Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the six months ended 30 June 2007

Independent report on review of interim financial information

The Directors
Arab Insurance Group BSC
Manama
KINGDOM OF BAHRAIN

22 July 2007

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Arab Insurance Group (B.S.C.) (the "Company") and its subsidiaries (together the "Group") as at 30 June 2007, and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended (interim financial information). The Directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting.* Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Without qualifying our conclusion, we draw attention to note 21 to the interim financial information. On 29 June 2007, the Company had entered into an agreement with Scottish Re Limited, United Kingdom, to takeover Scottish Re Limited's Middle East Life Reinsurance portfolio. This transaction has not been included in this interim financial information.

KPMG

ARAB INSURANCE GROUP (B.S.C.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2007

(In thousands of U.S. Dollars)

	Note	30 June 2007 (reviewed)	31 December 2006 (audited)	30 June 2006 (reviewed)
ASSETS				
Cash and cash equivalents		**315,881**	304,541	327,155
Investments	4	**356,349**	360,931	314,019
Accrued income	5	**77,914**	43,064	67,317
Insurance receivables		**46,582**	47,517	51,127
Insurance deposits		**51,678**	51,372	48,040
Deferred policy acquisition costs		**24,305**	12,059	22,071
Reinsurers' share of technical provisions	6	**75,296**	74,172	75,539
Other assets	7	**18,035**	12,101	11,380
Takaful participants' assets	8	**21,773**	14,882	2,752
Fixed assets		**9,473**	9,537	10,089
		997,286	930,176	929,489
LIABILITIES				
Technical provisions	9	**492,816**	435,391	458,741
Insurance payables		**33,693**	28,353	26,091
Borrowings		**55,827**	55,929	75,925
Other liabilities	10	**43,435**	43,261	39,168
Takaful fund and participants' liabilities	8	**21,773**	14,882	2,752
		647,544	577,816	602,677
EQUITY				
Shareholders' equity				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(5,236)**	(4,293)	(2,948)
Reserves		**36,817**	36,742	30,387
Proposed appropriations		**-**	23,080	-
Retained earnings		**37,128**	17,867	22,084
		288,709	293,396	269,523
Minority interests		**61,033**	58,964	57,289
		349,742	352,360	326,812
		997,286	930,176	929,489

These consolidated interim condensed financial statements were approved by the Board of Directors on 22 July 2007 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 2007

(In thousands of U.S. Dollars)

	Note		For the three months ended 30 June 2007 (reviewed)	For the financial year-to-date 30 June 2007 (reviewed)	For the three months ended 30 June 2006 (reviewed)	For the financial year-to-date 30 June 2006 (reviewed)	For the year ended 31 December 2006 (audited)
Gross premiums written			**39,460**	**132,457**	22,972	107,474	166,304
Net earned premiums			**40,720**	**76,862**	36,545	66,455	145,760
Claims and related expenses			**(30,131)**	**(55,019)**	(25,959)	(45,798)	(99,901)
Policy acquisition costs			**(9,804)**	**(17,987)**	(8,947)	(17,010)	(38,846)
Investment income attributable to insurance funds	12		**6,892**	**10,497**	957	5,925	15,607
Operating expenses	13		**(4,396)**	**(7,400)**	(3,965)	(6,845)	(14,554)
Underwriting result	11		**3,281**	**6,953**	(1,369)	2,727	8,066
Investment income attributable to shareholders' funds	12		**11,554**	**16,949**	2,125	8,602	22,770
Operating expenses - non underwriting activities	13		**(2,494)**	**(5,080)**	(2,469)	(4,590)	(9,634)
Other income	14		**2,574**	**5,075**	2,793	4,447	20,284
Other expenses and provisions	15		**(2,234)**	**(2,885)**	(41)	(1,912)	(8,837)
Profit for the period			**12,681**	**21,012**	1,039	9,274	32,649
Minority interests			**(1,728)**	**(2,421)**	(406)	(626)	(2,283)
Net profit attributable to shareholders			**10,953**	**18,591**	633	8,648	30,366
Earnings per share attributable to shareholders :	16	US$		**0.09**		0.04	0.14

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 2007

(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 2006	220,000	(4,293)	21,414	7,456	7,872	36,742	23,080	17,867	293,396	58,964	352,360
Changes on remeasurement of available for sale assets	-	-	-	217	-	217	-	-	217	(12)	205
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	(7)	(7)	-	(7)
Transfer of net depreciation on revalued property	-	-	-	-	(175)	(175)	-	175	-	-	-
Net income (expense) recognised directly in equity	-	-	-	217	(175)	42	-	168	210	(12)	198
Net profit for the period	-	-	-	-	-	-	-	18,591	18,591	2,421	21,012
Total recognised income (expense)	-	-	-	217	(175)	42	-	18,759	18,801	2,409	21,210
Purchase of treasury shares	-	(943)	-	-	-	-	-	-	(943)	-	(943)
Dividends paid	-	-	-	-	-	-	(21,465)	-	(21,465)	-	(21,465)
Dividend on treasury shares	-	-	-	-	-	-	(535)	535	-	-	-
Directors' remuneration paid	-	-	-	-	-	-	(1,080)	-	(1,080)	-	(1,080)
Transfer to legal reserves	-	-	33	-	-	33	-	(33)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 30 June 2007	220,000	(5,236)	21,447	7,673	7,697	36,817	-	37,128	288,709	61,033	349,742

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 2006

(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	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	-	-	-	3,034	-	3,034	-	-	3,034	18	3,052
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	-	-	-	-	8	8	-	8
Transfer of net depreciation on revalued property	-	-	-	-	(353)	(353)	-	353	-	-	-
Net income (expense) recognised directly in equity	-	-	-	3,034	(353)	2,681	-	361	3,042	18	3,060
Net profit for the year	-	-	-	-	-	-	-	30,366	30,366	2,283	32,649
Total recognised income (expense)	-	-	-	3,034	(353)	2,681	-	30,727	33,408	2,301	35,709
Issue of bonus shares	20,000	-	-	-	-	-	(20,000)	-	-	-	-
Purchase of treasury shares	-	(1,457)	-	-	-	-	-	-	(1,457)	-	(1,457)
Dividends paid	-	-	-	-	-	-	(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)
Directors' remuneration proposed	-	-	-	-	-	-	1,080	(1,080)	-	-	-
Proposed dividend @ 10% of paid-up capital	-	-	-	-	-	-	22,000	(22,000)	-	-	-
Transfer to legal reserves	-	-	3,070	-	-	3,070	-	(3,070)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	-	(102)	(102)
Balances at 31 December 2006	220,000	(4,293)	21,414	7,456	7,872	36,742	23,080	17,867	293,396	58,964	352,360
Parent company balances at 31 December 2006	220,000	(4,293)	21,381	7,436	7,872	36,689	23,080	17,920	293,396	-	293,396

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 paid	-	-	-	-	-	-	(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.)

INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2007

(In thousands of U.S. Dollars)

	Note	**For the financial year-to-date 30 June 2007 (reviewed)**	For the financial year-to-date 30 June 2006 (reviewed)	For the year ended 31 December 2006 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**148,215**	117,875	182,590
Reinsurance premiums paid		**(7,194)**	(6,303)	(15,975)
Claims paid		**(130,108)**	(114,529)	(152,334)
Reinsurance receipts in respect of claims		**2,916**	4,547	10,343
Investment income received		**20,733**	18,153	38,520
Operating expenses paid		**(11,363)**	(13,720)	(21,491)
Other income/expenses, net		**(3,492)**	(585)	7,992
Insurance deposits paid		**(208)**	(1,056)	(4,579)
Purchase of trading investments		**(91,281)**	(153,916)	(285,501)
Sale of trading investments		**88,553**	148,439	253,293
Directors' remuneration paid		**(1,080)**	(1,080)	(1,080)
Net cash provided by (used in) operating activities	17	**15,691**	(2,175)	11,778
CASH FLOWS FROM INVESTING ACTIVITIES:				
Disposal of investment in subsidiary		**-**	625	625
Disposal of associate		**-**	-	1,250
Maturity/sale of investments		**40,476**	15,231	69,174
Purchase of investments		**(22,436)**	(16,258)	(85,794)
Collateralised cash deposits received		**666**	241	286
Purchase of fixed assets		**(369)**	(444)	(778)
Purchase of intangible assets		**-**	(4)	(597)
Net cash provided by (used in) investing activities		**18,337**	(609)	(15,834)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**(21,643)**	(10,000)	(10,000)
Purchase of treasury shares		**(943)**	(112)	(1,457)
Net borrowings		**(102)**	-	(19,997)
Net cash used in financing activities		**(22,688)**	(10,112)	(31,454)
Net increase (decrease) in cash and cash equivalents		**11,340**	(12,896)	(35,510)
Cash and cash equivalents, beginning of period		**304,541**	340,051	340,051
Cash and cash equivalents, end of period		**315,881**	327,155	304,541

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 2007

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 2006 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 June 2007	31 December 2006	30 June 2006
At fair value through profit or loss			
Held for trading			
Debt securities			
- Others	**1,532**	6,207	-
Common stock of listed companies	**118,713**	92,464	62,553
	120,245	98,671	62,553
Designated at fair value on initial recognition			
Debt Securities			
- Other	**38,109**	46,696	49,477
	38,109	46,696	49,477
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**33,826**	33,002	29,067
- Other investment grade	**56,936**	73,928	75,997
	90,762	106,930	105,064
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**39,695**	42,988	32,423
- Other investment grade	**8,916**	10,986	10,823
- Non-OECD country governments	**4,655**	4,654	4,093
- Other	**14,839**	13,273	12,761
Common stock of listed companies	**2,046**	2,136	2,545
Common stock of unlisted companies	**14,326**	14,289	13,274
Other	**22,756**	20,308	21,006
	107,233	108,634	96,925
	356,349	360,931	314,019

Debt securities amounting to US$ 45.2 million (31 December 2006: US$ 46.4 million; 30 June 2006: US$ 46.9 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 64.4 million (31 December 2006: US$ 67.9 million; 30 June 2006: US$ 86.6 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	30 June 2007	31 December 2006	30 June 2006
Accrued insurance premiums	**72,960**	34,262	61,794
Accrued interest	**4,954**	8,802	5,523
	77,914	43,064	67,317

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 June 2007	31 December 2006	30 June 2006
General insurance business			
- Claims outstanding	**61,871**	58,750	64,243
- Unreported general insurance claims	**9,547**	10,445	7,356
- Deferred retrocession premium reserve	**3,457**	4,227	3,524
	74,875	73,422	75,123
Life insurance business			
- Life insurance claims outstanding	**248**	356	247
- Life insurance unreported losses	**173**	394	169
	421	750	416
	75,296	74,172	75,539

7. OTHER ASSETS

	US$ '000		
	30 June 2007	31 December 2006	30 June 2006
Intangible assets :			
- Goodwill	**1,893**	1,893	1,893
- Computer software	**9,253**	9,175	8,812
	11,146	11,068	10,705
Less: accumulated amortisation of computer software	**(8,543)**	(8,500)	(8,843)
Net intangible assets	**2,603**	2,568	1,862
Other assets :			
- Collateralised cash deposits	**3,568**	4,234	4,279
- Prepayments and other receivables	**11,864**	5,299	5,239
	15,432	9,533	9,518
	18,035	12,101	11,380

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000		
	30 June 2007	31 December 2006	30 June 2006
ASSETS			
Cash & cash equivalents	**1,657**	272	30
Accrued income	**11,383**	8,994	1,600
Insurance receivable	**1,638**	1,085	36
Insurance deposits	**1,211**	383	33
Deferred acquisition costs	**3,470**	2,233	649
Deferred wakala fees	**2,249**	1,793	404
Other assets	**165**	122	-
	21,773	14,882	2,752
LIABILITIES			
Accounts payable	**4,939**	3,009	565
TAKAFUL FUND			
Unearned contributions	**11,248**	8,970	2,019
Outstanding claims	**1,420**	601	34
Unreported losses	**4,412**	2,354	212
	17,080	11,925	2,265
Accumulated deficit	**(246)**	(52)	(78)
	21,773	14,882	2,752

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 30 June 2007	Year-to-date 31 December 2006	Year-to-date 30 June 2006
Gross contributions	**9,042**	15,049	2,824
Outward reinsurance premiums	**(267)**	(782)	(292)
Unearned contributions	**(2,280)**	(8,965)	(2,019)
Net earned contributions	**6,495**	5,302	513
Reported losses	**(1,203)**	(291)	-
Provision for unreported losses	**(2,137)**	(2,355)	(212)
Claim and related expenses	**(3,340)**	(2,646)	(212)
Policy acquisition costs	**(3,233)**	(3,738)	(867)
Deferred policy acquisition costs	**1,236**	2,232	649
Policy acquisition costs	**(1,997)**	(1,506)	(218)
Fee payable to operator (Wakala fee)	**(1,352)**	(1,216)	(161)
Other income	**-**	14	-
Deficit for the period	**(194)**	(52)	(78)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 June 2007	31 December 2006	30 June 2006
General insurance business			
Claims outstanding	**279,624**	275,177	275,852
Unreported losses	**93,928**	89,516	86,077
Unearned premiums	**113,371**	65,989	91,824
	486,923	430,682	453,753
Life insurance business			
Claims outstanding	**3,167**	2,972	2,870
Unreported losses	**2,118**	1,366	1,759
Unearned premiums	**608**	371	359
	5,893	4,709	4,988
	492,816	435,391	458,741

10. OTHER LIABILITIES

	US$ '000		
	30 June 2007	31 December 2006	30 June 2006
Accrued expenses	**2,141**	2,520	5,808
Post employment benefits	**12,435**	11,782	10,641
Accrual for scheme of arrangement fees	**3,043**	4,043	70
Reinsurance premiums accrued	**10,775**	10,892	12,229
Covered option premium	**181**	40	6
Employee share scheme	**971**	577	432
Dividends payable	**560**	804	333
Other	**13,329**	12,603	9,649
	43,435	43,261	39,168

11. 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 2007				Financial year-to-date 30 June 2006			
	Treaty	Facultative	Life	Total	Treaty	Facultative	Life	Total
REVENUES :								
Gross premiums written	111,805	17,005	3,647	132,457	90,492	14,574	2,408	107,474
Outward reinsurance premiums	(5,576)	(1,578)	(41)	(7,195)	(5,820)	(443)	(42)	(6,305)
Change in unearned premiums - gross	(44,669)	(2,818)	(142)	(47,629)	(30,530)	(4,580)	(205)	(35,315)
Change in unearned premiums - reinsurance	(1,012)	241	-	(771)	634	(33)	-	601
Net earned premiums	60,548	12,850	3,464	76,862	54,776	9,518	2,161	66,455
Investment income attributable to insurance funds	6,298	4,100	99	10,497	3,508	2,369	48	5,925
	66,846	16,950	3,563	87,359	58,284	11,887	2,209	72,380
COSTS AND EXPENSES :								
Gross claims paid	(42,115)	(7,997)	(1,564)	(51,676)	(35,805)	(11,795)	(2,298)	(49,898)
Claims recovered from reinsurers	1,857	898	-	2,755	2,830	1,717	-	4,547
Change in provision for outstanding claims - gross	(1,012)	(1,412)	(476)	(2,900)	(2,027)	14,624	(905)	11,692
Change in provision for outstanding claims - reinsurance	2,639	257	(61)	2,835	61	(6,680)	(58)	(6,677)
Change in provision for unreported losses - gross	(5,090)	681	(752)	(5,161)	(5,925)	(3,601)	1,082	(8,444)
Change in provision for unreported losses - reinsurance	(850)	(48)	26	(872)	894	2,406	(318)	2,982
Claims and related expenses	(44,571)	(7,621)	(2,827)	(55,019)	(39,972)	(3,329)	(2,497)	(45,798)
Policy acquisition costs	(28,296)	(3,478)	(150)	(31,924)	(24,834)	(3,044)	(173)	(28,051)
Policy acquisition costs recovered from reinsurers	1,463	224	-	1,687	2,250	20	-	2,270
Change in deferred policy acquisition costs -gross	11,360	620	17	11,997	8,123	873	13	9,009
Change in deferred policy acquisition costs - reinsurance	333	(80)	-	253	(238)	-	-	(238)
Policy acquisition costs	(15,140)	(2,714)	(133)	(17,987)	(14,699)	(2,151)	(160)	(17,010)
Operating expenses	(5,400)	(969)	(462)	(6,831)	(4,682)	(959)	(416)	(6,057)
Segment underwriting result	1,735	5,646	141	7,522	(1,069)	5,448	(864)	3,515
Operating expenses - unallocated #				(569)				(788)
Underwriting result				6,953				2,727

 # Unallocated operating expenses represent corporate expenses.

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

	US$ '000			
	Year ended 31 December 2006			
	Treaty	Facultative	Life	Total
REVENUES :				
Gross premiums written	130,877	29,554	5,873	166,304
Outward reinsurance premiums	(14,739)	(1,154)	(81)	(15,974)
Change in unearned premiums - gross	(574)	(5,077)	(219)	(5,870)
Change in unearned premiums - reinsurance	1,286	14	-	1,300
Net earned premiums	116,850	23,337	5,573	145,760
Investment income attributable to insurance funds	9,494	6,010	103	15,607
	126,344	29,347	5,676	161,367
COSTS AND EXPENSES :				
Gross claims paid	(74,709)	(29,193)	(5,121)	(109,023)
Claims recovered from reinsurers	5,698	4,283	-	9,981
Change in provision for outstanding claims - gross	(6,895)	26,613	(820)	18,898
Change in provision for outstanding claims - reinsurance	979	(12,267)	76	(11,212)
Change in provision for unreported losses - gross	(10,975)	(1,647)	1,554	(11,068)
Change in provision for unreported losses - reinsurance	1,872	991	(340)	2,523
Claims and related expenses	(84,030)	(11,220)	(4,651)	(99,901)
Policy acquisition costs	(36,447)	(6,491)	(456)	(43,394)
Policy acquisition costs recovered from reinsurers	5,740	85	-	5,825
Change in deferred policy acquisition costs - gross	(2,249)	1,182	-	(1,067)
Change in deferred policy acquisition costs - reinsurance	(211)	-	1	(210)
Policy acquisition costs	(33,167)	(5,224)	(455)	(38,846)
Operating expenses	(9,829)	(2,528)	(717)	(13,074)
Segment underwriting result	(682)	10,375	(147)	9,546
Operating expenses - unallocated #				(1,480)
Underwriting result				8,066

 # Unallocated operating expenses represent corporate expenses.

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 June 2007			Financial year-to-date 30 June 2006	Year ended 31 December 2006
	Insurance funds	Shareholders' funds	Total		
Interest income	4,263	6,897	11,160	11,249	23,543
Dividends	534	762	1,296	1,563	2,089
Realised gains	2,213	3,626	5,839	9,605	15,987
Gain (loss) on remeasurement of investments at fair value through profit or loss	3,215	5,607	8,822	(8,629)	(3,239)
Impairment loss	-	-	-	-	(510)
Other	272	57	329	739	507
	10,497	16,949	27,446	14,527	38,377

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 June 2007			Financial year-to-date 30 June 2006	Year ended 31 December 2006
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	5,481	3,304	8,785	7,864	17,922
General and administration	1,919	1,776	3,695	3,571	6,266
	7,400	5,080	12,480	11,435	24,188

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 June 2007	Financial year-to-date 30 June 2006	Year ended 31 December 2006
Warranty claims	-	-	10,414
Third party administration services	3,180	2,898	6,704
Fees on managing Islamic reinsurance operations	1,352	161	1,216
Software sales and related services	343	343	848
Interest on cash balances	110	216	210
Gain on sale of interest in associate	-	460	459
Other	90	369	433
	5,075	4,447	20,284

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 June 2007	Financial year-to-date 30 June 2006	Year ended 31 December 2006
Provision for doubtful receivable & deposits	**(91)**	-	1,624
Foreign exchange loss (gain)	**1,099**	(12)	2,748
Scheme of arrangement fee	**-**	-	379
Interest on borrowing	**1,459**	1,565	3,604
Other	**418**	359	482
	2,885	1,912	8,837

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 30 June 2007	Financial year-to-date 30 June 2006	Year ended 31 December 2006
Weighted average number of shares outstanding	'000	**214,861**	216,858	216,392
Net profit	US$'000	**18,591**	8,648	30,366
Earnings per share	US$	**0.09**	0.04	0.14

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

	US$ '000		
	Financial year-to-date 30 June 2007	Financial year-to-date 30 June 2006	Year ended 31 December 2006
Profit before minority interests	**21,012**	9,274	32,649
Increase in insurance funds	**43,749**	26,478	11,175
Change in insurance receivable/payable, net	**6,275**	(9,756)	(3,884)
Change in accrued income	**(34,850)**	(24,757)	(504)
Change in other assets/liabilities, net	**(20,495)**	(3,414)	(27,658)
Net cash provided by (used in) operating activities	**15,691**	(2,175)	11,778

18. PRINCIPAL SUBSIDIARIES

At 30 June 2007, 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 2006.

19. RELATED-PARTY TRANSACTIONS

Compensation paid to directors and key management personnel are as follows:

	US$ '000		
	Financial year-to-date 30 June 2007	Financial year-to-date 30 June 2006	Year ended 31 December 2006
i) Directors			
- Remuneration paid	**1,130**	1,080	1,080
- Allowances	**60**	38	108
ii) Key management compensation			
- Salaries and other short-term employee benefits	**473**	931	1,080
- Post employment benefits	-	774	943
- Share-based compensation	-	19	131

20. COMMITMENTS OUTSTANDING

The Group has commitments for uncalled capital in investee companies held as part of its investment portfolios amounting to US$ 11.1 million (31 December 2006: US$ 8.0 million; 30 June 2006: US$ 9.6 million).

21. PORTFOLIO TAKEOVER

On 29 June 2007, the Company has entered into an agreement with Scottish Re Limited, United Kingdom, to takeover Scottish Re Limited's Middle East Life Reinsurance portfolio amounting to approximately US$ 22 million of annual premium. The accounting records of this transaction are in the process of being compiled and also the process of assessing the fair value of the portfolio acquired is not yet complete as on the balance sheet date. Hence, this transaction has not been reported in these consolidated interim financial statements for the six months ended 30 June 2007. Further, the financial impact of this transaction is not considered material for the period under report.