Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the three months ended 31 March 2006

Independent Auditor's Report on Review of Consolidated Interim Financial Information

The Directors of Arab Insurance Group (B.S.C.), Bahrain

We have reviewed the accompanying consolidated condensed balance sheet of Arab Insurance Group (B.S.C.) (the "Company") as of 31 March 2006 and the related consolidated condensed statements of income, changes in equity and cash flows for the three month period then ended (the consolidated interim financial information). This consolidated interim financial information is the responsibility of the Directors of the Company. Our responsibility is to issue a report on this consolidated interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements - 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim financial information is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Manama, Bahrain
4 May 2006

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2006

(In thousands of U.S. Dollars)

	Note	**31 March 2006 (reviewed)**	31 December 2005 (audited)	31 March 2005 (reviewed)
ASSETS				
Cash and cash equivalents		**336,095**	340,051	115,690
Investments	4	**319,472**	316,283	1,002,489
Accrued income	5	**78,927**	42,560	94,159
Insurance receivables		**41,527**	43,671	91,268
Insurance deposits		**46,551**	46,677	58,794
Deferred policy acquisition costs		**26,449**	13,259	30,118
Reinsurers' share of technical provisions	6	**76,046**	79,568	200,362
Tax assets		**-**	-	5,070
Other assets	7	**12,198**	9,263	27,309
Takaful participants' assets	8	**2,502**	-	-
Investment in associated companies	9	**906**	895	3,907
Fixed assets		**9,949**	10,001	9,935
		950,622	902,228	1,639,101
LIABILITIES				
Technical provisions	10	**467,157**	426,117	1,154,351
Insurance payables		**26,913**	28,391	106,512
Tax liabilities		**-**	-	5,993
Borrowings		**75,577**	75,926	67,126
Other liabilities	11	**52,482**	43,257	58,403
Takaful fund and participants' liabilities	8	**2,502**	-	-
		624,631	573,691	1,392,385
EQUITY				
Shareholders' equity				
Share capital		**220,000**	200,000	200,000
Treasury stock		**(2,836)**	(2,836)	(2,836)
Reserves		**30,723**	30,991	17,825
Proposed appropriations		**-**	31,080	-
Retained earnings		**21,221**	13,148	16,863
		269,108	272,383	231,852
Minority interests		**56,883**	56,154	14,864
		325,991	328,537	246,716
		950,622	902,228	1,639,101

These consolidated interim condensed financial statements were approved by the Board of Directors on 4 May 2006 and signed by:

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

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2006

(In thousands of U.S. Dollars)

	Note		For the financial year-to-date 31 March 2006 (reviewed)	For the financial year-to-date 31 March 2005 (reviewed)	For the year ended 31 December 2005 (audited)
Gross premiums written			**84,504**	91,030	173,652
Net earned premiums			**29,910**	24,525	134,860
Claims and related expenses			**(19,839)**	(15,289)	(93,073)
Policy acquisition costs			**(8,063)**	(6,471)	(32,654)
Investment income attributable to insurance funds	13		**4,968**	4,816	15,185
Operating expenses	14		**(2,880)**	(4,511)	(16,167)
Underwriting result	12		**4,096**	3,070	8,151
Investment income attributable to shareholders' funds	13		**6,477**	4,422	17,857
Operating expenses – non underwriting activities	14		**(2,121)**	(1,596)	(6,697)
Other income	15		**1,654**	1,490	7,052
Other expenses and provisions	16		**(1,871)**	(1,257)	(8,105)
Profit from continuing operations			**8,235**	6,129	18,258
Minority interests			**(220)**	(31)	1,080
Net profit from continuing operations			**8,015**	6,098	19,338
Profit from discontinued operations			**-**	6,461	28,859
Net profit attributable to shareholders			**8,015**	12,559	48,197
Earnings per share attributable to shareholders from :	17	US$			
- **continuing operations**			**0.04**	0.03	0.09
- **discontinued operations**			**-**	0.03	0.13

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2006

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Proposed appropriations	Retained earnings	Shareholders' equity	Minority interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total					
Balances at 31 December 2005	200,000	(2,836)	18,344	4,422	8,225	30,991	31,080	13,148	272,383	56,154	328,537
Changes on remeasurement of available for sale assets	-	-	-	(213)	-	(213)	-	-	(213)	-	(213)
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	3	3	-	3
Transfer of net depreciation on revalued property	-	-	-	-	(88)	(88)	-	88	-	-	-
Net (expense) income recognised directly in equity	-	-	-	(213)	(88)	(301)	-	91	(210)	-	(210)
Net profit for the period	-	-	-	-	-	-	-	8,015	8,015	220	8,235
Total recognised (expense) income	-	-	-	(213)	(88)	(301)	-	8,106	7,805	220	8,025
Issue of bonus shares	20,000	-	-	-	-	-	(20,000)	-	-	-	-
Dividends payable	-	-	-	-	-	-	(10,000)	-	(10,000)	-	(10,000)
Sale of partial interest in subsidiary to minority	-	-	-	-	-	-	-	-	-	611	611
Directors' remuneration paid	-	-	-	-	-	-	(1,080)	-	(1,080)	-	(1,080)
Transfer to legal reserves	-	-	33	-	-	33	-	(33)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	-	(102)	(102)
Balances at 31 March 2006	220,000	(2,836)	18,377	4,209	8,137	30,723	-	21,221	269,108	56,883	325,991

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves					Proposed appropriations	Retained earnings	Shareholders' equity	Minority interests	Total equity (audited)
			Legal	Investment revaluation	Catastrophe	Property revaluation	Total					
Balances at 31 December 2004	200,000	(2,836)	13,860	(1,892)	19	8,576	20,563	900	4,476	223,103	17,573	240,676
Changes on remeasurement of available for sale assets	-	-	-	7,274	-	-	7,274	-	-	7,274	-	7,274
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	-	15	15	-	15
Transfer of net depreciation on revalued property	-	-	-	-	-	(351)	(351)	-	351	-	-	-
Net income (expense) recognised directly in equity	-	-	-	7,274	-	(351)	6,923	-	366	7,289	-	7,289
Net profit for the year	-	-	-	-	-	-	-	-	48,197	48,197	(1,444)	46,753
Total recognised income (expense)	-	-	-	7,274	-	(351)	6,923	-	48,563	55,486	(1,444)	54,042
Transfer of balances (including accumulated translation difference) on sale of interest in subsidiary	-	-	(336)	(960)	(19)	-	(1,315)	-	(3,991)	(5,306)	(16,510)	(21,816)
Directors' remuneration paid	-	-	-	-	-	-	-	(900)	-	(900)	-	(900)
Directors' remuneration proposed	-	-	-	-	-	-	-	1,080	(1,080)	-	-	-
Proposed bonus shares @ 10% of paid up capital	-	-	-	-	-	-	-	20,000	(20,000)	-	-	-
Proposed dividend @ 5% of paid up capital	-	-	-	-	-	-	-	10,000	(10,000)	-	-	-
Transfer to legal reserves	-	-	4,820	-	-	-	4,820	-	(4,820)	-	-	-
Capital contribution by minority in Takaful Re	-	-	-	-	-	-	-	-	-	-	56,875	56,875
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 December 2005	**200,000**	**(2,836)**	**18,344**	**4,422**	**-**	**8,225**	**30,991**	**31,080**	**13,148**	**272,383**	**56,154**	**328,537**

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2005

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves					Proposed appropriations	Retained earnings	Shareholders' equity	Minority interests	Total equity (reviewed)
			Legal	Investment revaluation	Catastrophe	Property revaluation	Total					
Balances at 31 December 2004	200,000	(2,836)	13,860	(1,892)	19	8,576	20,563	900	4,476	223,103	17,573	240,676
Changes on remeasurement of available for sale assets	-	-	-	(2,650)	-	-	(2,650)	-	-	(2,650)	(1,907)	(4,557)
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	-	5	5	-	5
Transfer of net depreciation on revalued property	-	-	-	-	-	(88)	(88)	-	88	-	-	-
Effect of translation of subsidiaries	-	-	-	-	-	-	-	-	(265)	(265)	(129)	(394)
Net expense recognised directly in equity	-	-	-	(2,650)	-	(88)	(2,738)	-	(172)	(2,910)	(2,036)	(4,946)
Net profit for the period	-	-	-	-	-	-	-	-	12,559	12,559	(333)	12,226
Total recognised (expense) income	-	-	-	(2,650)	-	(88)	(2,738)	-	12,387	9,649	(2,369)	7,280
Directors' remuneration paid	-	-	-	-	-	-	-	(900)	-	(900)	-	(900)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 March 2005	200,000	(2,836)	13,860	(4,542)	19	8,488	17,825	-	16,863	231,852	14,864	246,716

The accompanying notes 1 to 21 are an integral part of these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2006

(In thousands of U.S. Dollars)

	Note	**For the financial year-to-date 31 March 2006 (reviewed)**	For the financial year-to-date 31 March 2005 (reviewed)	For the year ended 31 December 2005 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**97,225**	105,064	151,509
Reinsurance premiums paid		**(5,371)**	(7,941)	(19,701)
Claims paid		**(95,463)**	(99,459)	(195,463)
Reinsurance receipts in respect of claims		**2,455**	6,390	61,338
Investment income received		**9,975**	3,812	33,237
Operating expenses paid		**(6,998)**	(7,128)	(19,034)
Other income/expenses, net		**(1,891)**	(5,965)	(8,543)
Insurance deposits received (paid)		**232**	(158)	7,668
Purchase of trading investments		**(65,523)**	(103,347)	(403,869)
Sale of trading investments		**59,453**	78,593	507,266
Directors' remuneration paid		-	-	(900)
Net cash (used in) provided by operating activities	18	**(5,906)**	(30,139)	113,508
CASH FLOWS FROM INVESTING ACTIVITIES:				
Disposal of subsidiaries, net of cash transferred		**625**	1,246	80,214
Maturity/sale of investments		**9,931**	14,815	36,657
Purchase of investments		**(8,177)**	(8,101)	(39,368)
Collateralised cash deposits received		**46**	43	1,238
Purchase of fixed assets		**(123)**	(146)	(732)
Purchase of intangible assets		**(3)**	-	(8)
Net cash provided by investing activities		**2,299**	7,857	78,001
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings		**(349)**	15,083	25,653
Net cash (used in) provided by financing activities		**(349)**	15,083	25,653
Net cash provided by discontinued operations		-	18,166	18,166
Net (decrease) increase in cash and cash equivalents		**(3,956)**	10,967	235,328
Cash and cash equivalents, beginning of period		**340,051**	104,723	104,723
Cash and cash equivalents, end of period		**336,095**	115,690	340,051

The accompanying notes 1 to 21 are an integral part of
these consolidated interim condensed financial statements.

ARAB INSURANCE GROUP (B.S.C.)

NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2006

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 interim condensed financial statements have been prepared in compliance with International Accounting Standard IAS 34, Interim Financial Reporting. The accounting policies and methods of computation are consistent with the most recent consolidated financial statements of the Group at 31 December 2005 that were prepared in accordance with International Financial Reporting Standards (IFRS) which include International Accounting Standards and Interpretations issued by the International Accounting Standards Board. Comparative figures have been reclassified, where necessary, to conform to the current period's presentation.

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 interim condensed financial statements include the accounts of the parent company and all of its subsidiaries.

The Company's subsidiary, Takaful Re Limited, is an Operator of Islamic Reinsurance (Takaful) business. In accordance with applicable Shari'a principles, Participants' (policyholders') funds are maintained distinct from the Operator's (shareholders') funds. Accordingly, the participants' assets and liabilities including the fund balance are shown separately as 'takaful participants' assets' and 'takaful fund and participants' liabilities' respectively in the consolidated balance sheet and the Statement of Participants' Revenue is set out in note 8.

3. SEASONALITY OF INTERIM OPERATIONS

As a result of the seasonality associated with the insurance business, the Group registers approximately 50% of its gross premiums during the first quarter of every year. Gross premiums written over the remainder of the financial year are almost evenly spread out. This seasonality does not however, have any material impact on the Group's underwriting result as the premiums are taken to income over the terms of the related contracts or policies.

4. INVESTMENTS

	US$ '000		
	31 March 2006	31 December 2005	31 March 2005
At fair value through profit or loss			
Held for trading			
Debt securities			
- Supra-nationals and OECD country governments	-	3,924	35,244
- Other investment grade	-	-	61,002
Common stock of listed companies	**89,232**	74,420	112,724
	89,232	78,344	208,970
Designated at fair value on initial recognition			
Debt Securities			
- Investment grade	-	15,364	39,935
- Other	**31,792**	21,222	5,124
	31,792	36,586	45,059
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**31,097**	27,172	27,220
- Other investment grade	**76,003**	81,010	83,061
- Non-OECD country governments	-	-	24,898
- Other	-	-	3,371
	107,100	108,182	138,550
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**32,570**	34,733	31,125
- Other investment grade	**10,833**	10,852	11,821
- Non-OECD country governments	-	-	417,832
- Other	**12,017**	12,329	16,509
Common stock of listed companies	**2,545**	2,757	57,794
Common stock of unlisted companies	**14,173**	16,162	10,150
Other	**19,210**	16,338	15,438
	91,348	93,171	560,669
Loans and receivables			
Loans secured by mortgages	-	-	6,005
	-	-	6,005
Investment properties			
Land	-	-	32,239
Building	-	-	10,997
	-	-	43,236
	319,472	316,283	1,002,489

Debt securities amounting to US$ 48.5 million (31 December 2005: US$ 48.3 million; 31 March 2005: US$ 48.5 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 87.6 million (31 December 2005: US$ 87.8 million; 31 March 2005: US$ 74.1 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	31 March 2006	31 December 2005	31 March 2005
Accrued insurance premiums	**74,615**	39,468	83,290
Accrued interest	**4,312**	3,092	10,869
	78,927	42,560	94,159

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	31 March 2006	31 December 2005	31 March 2005
Claims outstanding	**67,687**	70,757	112,938
Unreported general insurance claims	**7,238**	7,582	6,775
Life insurance claims outstanding	**437**	496	19,952
Life insurance unreported losses	**684**	733	337
Life insurance business provision	**-**	-	60,360
	76,046	79,568	200,362

7. OTHER ASSETS

	US$ '000		
	31 March 2006	31 December 2005	31 March 2005
Intangible assets :			
- Goodwill	**1,893**	1,893	1,893
- Computer software	**8,811**	8,808	11,408
	10,704	10,701	13,301
Less : accumulated amortisation	**(8,789)**	(8,735)	(10,184)
Net intangible assets	**1,915**	1,966	3,117
Collateralised cash deposits	**4,475**	4,520	5,715
Prepayments and other receivables	**5,808**	2,777	18,477
	10,283	7,297	24,192
	12,198	9,263	27,309

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000
	31 March 2006
ASSETS	
Cash & cash equivalents	4
Accrued income	1,416
Insurance receivable	12
Deferred acquisition costs	677
Deferred wakala fees	393
	2,502
LIABILITIES	
Accounts payable	466
TAKAFUL FUND	
Unearned contributions	1,964
Outstanding claims	22
Unreported losses	109
	2,095
Deficit for the period	(59)
	2,502

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000
	Year-to-date 31 March 2006
Gross contributions	2,331
Outward reinsurance premiums	(145)
Net change in unearned contributions	(1,964)
Net earned contributions	222
Change in provision for unreported losses	(109)
Claim and related expenses	(109)
Policy acquisition costs	(776)
Change in deferred acquisition costs	677
Policy acquisition costs	(99)
Fees payable to operator (Wakala fee)	(73)
Deficit for the period	(59)

9. INVESTMENT IN ASSOCIATED COMPANIES

	Ownership interest					
	31 March 2006		31 December 2005		31 March 2005	
	US$ '000	**%**	US$ '000	%	US$ '000	%
Arab Lebanese Insurance Group S.A.L.	**906**	**25.0**	895	25.0	833	25.0
Arab Misr Insurance Group S.A.E.	-	-	-	-	1,177	20.5
Assurances BIAT S.A.	-	-	-	-	1,179	14.9
Arab Jordanian Insurance Group P.L.C.	-	-	-	-	718	10.0
	906		895		3,907	

10. TECHNICAL PROVISIONS

	US$ '000		
	31 March 2006	31 December 2005	31 March 2005
General insurance business			
Claims outstanding	**277,562**	286,622	473,625
Unreported losses	**77,561**	76,827	127,214
Unearned premiums	**106,664**	57,281	110,487
	461,787	420,730	711,326
Life insurance business			
Claims outstanding	**2,385**	2,309	40,418
Unreported losses	**2,764**	2,925	2,531
Unearned premiums	**221**	153	369
Life insurance business provision	-	-	399,707
	5,370	5,387	443,025
	467,157	426,117	1,154,351

11. OTHER LIABILITIES

	US$ '000		
	31 March 2006	31 December 2005	31 March 2005
Accrued expenses	**2,864**	3,349	10,721
Premium and other taxes	-	-	10,469
Post employment benefits	**9,958**	9,919	9,112
Accrual for scheme of arrangement fees	**4,519**	5,774	4,827
Reinsurance premiums accrued	**12,078**	12,229	4,352
Covered option premium	**230**	457	1,220
Employee share scheme	**4,734**	5,025	3,115
Dividends payable	**10,390**	390	390
Other	**7,709**	6,114	14,197
	52,482	43,257	58,403

12. SEGMENT INFORMATION - Analysis of revenue by primary business segment:

The Group's reinsurance business consists of three main business segments, non-life treaty, non-life facultative mainly involving underwriting of property and marine classes and life mainly involving short term group life policies.

	US$ '000							
	Financial year-to-date 31 March 2006				Financial year-to-date 31 March 2005			
	General insurance		Life		General insurance		Life	
	Treaty	Facultative	insurance	Total	Treaty	Facultative	insurance	Total
REVENUES :								
Gross premiums written	**74,043**	**8,999**	**1,462**	**84,504**	83,968	6,373	689	91,030
Outward reinsurance premiums	**(5,102)**	**(270)**	**-**	**(5,372)**	(7,331)	(627)	42	(7,916)
Change in unearned premiums - gross	**(47,378)**	**(4,321)**	**(68)**	**(51,767)**	(61,124)	(2,390)	-	(63,514)
Change in unearned premiums - reinsurance	**2,562**	**(17)**	**-**	**2,545**	4,782	143	-	4,925
Net earned premiums	**24,125**	**4,391**	**1,394**	**29,910**	20,295	3,499	731	24,525
Investment income attributable to insurance funds	**3,003**	**1,931**	**34**	**4,968**	2,454	2,298	64	4,816
	27,128	**6,322**	**1,428**	**34,878**	22,749	5,797	795	29,341
COSTS AND EXPENSES :								
Gross claims paid	**(19,470)**	**(7,160)**	**(1,284)**	**(27,914)**	(9,066)	(7,464)	(101)	(16,631)
Claims recovered from reinsurers	**1,410**	**1,047**	**-**	**2,457**	856	3,267	(154)	3,969
Change in provision for outstanding claims – gross	**1,981**	**7,822**	**230**	**10,033**	(7,895)	8,145	(259)	(9)
Change in provision for outstanding claims - reinsurance	**(107)**	**(2,990)**	**(58)**	**(3,155)**	293	(3,181)	248	(2,640)
Change in provision for unreported losses - gross	**(341)**	**(869)**	**153**	**(1,057)**	623	186	(190)	619
Change in provision for unreported losses - reinsurance	**(12)**	**(142)**	**(49)**	**(203)**	(188)	(380)	(29)	(597)
Claims and related expenses	**(16,539)**	**(2,292)**	**(1,008)**	**(19,839)**	(15,377)	573	(485)	(15,289)
Policy acquisition costs	**(21,013)**	**(1,666)**	**(141)**	**(22,820)**	(24,317)	(1,300)	(36)	(25,653)
Policy acquisition costs recovered from reinsurers	**1,654**	**19**	**-**	**1,673**	2,455	66	-	2,521
Change in deferred policy acquisition costs -gross	**13,281**	**718**	**-**	**13,999**	17,976	534	-	18,510
Change in deferred policy acquisition costs - reinsurance	**(915)**	**-**	**-**	**(915)**	(1,817)	(32)	-	(1,849)
Policy acquisition costs	**(6,993)**	**(929)**	**(141)**	**(8,063)**	(5,703)	(732)	(36)	(6,471)
Operating expenses	**(1,940)**	**(406)**	**(186)**	**(2,532)**	(3,145)	(368)	(70)	(3,583)
Segment underwriting result	**1,656**	**2,695**	**93**	**4,444**	(1,476)	5,270	204	3,998
Operating expenses – unallocated #				**(348)**				(928)
Underwriting result				**4,096**				3,070

 # Unallocated operating expenses represent corporate expenses.

12. SEGMENT INFORMATION - Analysis of revenue by primary business segment (Contd.)

	US$ '000			
	Year ended 31 December 2005			
	General insurance		Life insurance	Total
	Treaty	Facultative		
REVENUES :				
Gross premiums written	144,984	23,105	5,563	173,652
Outward reinsurance premiums	(15,877)	(3,406)	(394)	(19,677)
Change in unearned premiums - gross	(17,220)	(3,174)	272	(20,122)
Change in unearned premiums - reinsurance	1,041	(34)	-	1,007
Net earned premiums	112,928	16,491	5,441	134,860
Investment income attributable to insurance funds	8,258	6,710	217	15,185
	121,186	23,201	5,658	150,045
COSTS AND EXPENSES :				
Gross claims paid	(68,743)	(41,529)	(3,566)	(113,838)
Claims recovered from reinsurers	6,022	51,193	580	57,795
Change in provision for outstanding claims - gross	(21,954)	15,592	(661)	(7,023)
Change in provision for outstanding claims - reinsurance	710	(38,977)	62	(38,205)
Change in provision for unreported losses - gross	1,096	7,569	(526)	8,139
Change in provision for unreported losses - reinsurance	680	(741)	120	59
Claims and related expenses	(82,189)	(6,893)	(3,991)	(93,073)
Policy acquisition costs	(35,169)	(4,538)	(502)	(40,209)
Policy acquisition costs recovered from reinsurers	5,408	174	-	5,582
Change in deferred policy acquisition costs - gross	1,640	601	-	2,241
Change in deferred policy acquisition costs - reinsurance	(269)	1	-	(268)
Policy acquisition costs	(28,390)	(3,762)	(502)	(32,654)
Operating expenses	(11,163)	(2,251)	(736)	(14,150)
Segment underwriting result	(556)	10,295	429	10,168
Operating expenses – unallocated #				(2,017)
Underwriting result				8,151

 # Unallocated operating expenses represent corporate expenses.

13. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 31 March 2006			Financial year-to-date 31 March 2005	Year ended 31 December 2005
	Insurance funds	Shareholders' funds	Total		
Interest income	**2,017**	**3,576**	**5,593**	3,430	15,864
Dividends	**310**	**377**	**687**	552	1,997
Realised gains	**2,472**	**2,836**	**5,308**	(1,433)	24,694
Gains (loss) on remeasurement of investments at fair value through profit or loss	**222**	**(244)**	**(22)**	7,366	(6,412)
Impairment loss	**-**	**-**	**-**	-	(1,523)
Other	**(53)**	**(68)**	**(121)**	(677)	(1,578)
	4,968	**6,477**	**11,445**	9,238	33,042

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 31 March 2006			Financial year-to-date 31 March 2005	Year ended 31 December 2005
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**2,158**	**1,320**	**3,478**	4,836	18,299
General and administration	**722**	**801**	**1,523**	1,271	4,565
	2,880	**2,121**	**5,001**	6,107	22,864

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 31 March 2006	Financial year-to-date 31 March 2005	Year ended 31 December 2005
Third party administration services	**1,126**	1,145	4,656
Software sales and related services	**74**	251	366
Interest on cash balances	**103**	50	392
Other	**351**	44	1,638
	1,654	1,490	7,052

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 31 March 2006	Financial year-to-date 31 March 2005	Year ended 31 December 2005
Foreign exchange losses (gains)	**720**	790	(1,339)
Provision for doubtful receivables	**-**	35	5,272
Scheme of arrangement fee	**-**	-	947
Interest on borrowing	**774**	367	2,553
Other	**377**	65	672
	1,871	1,257	8,105

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 31 March 2006	Financial year-to-date 31 March 2005	Year ended 31 December 2005
Weighted average number of shares outstanding	'000	**216,878**	216,878	216,878
Continuing operations:				
Net profit	US$'000	**8,015**	6,098	19,338
Earnings per share	US$	**0.04**	0.03	0.09
Discontinued operations:				
Net profit	US$'000	**-**	6,461	28,859
Earnings per share	US$	**-**	0.03	0.13
Total earnings per share	US$	**0.04**	0.06	0.22

At the annual general assembly held on 29 March 2006, shareholders of the Company resolved to issue 20 million shares fully paid for distribution as bonus shares in the proportion of 1 share for every 10 shares held. As a result, the issued, subscribed and fully paid up capital now stands at 220 million ordinary shares of US$ 1 each. The weighted number of shares for prior periods have been adjusted to reflect the effect of stock dividend.

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

	US$ '000		
	Financial year-to-date 31 March 2006	Financial year-to-date 31 March 2005	Year ended 31 December 2005
Profit before minority interests	**8,235**	6,129	18,258
Change in insurance funds	**31,498**	50,125	21,994
Depreciation and amortisation charge	**229**	560	-
Change in insurance receivables/payables, net	**515**	10,111	(11,487)
Change in accrued income	**(36,367)**	(35,862)	(22,324)
Change in other assets/liabilities, net	**(10,016)**	(61,202)	107,067
Net cash (used in) provided by operating activities	**(5,906)**	(30,139)	113,508

19. PRINCIPAL SUBSIDIARIES

At 31 March 2006, the principal subsidiaries of the Company were:

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

All holdings are in the ordinary share capital of the subsidiaries concerned and are unchanged from 31 December 2005 except for the sale of 0.5% of its holdings in Takaful Re Limited for a net cash consideration of US$ 625,000. The sale was effected at par as part of the initial private placement of the subsidiary's shares.

20. RELATED-PARTY TRANSACTIONS

Compensation to directors and key management personnel are as follows:

	US$ '000		
	Financial year-to-date 31 March 2006	Financial year-to-date 31 March 2005	Year ended 31 December 2005
i) **Directors**			
- Remuneration paid	**-**	-	900
- Allowances	**17**	28	106
ii) **Key management compensation**			
- Salaries and other short-term employee benefits	**335**	719	1,617
- Post employment benefits	**40**	136	310
- Share-based compensation	**89**	304	1,235

21. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in investee companies held as part of its investment portfolios amounting to US$ 9.2 million (31 December 2005: US$ 9.6 million; 31 March 2005: US$ 4.2 million).