Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the nine months ended 30 September 2006

Independent 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 30 September 2006 and the related consolidated condensed statements of income, changes in equity and cash flows for the nine 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. 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
31 October 2006

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2006

(In thousands of U.S. Dollars)

	Note	30 September 2006 (reviewed)	31 December 2005 (audited)	30 September 2005 (reviewed)
ASSETS				
Cash and cash equivalents		**295,738**	340,051	155,455
Investments	4	**345,593**	316,283	437,614
Accrued income	5	**56,041**	42,560	46,908
Insurance receivables		**58,273**	43,671	47,145
Insurance deposits		**49,285**	46,677	46,614
Deferred policy acquisition costs		**20,601**	13,259	20,168
Reinsurers' share of technical provisions	6	**70,886**	79,568	82,503
Other assets	7	**13,473**	9,521	12,793
Takaful participants' assets	8	**8,805**	-	-
Investment in associated companies	9	**-**	895	814
Fixed assets		**9,624**	9,743	9,672
		928,319	902,228	859,686
LIABILITIES				
Technical provisions	10	**451,988**	426,117	447,237
Insurance payables		**24,525**	28,391	33,190
Borrowings		**65,658**	75,926	75,492
Other liabilities	11	**43,551**	43,257	42,269
Takaful fund and participants' liabilities	8	**8,805**	-	-
		594,527	573,691	598,188
EQUITY				
Shareholders' equity				
Share capital		**220,000**	200,000	200,000
Treasury stock		**(3,362)**	(2,836)	(2,836)
Reserves		**32,741**	30,991	20,994
Proposed appropriations		**-**	31,080	-
Retained earnings		**26,468**	13,148	42,873
		275,847	272,383	261,031
Minority interests		**57,945**	56,154	467
		333,792	328,537	261,498
		928,319	902,228	859,686

These consolidated interim condensed financial statements were approved by the Board of Directors on 31 October 2006 and signed by:

Khalid A. Al Bustani Chairman	Khalid J. Bin Kalban Vice Chairman	Yassir Albaharna 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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 2006

(In thousands of U.S. Dollars)

	Note	For the three months ended 30 September 2006 (reviewed)	For the financial year-to-date 30 September 2006 (reviewed)	For the three months ended 30 September 2005 (reviewed)	For the financial year-to-date 30 September 2005 (reviewed)	For the year ended 31 December 2005 (audited)
Gross premiums written		39,348	146,822	38,096	144,882	173,652
Net earned premiums		44,576	111,031	37,677	92,861	134,860
Claims and related expenses		(33,640)	(79,438)	(27,263)	(63,972)	(93,073)
Policy acquisition costs		(11,847)	(28,857)	(9,937)	(24,394)	(32,654)
Investment income attributable to insurance funds	13	4,908	10,833	4,520	12,708	15,185
Operating expenses	14	(4,072)	(10,917)	(3,050)	(11,672)	(16,167)
Underwriting result	12	(75)	2,652	1,947	5,531	8,151
Investment income attributable to shareholders' funds	13	6,801	15,403	5,676	13,640	17,857
Operating expenses - non underwriting activities	14	(2,373)	(6,963)	(1,742)	(4,293)	(6,697)
Other income	15	2,857	7,316	2,515	5,523	8,391
Other expenses and provisions	16	(2,262)	(4,186)	(1,559)	(7,041)	(9,444)
Profit from continuing operations		4,948	14,222	6,837	13,360	18,258
Minority interests		(656)	(1,282)	(26)	(108)	1,080
Net profit from continuing operations		4,292	12,940	6,811	13,252	19,338
Profit from discontinued operations		-	-	-	28,859	28,859
Net profit attributable to shareholders		4,292	12,940	6,811	42,111	48,197
Earnings per share attributable to shareholders from :	17 US$					
- **continuing operations**			0.06		0.06	0.09
- **discontinued operations**					0.13	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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 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	-	-	-	1,981	-	1,981	-	-	1,981	-	1,981
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	7	7	-	7
Transfer of net depreciation on revalued property	-	-	-	-	(264)	(264)	-	264	-	-	-
Net (expense) income recognised directly in equity	-	-	-	1,981	(264)	1,717	-	271	1,988	-	1,988
Net profit for the period	-	-	-	-	-	-	-	12,940	12,940	1,282	14,222
Total recognised (expense) income	-	-	-	1,981	(264)	1,717	-	13,211	14,928	1,282	16,210
Issue of bonus shares	20,000	-	-	-	-	-	(20,000)	-	-	-	-
Purchase of treasury shares	-	(526)	-	-	-	-	-	-	(526)	-	(526)
Dividends payable	-	-	-	-	-	-	(9,858)	-	(9,858)	-	(9,858)
Dividend on treasury shares	-	-	-	-	-	-	(142)	142	-	-	-
Sale of partial interest in subsidiary	-	-	-	-	-	-	-	-	-	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 30 September 2006	220,000	(3,362)	18,377	6,403	7,961	32,741	-	26,468	275,847	57,945	333,792

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

ARAB INSURANCE GROUP (B.S.C.)

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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 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	-	-	-	2,010	-	-	2,010	-	-	2,010	-	2,010
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	-	13	13	-	13
Transfer of net depreciation on revalued property	-	-	-	-	-	(264)	(264)	-	264	-	-	-
Net income (expense) recognised directly in equity	-	-	-	2,010	-	(264)	1,746	-	277	2,023	-	2,023
Net profit for the period	-	-	-	-	-	-	-	-	42,111	42,111	(256)	41,855
Total recognised income (expense)	-	-	-	2,010	-	(264)	1,746	-	42,388	44,134	(256)	43,878
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	-	-	-	-	-	-	-	(900)	-	(900)	-	(900)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 30 September 2005	200,000	(2,836)	13,524	(842)	-	8,312	20,994	-	42,873	261,031	467	261,498

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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 2006

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 September 2006 (reviewed)	For the financial year-to-date 30 September 2005 (reviewed)	For the year ended 31 December 2005 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**163,466**	146,782	151,509
Reinsurance premiums paid		**(8,535)**	(15,430)	(19,701)
Claims paid		**(152,865)**	(150,748)	(195,463)
Reinsurance receipts in respect of claims		**6,313**	21,000	61,338
Investment income received		**23,491**	20,425	33,237
Operating expenses paid		**(19,074)**	(12,437)	(19,034)
Other income/expenses, net		**(3,328)**	(7,626)	(8,543)
Insurance deposits (paid) received		**(2,586)**	3,640	7,668
Purchase of trading investments		**(214,424)**	(334,362)	(403,869)
Sale of trading investments		**190,146**	316,097	507,266
Directors' remuneration paid		**(1,080)**	(900)	(900)
Net cash (used in) provided by operating activities	18	**(18,476)**	(13,559)	113,508
CASH FLOWS FROM INVESTING ACTIVITIES:				
Disposal of subsidiaries, net of cash acquired		**625**	22,188	80,214
Disposal of associate		**1,250**	-	-
Maturity/sale of investments		**41,310**	26,156	36,657
Purchase of investments		**(47,326)**	(27,364)	(39,368)
Collateralised cash deposits (paid) received		**(351)**	326	1,238
Purchase of fixed assets		**(549)**	(396)	(732)
Purchase of intangible assets		**(3)**	(4)	(8)
Net cash (used in) provided by investing activities		**(5,044)**	20,906	78,001
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**(10,000)**	-	-
Purchase of treasury shares		**(526)**	-	-
Net borrowings		**(10,267)**	25,219	25,653
Net cash (used in) provided by financing activities		**(20,793)**	25,219	25,653
Net cash provided by discontinued operations		-	18,166	18,166
Net (decrease) increase in cash and cash equivalents		**(44,313)**	50,732	235,328
Cash and cash equivalents, beginning of period		**340,051**	104,723	104,723
Cash and cash equivalents, end of period		**295,738**	155,455	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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 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. Takaful Participants' Fund Accounts comprising of Balance Sheet and 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		
	30 September 2006	31 December 2005	30 September 2005
At fair value through profit or loss			
Held for trading			
Debt securities			
- Supra-nationals and OECD country governments	-	3,924	51,076
- Other investment grade	-	-	55,151
- Others	4,313	-	-
Common stock of listed companies	86,020	74,420	79,367
	90,333	78,344	185,594
Designated at fair value on initial recognition			
Debt Securities			
- Investment grade	-	15,364	40,321
- Other	52,124	21,222	20,787
	52,124	36,586	61,108
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	30,030	27,172	27,162
- Other investment grade	75,946	81,010	79,042
	105,976	108,182	106,204
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	36,729	34,733	35,136
- Other investment grade	10,944	10,852	10,908
- Non-OECD country governments	4,103	4,402	4,612
- Other	10,711	7,927	4,478
Common stock of listed companies	2,332	2,757	-
Common stock of unlisted companies	9,931	16,162	15,772
Other	22,410	16,338	13,802
	97,160	93,171	84,708
	345,593	316,283	437,614

Debt securities amounting to US$ 48.5 million (31 December 2005: US$ 48.3 million; 30 September 2005: US$ 48.5 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 78.0 million (31 December 2005: US$ 87.8 million; 30 September 2005: US$ 86.9 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	30 September 2006	31 December 2005	30 September 2005
Accrued insurance premiums	**48,204**	39,468	44,057
Accrued interest	**7,837**	3,092	2,851
	56,041	42,560	46,908

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 September 2006	31 December 2005	30 September 2005
General insurance business			
Claims outstanding	**61,198**	70,757	67,612
Unreported losses	**9,321**	7,582	13,525
	70,519	78,339	81,137
Life insurance business			
Claims outstanding	**120**	496	1,119
Unreported losses	**247**	733	247
	367	1,229	1,366
	70,886	79,568	82,503

7. OTHER ASSETS

	US$ '000		
	30 September 2006	31 December 2005	30 September 2005
Intangible assets :			
- Goodwill	**1,893**	1,893	1,893
- Computer software	**9,137**	9,066	8,958
	11,030	10,959	10,851
Less : accumulated amortisation	**(8,460)**	(8,735)	(8,672)
Net intangible assets	**2,570**	2,224	2,179
Collateralised cash deposits	**4,871**	4,520	5,432
Prepayments and other receivables	**6,032**	2,777	5,182
	10,903	7,297	10,614
	13,473	9,521	12,793

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000
	30 September 2006
ASSETS	
Cash & cash equivalents	182
Accrued income	4,736
Insurance receivable	953
Insurance deposits	68
Deferred acquisition costs	1,637
Deferred wakala fees	1,173
Other assets	56
	8,805
LIABILITIES	
Accounts payable	1,685
TAKAFUL FUND	
Unearned contributions	5,864
Outstanding claims	400
Unreported losses	904
	7,168
Deficit for the period	(48)
	8,805

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000
	Year-to-date 30 September 2006
Gross contributions	8,428
Outward reinsurance premiums	(436)
Unearned contributions	(5,864)
Net earned contributions	2,128
Reported losses	(115)
Provision for unreported losses	(904)
Claim and related expenses	(1,019)
Policy acquisition costs	(2,286)
Deferred policy acquisition costs	1,637
Policy acquisition costs	(649)
Fee payable to operator (Wakala fee)	(512)
Other income	4
Deficit for the period	(48)

9. INVESTMENT IN ASSOCIATED COMPANIES

	Ownership interest					
	30 September 2006		31 December 2005		30 September 2005	
	US$ '000	%	US$ '000	%	US$ '000	%
Arab Lebanese Insurance Group S.A.L.	-	-	895	25.0	814	25.0
	-		895		814	

In May 2006, the Company disposed its entire holding in Arab Lebanese Insurance Group S.A.L. for a cash consideration of US$ 1,250,000.

10. TECHNICAL PROVISIONS

	US$ '000		
	30 September 2006	31 December 2005	30 September 2005
General insurance business			
Claims outstanding	276,214	286,622	282,263
Unreported losses	87,039	76,827	85,386
Unearned premiums	84,145	57,281	74,541
	447,398	420,730	442,190
Life insurance business			
Claims outstanding	3,067	2,309	1,642
Unreported losses	1,023	2,925	2,668
Unearned premiums	500	153	737
	4,590	5,387	5,047
	451,988	426,117	447,237

11. OTHER LIABILITIES

	US$ '000		
	30 September 2006	31 December 2005	30 September 2005
Accrued expenses	6,599	3,349	1,829
Post employment benefits	11,424	9,919	9,718
Accrual for scheme of arrangement fees	3,733	5,774	4,826
Reinsurance premiums accrued	12,229	12,229	13,995
Employee share scheme	648	5,025	3,804
Other	8,918	6,961	8,097
	43,551	43,257	42,269

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 30 September 2006				Financial year-to-date 30 September 2005			
	General insurance		Life		General insurance		Life	
	Treaty	Facultative	insurance	Total	Treaty	Facultative	insurance	Total
REVENUES :								
Gross premiums written	119,154	23,627	4,041	146,822	125,023	17,414	2,445	144,882
Outward reinsurance premiums	(7,949)	(524)	(61)	(8,534)	(12,704)	(2,480)	(222)	(15,406)
Change in unearned premiums - gross	(20,460)	(6,489)	(347)	(27,296)	(36,106)	(3,055)	(58)	(39,219)
Change in unearned premiums - reinsurance	51	(12)	-	39	2,552	(6)	58	2,604
Net earned premiums	90,796	16,602	3,633	111,031	78,765	11,873	2,223	92,861
Investment income attributable to insurance funds	6,392	4,361	80	10,833	7,008	5,548	152	12,708
	97,188	20,963	3,713	121,864	85,773	17,421	2,375	105,569
COSTS AND EXPENSES :								
Gross claims paid	(58,951)	(16,929)	(4,028)	(79,908)	(46,065)	(34,853)	(1,670)	(82,588)
Claims recovered from reinsurers	4,239	2,076	-	6,315	3,963	12,816	491	17,270
Change in provision for outstanding claims - gross	(5,166)	17,453	(1,060)	11,227	(18,764)	18,812	(11)	37
Change in provision for outstanding claims - reinsurance	92	(9,767)	(58)	(9,733)	951	(5,365)	110	(4,304)
Change in provision for unreported losses - gross	(6,857)	(3,622)	1,769	(8,710)	167	(365)	(580)	(778)
Change in provision for unreported losses - reinsurance	(364)	2,102	(367)	1,371	2,990	3,193	208	6,391
Claims and related expenses	(67,007)	(8,687)	(3,744)	(79,438)	(56,758)	(5,762)	(1,452)	(63,972)
Policy acquisition costs	(33,901)	(4,984)	(322)	(39,207)	(34,236)	(3,494)	(49)	(37,779)
Policy acquisition costs recovered from reinsurers	3,011	32	-	3,043	4,335	167	-	4,502
Change in deferred policy acquisition costs -gross	6,072	1,241	8	7,321	9,258	602	1	9,861
Change in deferred policy acquisition costs - reinsurance	(14)	-	-	(14)	(978)	1	(1)	(978)
Policy acquisition costs	(24,832)	(3,711)	(314)	(28,857)	(21,621)	(2,724)	(49)	(24,394)
Operating expenses	(7,572)	(1,553)	(528)	(9,653)	(8,306)	(1,436)	(359)	(10,101)
Segment underwriting result	(2,223)	7,012	(873)	3,916	(912)	7,499	515	7,102
Operating expenses - unallocated #				(1,264)				(1,571)
Underwriting result				2,652				5,531

 # 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	
	Treaty	Facultative	insurance	Total
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 30 September 2006			Financial year-to-date 30 September 2005	Year ended 31 December 2005
	Insurance funds	Shareholders' funds	Total		
Interest income	6,180	11,129	17,309	10,851	15,864
Dividends	760	1,062	1,822	1,392	1,997
Realised gains	5,023	5,359	10,382	12,575	24,694
Gains (loss) on remeasurement of investments at fair value through profit or loss	(1,433)	(2,495)	(3,928)	2,976	(6,412)
Impairment loss	-	-	-	-	(1,523)
Other	303	348	651	(1,446)	(1,578)
	10,833	15,403	26,236	26,348	33,042

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 September 2006			Financial year-to-date 30 September 2005	Year ended 31 December 2005
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	8,766	4,674	13,440	12,345	18,299
General and administration	2,151	2,289	4,440	3,620	4,565
	10,917	6,963	17,880	15,965	22,864

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 September 2006	Financial year-to-date 30 September 2005	Year ended 31 December 2005
Third party administration services	4,977	3,288	4,656
Software sales and related services	503	258	366
Interest on cash balances	393	196	392
Foreign exchange gains	-	17	1,339
Gain on disposal of associated company	460	839	-
Other	983	925	1,638
	7,316	5,523	8,391

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 September 2006	Financial year-to-date 30 September 2005	Year ended 31 December 2005
Provision for doubtful receivables	**228**	4,849	5,272
Scheme of arrangement fee	**70**	-	947
Interest on borrowing	**2,801**	1,777	2,553
Other	**1,087**	415	672
	4,186	7,041	9,444

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 30 September 2006	Financial year-to-date 30 September 2005	Year ended 31 December 2005
Weighted average number of shares outstanding	'000	**216,724**	216,878	216,878
Continuing operations:				
Net profit	US$'000	**12,940**	13,252	19,338
Earnings per share	US$	**0.06**	0.06	0.09
Discontinued operations:				
Net profit	US$'000	-	28,859	28,859
Earnings per share	US$	-	0.13	0.13
Total earnings per share	US$	**0.06**	0.19	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 30 September 2006	Financial year-to-date 30 September 2005	Year ended 31 December 2005
Profit before minority interests	**14,222**	13,360	18,258
Change in insurance funds	**24,603**	33,333	21,994
Change in insurance receivables/payables, net	**(18,468)**	(10,162)	(11,487)
Change in accrued income	**(13,481)**	(26,672)	(22,324)
Change in other assets/liabilities, net	**(25,352)**	(23,418)	107,067
Net cash (used in) provided by operating activities	**(18,476)**	(13,559)	113,508

19. PRINCIPAL SUBSIDIARIES

At 30 September 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% 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 30 September 2006	Financial year-to-date 30 September 2005	Year ended 31 December 2005
i) **Directors**			
- Remuneration paid	**1,080**	900	900
- Allowances	**64**	54	106
ii) **Key management compensation**			
- Salaries and other short-term employee benefits	**1,280**	1,321	1,617
- Post employment benefits	**809**	216	310
- Share-based compensation	**107**	618	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$ 9.6 million (31 December 2005: US$ 9.6 million; 30 September 2005: US$ 3.2 million).