Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the six months ended 30 June 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 30 June 2006 and the related consolidated condensed statements of income, changes in equity and cash flows for the six 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
18 July 2006

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2006

(In thousands of U.S. Dollars)

	Note	30 June 2006 (reviewed)	31 December 2005 (audited)	30 June 2005 (reviewed)
ASSETS				
Cash and cash equivalents		**327,155**	340,051	125,694
Investments	4	**314,019**	316,283	449,499
Accrued income	5	**67,317**	42,560	52,780
Insurance receivables		**51,127**	43,671	36,485
Insurance deposits		**48,040**	46,677	50,946
Deferred policy acquisition costs		**22,071**	13,259	22,228
Reinsurers' share of technical provisions	6	**75,539**	79,568	82,561
Other assets	7	**11,380**	9,263	10,535
Takaful participants' assets	8	**2,752**	-	-
Investment in associated companies	9	**-**	895	4,086
Fixed assets		**10,089**	10,001	9,909
		929,489	902,228	844,723
LIABILITIES				
Technical provisions	10	**458,741**	426,117	456,306
Insurance payables		**26,091**	28,391	29,827
Borrowings		**75,925**	75,926	75,759
Other liabilities	11	**39,168**	43,257	30,298
Takaful fund and participants' liabilities	8	**2,752**	-	-
		602,677	573,691	592,190
EQUITY				
Shareholders' equity				
Share capital		**220,000**	200,000	200,000
Treasury stock		**(2,948)**	(2,836)	(2,836)
Reserves		**30,387**	30,991	18,958
Proposed appropriations		**-**	31,080	-
Retained earnings		**22,084**	13,148	35,970
		269,523	272,383	252,092
Minority interests		**57,289**	56,154	441
		326,812	328,537	252,533
		929,489	902,228	844,723

These consolidated interim condensed financial statements were approved by the Board of Directors on 18 July 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 SIX MONTH PERIOD ENDED 30 JUNE 2006

(In thousands of U.S. Dollars)

	Note		For the three months ended 30 June 2006 (reviewed)	For the financial year-to-date 30 June 2006 (reviewed)	For the three months ended 30 June 2005 (reviewed)	For the financial year-to-date 30 June 2005 (reviewed)	For the year ended 31 December 2005 (audited)
Gross premiums written			22,972	107,474	15,756	106,786	173,652
Net earned premiums			36,545	66,455	30,659	55,184	134,860
Claims and related expenses			(25,959)	(45,798)	(21,420)	(36,709)	(93,073)
Policy acquisition costs			(8,947)	(17,010)	(7,986)	(14,457)	(32,654)
Investment income attributable to insurance funds	13		957	5,925	3,371	8,187	15,185
Operating expenses	14		(3,965)	(6,845)	(4,111)	(8,622)	(16,167)
Underwriting result	12		(1,369)	2,727	513	3,583	8,151
Investment income attributable to shareholders' funds	13		2,125	8,602	3,543	7,965	17,857
Operating expenses - non underwriting activities	14		(2,469)	(4,590)	(955)	(2,551)	(6,697)
Other income	15		2,805	4,459	2,308	3,008	8,391
Other expenses and provisions	16		(53)	(1,924)	(5,014)	(5,481)	(9,444)
Profit from continuing operations			1,039	9,274	395	6,524	18,258
Minority interests			(406)	(626)	(51)	(82)	1,080
Net profit from continuing operations			633	8,648	344	6,442	19,338
Profit from discontinued operations			-	-	22,398	28,859	28,859
Net profit attributable to shareholders			633	8,648	22,742	35,301	48,197
Earnings per share attributable to shareholders from :	17	US$					
- **continuing operations**				0.04		0.03	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 SIX MONTH PERIOD ENDED 30 JUNE 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	-	-	-	(461)	-	(461)	-	-	(461)	-	(461)
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	3	3	-	3
Transfer of net depreciation on revalued property	-	-	-	-	(176)	(176)	-	176	-	-	-
Net (expense) income recognised directly in equity	-	-	-	(461)	(176)	(637)	-	179	(458)	-	(458)
Net profit for the period	-	-	-	-	-	-	-	8,648	8,648	626	9,274
Total recognised (expense) income	-	-	-	(461)	(176)	(637)	-	8,827	8,190	626	8,816
Issue of bonus shares	20,000	-	-	-	-	-	(20,000)	-	-	-	-
Purchase of treasury shares	-	(112)	-	-	-	-	-	-	(112)	-	(112)
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 June 2006	220,000	(2,948)	18,377	3,961	8,049	30,387	-	22,084	269,523	57,289	326,812

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 SIX MONTH PERIOD ENDED 30 JUNE 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	-	-	-	(115)	-	-	(115)	-	-	(115)	-	(115)
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	-	8	8	-	8
Transfer of net depreciation on revalued property	-	-	-	-	-	(176)	(176)	-	176	-	-	-
Net (expense) income recognised directly in equity	-	-	-	(115)	-	(176)	(291)	-	184	(107)	-	(107)
Net profit for the period	-	-	-	-	-	-	-	-	35,301	35,301	(282)	35,019
Total recognised (expense) income	-	-	-	(115)	-	(176)	(291)	-	35,485	35,194	(282)	34,912
Transfer of balances (including accumulated translation difference) on sale of interest in subsidiary	-	-	(336)	(959)	(19)	-	(1,314)	-	(3,991)	(5,305)	(16,510)	(21,815)
Directors' remuneration	-	-	-	-	-	-	-	(900)	-	(900)	-	(900)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 30 June 2005	200,000	(2,836)	13,524	(2,966)	-	8,400	18,958	-	35,970	252,092	441	252,533

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 SIX MONTH PERIOD ENDED 30 JUNE 2006

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 June 2006 (reviewed)	For the financial year-to-date 30 June 2005 (reviewed)	For the year ended 31 December 2005 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**117,875**	111,579	151,509
Reinsurance premiums paid		**(6,303)**	(9,649)	(19,701)
Claims paid		**(114,529)**	(114,320)	(195,463)
Reinsurance receipts in respect of claims		**4,547**	10,584	61,338
Investment income received		**18,153**	16,811	33,237
Operating expenses paid		**(13,720)**	(11,401)	(19,034)
Other income/expenses, net		**(585)**	(5,278)	(8,543)
Insurance deposits (paid) received		**(1,056)**	(737)	7,668
Purchase of trading investments		**(153,916)**	(250,720)	(403,869)
Sale of trading investments		**148,439**	201,045	507,266
Directors' remuneration paid		**(1,080)**	(800)	(900)
Net cash (used in) provided by operating activities	18	**(2,175)**	(52,886)	113,508
CASH FLOWS FROM INVESTING ACTIVITIES:				
Disposal of subsidiaries, net of cash transferred		**625**	22,188	80,214
Maturity/sale of investments		**15,231**	21,728	36,657
Purchase of investments		**(16,258)**	(13,674)	(39,368)
Collateralised cash deposits received		**241**	277	1,238
Purchase of fixed assets		**(444)**	(311)	(732)
Purchase of intangible assets		**(4)**	(3)	(8)
Net cash (used in) provided by investing activities		**(609)**	30,205	78,001
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**(10,000)**	-	-
Purchase of treasury shares		**(112)**	-	-
Net borrowings		**-**	25,486	25,653
Net cash (used in) provided by financing activities		**(10,112)**	25,486	25,653
Net cash provided by discontinued operations		**-**	18,166	18,166
Net (decrease) increase in cash and cash equivalents		**(12,896)**	20,971	235,328
Cash and cash equivalents, beginning of period		**340,051**	104,723	104,723
Cash and cash equivalents, end of period		327,155	125,694	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 SIX MONTH PERIOD ENDED 30 JUNE 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		
	30 June 2006	31 December 2005	30 June 2005
At fair value through profit or loss			
Held for trading			
Debt securities			
- Supra-nationals and OECD country governments	-	3,924	70,540
- Other investment grade	-	-	55,438
Common stock of listed companies	62,553	74,420	91,148
	62,553	78,344	217,126
Designated at fair value on initial recognition			
Debt Securities			
- Investment grade	-	15,364	39,501
- Other	49,477	21,222	15,397
	49,477	36,586	54,898
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	29,067	27,172	27,191
- Other investment grade	75,997	81,010	81,052
	105,064	108,182	108,243
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	32,423	34,733	31,231
- Other investment grade	10,823	10,852	12,903
- Non-OECD country governments	4,093	4,402	4,612
- Other	12,761	7,927	1,500
Common stock of listed companies	2,545	2,757	-
Common stock of unlisted companies	13,274	16,162	6,558
Other	21,006	16,338	12,428
	96,925	93,171	69,232
	314,019	316,283	449,499

Debt securities amounting to US$ 46.9 million (31 December 2005: US$ 48.3 million; 30 June 2005: US$ 48.5 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 86.6 million (31 December 2005: US$ 87.8 million; 30 June 2005: US$ 87.9 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	30 June 2006	31 December 2005	30 June 2005
Accrued insurance premiums	**61,794**	39,468	50,464
Accrued interest	**5,523**	3,092	2,316
	67,317	42,560	52,780

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 June 2006	31 December 2005	30 June 2005
General insurance business			
Claims outstanding	**64,243**	70,757	69,036
Unreported losses	**10,880**	7,582	12,670
	75,123	78,339	81,706
Life insurance business			
Claims outstanding	**247**	496	247
Unreported losses	**169**	733	608
	416	1,229	855
	75,539	79,568	82,561

7. OTHER ASSETS

	US$ '000		
	30 June 2006	31 December 2005	30 June 2005
Intangible assets :			
- Goodwill	**1,893**	1,893	1,894
- Computer software	**8,812**	8,808	8,803
	10,705	10,701	10,697
Less : accumulated amortisation	**(8,843)**	(8,735)	(8,602)
Net intangible assets	**1,862**	1,966	2,095
Collateralised cash deposits	**4,279**	4,520	5,481
Prepayments and other receivables	**5,239**	2,777	2,959
	9,518	7,297	8,440
	11,380	9,263	10,535

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000
	30 June 2006
ASSETS	
Cash & cash equivalents	30
Accrued income	1,600
Insurance receivable	36
Insurance deposits	33
Deferred acquisition costs	649
Deferred wakala fees	404
	2,752
LIABILITIES	
Accounts payable	565
TAKAFUL FUND	
Unearned contributions	2,019
Outstanding claims	34
Unreported losses	212
	2,265
Deficit for the period	(78)
	2,752

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000
	Year-to-date 30 June 2006
Gross contributions	2,824
Outward reinsurance premiums	(292)
Unearned contributions	(2,019)
Net earned contributions	513
Provision for unreported losses	(212)
Claim and related expenses	(212)
Policy acquisition costs	(867)
Deferred policy acquisition costs	649
Policy acquisition costs	(218)
Fee payable to operator (Wakala fee)	(161)
Deficit for the period	(78)

9. INVESTMENT IN ASSOCIATED COMPANIES

	Ownership interest					
	30 June 2006		31 December 2005		30 June 2005	
	US$ '000	%	US$ '000	%	US$ '000	%
Arab Lebanese Insurance Group S.A.L.	-	-	895	25.0	814	25.0
Arab Misr Insurance Group S.A.E.	-	-	-	-	1,177	20.5
Assurances BIAT S.A.	-	-	-	-	1,235	14.9
Arab Jordanian Insurance Group P.L.C.	-	-	-	-	860	10.0
	-		895		4,086	

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 June 2006	31 December 2005	30 June 2005
General insurance business			
Claims outstanding	275,852	286,622	292,641
Unreported losses	86,077	76,827	79,656
Unearned premiums	91,824	57,281	79,462
	453,753	420,730	451,759
Life insurance business			
Claims outstanding	2,870	2,309	1,953
Unreported losses	1,759	2,925	2,594
Unearned premiums	359	153	-
	4,988	5,387	4,547
	458,741	426,117	456,306

11. OTHER LIABILITIES

	US$ '000		
	30 June 2006	31 December 2005	30 June 2005
Accrued expenses	5,808	3,349	1,772
Post employment benefits	10,641	9,919	9,431
Accrual for scheme of arrangement fees	70	5,774	4,826
Reinsurance premiums accrued	12,229	12,229	4,352
Employee share scheme	432	5,025	3,673
Dividends payable	333	390	390
Other	9,655	6,571	5,854
	39,168	43,257	30,298

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 June 2006				Financial year-to-date 30 June 2005			
	General insurance		Life		General insurance		Life	
	Treaty	Facultative	insurance	Total	Treaty	Facultative	insurance	Total
REVENUES :								
Gross premiums written	90,492	14,574	2,408	107,474	93,937	11,631	1,218	106,786
Outward reinsurance premiums	(5,820)	(443)	(42)	(6,305)	(8,400)	(1,225)	(215)	(9,840)
Change in unearned premiums - gross	(30,530)	(4,580)	(205)	(35,315)	(41,884)	(2,584)	-	(44,468)
Change in unearned premiums - reinsurance	634	(33)	-	601	2,750	(44)	-	2,706
Net earned premiums	54,776	9,518	2,161	66,455	46,403	7,778	1,003	55,184
Investment income attributable to insurance funds	3,508	2,369	48	5,925	4,219	3,861	107	8,187
	58,284	11,887	2,209	72,380	50,622	11,639	1,110	63,371
COSTS AND EXPENSES :								
Gross claims paid	(35,805)	(11,795)	(2,298)	(49,898)	(23,742)	(17,106)	(402)	(41,250)
Claims recovered from reinsurers	2,830	1,717	-	4,547	2,455	4,805	37	7,297
Change in provision for outstanding claims - gross	(2,027)	14,624	(905)	11,692	(20,765)	9,735	(423)	(11,453)
Change in provision for outstanding claims - reinsurance	61	(6,680)	(58)	(6,677)	1,356	(3,693)	321	(2,016)
Change in provision for unreported losses - gross	(5,925)	(3,601)	1,082	(8,444)	5,892	(358)	(427)	5,107
Change in provision for unreported losses - reinsurance	894	2,406	(318)	2,982	1,699	3,629	278	5,606
Claims and related expenses	(39,972)	(3,329)	(2,497)	(45,798)	(33,105)	(2,988)	(616)	(36,709)
Policy acquisition costs	(24,834)	(3,044)	(173)	(28,051)	(25,395)	(2,663)	(43)	(28,101)
Policy acquisition costs recovered from reinsurers	2,250	20	-	2,270	2,562	140	-	2,702
Change in deferred policy acquisition costs -gross	8,123	873	13	9,009	11,329	616	-	11,945
Change in deferred policy acquisition costs - reinsurance	(238)	-	-	(238)	(1,003)	-	-	(1,003)
Policy acquisition costs	(14,699)	(2,151)	(160)	(17,010)	(12,507)	(1,907)	(43)	(14,457)
Operating expenses	(4,682)	(959)	(416)	(6,057)	(6,024)	(767)	(204)	(6,995)
Segment underwriting result	(1,069)	5,448	(864)	3,515	(1,014)	5,977	247	5,210
Operating expenses - unallocated #				(788)				(1,627)
Underwriting result				2,727				3,583

 # 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 June 2006			Financial year-to-date 30 June 2005	Year ended 31 December 2005
	Insurance funds	Shareholders' funds	Total		
Interest income	3,967	7,282	11,249	6,896	15,864
Dividends	662	901	1,563	1,091	1,997
Realised gains	4,605	5,000	9,605	8,395	24,694
Gains (loss) on remeasurement of investments at fair value through profit or loss	(3,648)	(4,981)	(8,629)	930	(6,412)
Impairment loss	-	-	-	-	(1,523)
Other	339	400	739	(1,160)	(1,578)
	5,925	8,602	14,527	16,152	33,042

14. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 June 2006			Financial year-to-date 30 June 2005	Year ended 31 December 2005
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	4,985	2,879	7,864	8,724	18,299
General and administration	1,860	1,711	3,571	2,449	4,565
	6,845	4,590	11,435	11,173	22,864

15. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 June 2006	Financial year-to-date 30 June 2005	Year ended 31 December 2005
Third party administration services	2,898	2,145	4,656
Software sales and related services	343	146	366
Interest on cash balances	216	114	392
Foreign exchange gains	12	106	1,339
Gain on disposal of associated company	460	-	-
Other	530	497	1,638
	4,459	3,008	8,391

16. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 June 2006	Financial year-to-date 30 June 2005	Year ended 31 December 2005
Provision for doubtful receivables	-	4,285	5,272
Scheme of arrangement fee	-	-	947
Interest on borrowing	**1,565**	1,054	2,553
Other	**359**	142	672
	1,924	5,481	9,444

17. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 30 June 2006	Financial year-to-date 30 June 2005	Year ended 31 December 2005
Weighted average number of shares outstanding	'000	**216,858**	216,878	216,878
Continuing operations:				
Net profit	US$'000	**8,648**	6,442	19,338
Earnings per share	US$	**0.04**	0.03	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$	**0.04**	0.16	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 June 2006	Financial year-to-date 30 June 2005	Year ended 31 December 2005
Profit before minority interests	**9,274**	6,524	18,258
Change in insurance funds	**26,478**	35,952	21,994
Change in insurance receivables/payables, net	**(9,756)**	(2,865)	(11,487)
Change in accrued income	**(24,757)**	(32,544)	(22,324)
Change in other assets/liabilities, net	**(3,414)**	(59,953)	107,067
Net cash (used in) provided by operating activities	**(2,175)**	(52,886)	113,508

19. PRINCIPAL SUBSIDIARIES

At 30 June 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 June 2006	Financial year-to-date 30 June 2005	Year ended 31 December 2005
i) **Directors**			
- Remuneration paid	**1,080**	900	900
- Allowances	**38**	51	106
ii) **Key management compensation**			
- Salaries and other short-term employee benefits	**931**	1,061	1,617
- Post employment benefits	**774**	175	310
- Share-based compensation	**19**	563	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 June 2005: US$ 3.6 million).