written	30,261	9,828	1,742	17,681	12,576	52,542	124,630
Outward reinsurance premiums	(19,566)	(5,471)	(189)	(11,214)	(7,469)	(4,086)	(47,995)
Change in unearned premiums*	10,168	2,426	517	5,433	3,291	6,251	28,086
Earned Premiums	20,863	6,783	2,070	11,900	8,398	54,707	104,721
Investment Income	3,314	1,142	468	2,091	2,501	3,932	13,448
	24,177	7,925	2,538	13,991	10,899	58,639	118,169
COSTS AND EXPENSES:							
Gross claims paid	(88,596)	(24,355)	(4,141)	(29,655)	(26,635)	(81,929)	(255,311)
Claims recovered from reinsurers	51,405	11,022	508	7,971	5,764	12,265	88,935
Change in provision for outstanding claims *	9,320	465	(10)	(3,338)	6,355	(6,675)	6,117
Change in provision for unreported losses *	8,808	2,016	839	1,252	5,838	767	19,520
Claims and related expenses	(19,063)	(10,852)	(2,804)	(23,770)	(8,678)	(75,572)	(140,739)
Policy acquisition costs	(5,289)	(2,406)	(344)	(5,295)	(3,511)	(16,507)	(33,352)
Policy acquisition costs recovered from reinsurers	62	873	113	754	1,227	2,144	5,173
Change in deferred policy acquisition costs *	(1,205)	(362)	(93)	(1,318)	(302)	(1,170)	(4,450)
Policy acquisition costs	(6,432)	(1,895)	(324)	(5,859)	(2,586)	(15,533)	(32,629)
Operating expenses	(3,580)	(1,473)	(208)	(2,530)	(6,506)	(2,039)	(16,336)
Underwriting result	(4,898)	(6,295)	(798)	(18,168)	(6,871)	(34,505)	(71,535)

** Net of reinsurance and non-cash in nature.*

16. SEGMENTAL RESULTS (Contd.)

i) Primary Segment : By line of business (Contd.)

US$'000

1999	Facultative Aviation	Facultative Marine Energy	Facultative Marine	Facultative Property	Facultative Other	Treaty	Total
REVENUES:							
Gross premiums written	51,513	13,338	3,806	29,814	15,887	88,889	203,247
Outward reinsurance premiums	(31,241)	(17,431)	(2,676)	(16,161)	(7,227)	(20,147)	(94,883)
Change in unearned premiums*	7,082	3,604	2,474	2,361	625	8,955	25,101
Earned premiums	27,354	(489)	3,604	16,014	9,285	77,697	133,465
Investment income	6,805	2,152	738	3,341	4,615	6,216	23,867
	34,159	1,663	4,342	19,355	13,900	83,913	157,332
COSTS AND EXPENSES:							
Gross claims paid	(91,440)	(34,724)	(9,803)	(26,179)	(27,474)	(74,462)	(264,082)
Claims recovered from reinsurers	43,986	22,202	1,783	7,464	5,180	14,739	95,354
Change in provision for outstanding claims *	2,897	1,209	746	(7,971)	1,956	(21,368)	(22,531)
Change in provision for unreported losses *	3,253	4,111	593	(381)	3,840	(10,510)	906
Claims and related expenses	(41,304)	(7,202)	(6,681)	(27,067)	(16,498)	(91,601)	(190,353)
Policy acquisition costs	(8,356)	(2,931)	(809)	(7,849)	(3,679)	(22,826)	(46,450)
Policy acquisition costs recovered from reinsurers	60	841	2	711	1,390	3,082	6,086
Change in deferred policy acquisition costs *	(837)	(778)	(481)	(671)	(96)	(2,812)	(5,675)
Policy acquisition costs	(9,133)	(2,868)	(1,288)	(7,809)	(2,385)	(22,556)	(46,039)
Operating expenses	(5,894)	(1,890)	(527)	(4,013)	(2,466)	(7,993)	(22,783)
Transfer from investment revaluation reserve	157	45	8	66	108	150	534
Underwriting result	(22,015)	(10,252)	(4,146)	(19,468)	(7,341)	(38,087)	(101,309)

** Net of reinsurance and non-cash in nature.*

16. SEGMENTAL RESULTS (Contd.)

ii) Secondary Segment : By Geographical Area

	US$ '000	
	2000	1999
Gross premiums written from:		
Middle East	**49,036**	59,450
Africa	**6,279**	10,141
Asia	**39,696**	54,172
Europe	**12,888**	26,352
North America	**13,154**	23,701
South America	**2,743**	12,340
Other	**834**	17,091
	124,630	203,247

Although the Company operates on a world-wide basis, its business risks and returns are different as between the principal economic zones as identified above for segment reporting by geographical location of the risk insured.

iii) Segment Assets & Liabilities

Segment information on assets and liabilities by line of business or geographical area have not been provided as the Company's activities in these segments are significantly integrated and interdependent. Hence, any such segmentation could be potentially misleading.

17. INVESTMENT INCOME

	US$'000			
	Underwriting account	**Profit and loss account**	**2000 Total**	1999 Total
Interest income	**15,670**	**9,347**	**25,017**	30,554
Dividends	**1,108**	**926**	**2,034**	1,960
Realised gains	**1,625**	**1,798**	**3,423**	10,774
(Losses)/gains on remeasurement of trading investments	**(5,121)**	**(4,282)**	**(9,403)**	2,435
Other	**166**	**139**	**305**	(188)
	13,448	**7,928**	**21,376**	45,535

18. OPERATING EXPENSES

	US$ '000	
	2000	1999
Salaries and benefits	**8,060**	12,751
General and administration	**4,039**	5,362
Group management and service charges	**4,237**	4,670
	16,336	22,783

The Company had 135 full time employees as at 31 December 2000 (1999: 165).

19. OTHER EXPENSES AND PROVISIONS

	US$ '000	
	2000	1999
Exchange loss on insurance	**11,346**	4,137
Provision for bad and doubtful debts	**901**	609
Other	**224**	4,113
	12,471	8,859

20. POST EMPLOYMENT BENEFITS

The Company operates a number of post employment defined benefit and defined contribution plans as described below :

a) **Defined benefit plans :** Eligibility for participation in the defined benefit plans is based on completion of a specified period of continuous service or date of hire. Benefits are based on the employee's years of service.

The principal actuarial assumptions used for accounting purposes were :

	2000	1999
Discount rate	**6.4%**	6.4%
Expected return on plan assets	**6.4%**	6.3%
Future salary increases	**3.3%**	3.3%

The movement in the liability recognised in the balance sheet is :

	US$ '000	
	2000	1999
At 1 January	**4,341**	3,629
Accruals for the year	**631**	750
Effect of adopting IAS 19 (revised)	**-**	591
Payments during the year	**(310)**	(629)
At 31 December	**4,662**	4,341

b) **Defined contribution plans:** At certain locations, the Company operates various defined contribution plans. Eligibility for participation in the various plans is either based on completion of a specified period of continuous service or date of hire. The plans provide for voluntary contributions by employees and contributions by the employers. The Company's contribution to defined contribution plans are charged to the profit and loss account in the year to which they relate.

21. FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of its business, Arig Re uses forward foreign exchange contracts to hedge its exposure in respect of foreign currency denominated investments. In the event that the item being hedged is sold prior to maturity, it is generally Arig Re'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 Company's consolidated financial statements. The contracts oblige Arig Re to exchange cash flows received in the future from foreign currency denominated investments for U.S. Dollars at predetermined exchange rates. The counterparties in respect of these transactions are leading financial institutions.

i) Forward foreign exchange contracts - by currency:

US$ '000

	2000		1999	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Pounds Sterling	**-**	**1,628**	-	2,412
Euro	**-**	**10,686**	522	4,897
Other	**-**	**2,579**	-	1,490
	-	**14,893**	522	8,799

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of the volume of outstanding transactions, but do not represent credit or market risk exposures.

ii) Forward foreign exchange contracts - remaining term to maturity:

US$ '000

	2000		1999	
	Notional amount purchases	**Notional amount sales**	Notional amount purchases	Notional amount sales
Due in one year or less	**-**	**14,893**	522	8,799

iii) Forward foreign exchange contracts - unrealised gains and losses:

The following table summarises the fair value of Arig Re's hedging portfolio of forward foreign exchange contracts at the balance sheet date, segregating the items between those that are in an unrealised gain position from those that are in an unrealised loss position.

US$ '000

	2000		1999	
	Purchases	**Sales**	Purchases	Sales
Unrealised gains	**-**	**31**	(4)	188
Unrealised losses	**-**	**(972)**	-	-
	-	**(941)**	(4)	188

22. RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	US$ '000	
	2000	1999
Net loss for the year	**(73,721)**	(86,380)
Change in insurance funds	**(49,708)**	(1,265)
Depreciation and amortisation charge	**483**	431
Change in accounts receivable / payable, net	**(2,732)**	20,292
Change in investment revaluation reserve	**-**	(1,100)
Change in accrued income	**52,845**	25,658
Change in trading investments	**41,630**	(1,208)
Change in other assets / liabilities, net	**(11,686)**	45,500
Taxes refunded/(paid)	**1,406**	(384)
Net cash (used in)/provided by operating activities	**(41,483)**	1,544

23. FAIR VALUE DISCLOSURE

The following table presents the fair values of Arig Re's balance-sheet financial instruments as required by IAS 32:

	US$ '000			
	2000		1999	
	Book value	**Fair value**	Book value	Fair value
ASSETS				
Cash and short term maturities	**36,957**	**36,957**	31,664	31,664
Investments (Note 4)	**434,292**	**430,746**	514,753	503,671
Accrued income	**67,909**	**67,909**	120,753	120,753
Accounts receivable	**34,190**	**34,190**	42,495	42,495
Insurance deposits	**64,053**	**64,053**	56,902	56,902
Other assets	**1,777**	**1,777**	6,347	6,347
LIABILITIES				
Accounts payable	**33,375**	**33,375**	44,283	44,283
Other liabilities	**9,556**	**9,556**	10,548	10,548

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

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

i) General

The book value of financial instruments, except investments and forward foreign exchange contracts were deemed to approximate fair value due to the immediate or short-term maturity of these financial instruments.

ii) Investments

The fair value of debt securities, common stock of listed companies and other investments, where applicable, is based on quoted market prices. For certain other investments which are not listed, a reasonable estimate of fair value has been made based on available financial data relating to these investments.

iii) Forward foreign exchange contracts

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

23. FAIR VALUE DISCLOSURE (Contd.)

iv) Fair value less than carrying value

The fair value of fixed interest debt securities fluctuates with changes in market interest rates. The book value of these 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.

24. PARENT COMPANY

The unconsolidated balance sheet of the parent company, Arig Reinsurance Company B.S.C.(c), is presented below:

	US$ '000	
	2000	1999
ASSETS		
Cash and short term maturities	**32,365**	25,704
Investments	**370,457**	405,315
Investment in subsidiary	**3,947**	6,847
Accrued income	**60,066**	88,714
Accounts receivable	**22,208**	29,252
Reinsurance deposits	**64,685**	55,116
Deferred policy acquisition cost	**14,839**	16,960
Other assets	**1,163**	4,436
Fixed assets	**254**	367
	569,984	632,711
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Technical provisions	**395,263**	392,175
Accounts payable	**15,018**	13,025
Other liabilities	**9,478**	4,454
	419,759	409,654
Shareholders' equity (Note 13)		
Share capital	**300,000**	300,000
Reserves	**8,544**	9,748
Accumulated losses	**(158,319)**	(86,691)
	150,225	223,057
	569,984	632,711