Arab Insurance Group (B.S.C.)

Consolidated interim condensed financial statements for the six months ended 30 June 2008

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Independent report on review of interim financial information

The Directors
Arab Insurance Group BSC
Manama
Kingdom of Bahrain

22 July 2008

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 2008, and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended (the "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*.

KPMG

KPMG Fakhro, a registered partnership under Bahrain law,
is a member of KPMG International, a Swiss cooperative.

ARAB INSURANCE GROUP (B.S.C.)

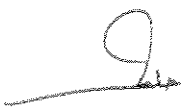
INTERIM CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2008

(In thousands of U.S. Dollars)

	Note	30 June 2008 (reviewed)	31 December 2007 (audited)	30 June 2007 (reviewed)
ASSETS				
Cash and cash equivalents		**378,515**	386,293	315,881
Investments	4	**332,537**	319,366	356,349
Accrued income	5	**121,103**	73,154	77,914
Insurance receivables		**64,544**	56,354	46,582
Insurance deposits		**61,512**	54,945	51,678
Deferred policy acquisition costs		**31,184**	17,212	24,305
Reinsurers' share of technical provisions	6	**71,511**	75,755	75,296
Other assets	7	**20,134**	26,680	18,035
Takaful participants' assets	8	**39,511**	29,694	21,773
Fixed assets		**19,746**	10,355	9,473
		1,140,297	1,049,808	997,286
LIABILITIES				
Technical provisions	9	**617,154**	534,859	492,816
Insurance payables		**29,704**	32,589	33,693
Borrowings		**51,934**	45,802	55,827
Other liabilities	10	**49,803**	43,702	43,435
Takaful fund and participants' liabilities	8	**39,511**	29,694	21,773
		788,106	686,646	647,544
EQUITY				
Shareholders' equity				
Share capital		**220,000**	220,000	220,000
Treasury stock		**(7,383)**	(6,548)	(5,236)
Reserves		**42,585**	44,974	36,817
Retained earnings		**34,246**	40,012	37,128
		289,448	298,438	288,709
Minority interests		**62,743**	64,724	61,033
		352,191	363,162	349,742
		1,140,297	1,049,808	997,286

These consolidated interim condensed financial statements were approved by the Board of Directors on 22 July 2008 and signed by:



Khalid A. Al Bustani
Chairman



Khalid J. Bin Kalban
Vice Chairman



Yassir Albaharna
Chief Executive Officer

The accompanying notes 1 to 20 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 2008

(In thousands of U.S. Dollars)

	Note		For the three months ended 30 June 2008 (reviewed)	For the financial year-to-date 30 June 2008 (reviewed)	For the three months ended 30 June 2007 (reviewed)	For the financial year-to-date 30 June 2007 (reviewed)	For the year ended 31 December 2007 (audited)
Gross premiums written			**53,244**	**183,974**	39,460	132,457	249,968
Net earned premiums			**53,452**	**123,223**	40,720	76,862	210,759
Claims and related expenses			**(39,227)**	**(93,163)**	(30,131)	(55,019)	(172,006)
Policy acquisition costs			**(11,085)**	**(23,623)**	(9,804)	(17,987)	(41,752)
Investment income attributable to insurance funds	12		**4,703**	**6,588**	6,892	10,497	19,542
Operating expenses	13		**(5,124)**	**(9,312)**	(4,396)	(7,400)	(16,273)
Underwriting result	11		**2,719**	**3,713**	3,281	6,953	270
Investment income attributable to shareholders' funds	12		**7,443**	**8,751**	11,554	16,949	34,151
Operating expenses – non underwriting activities	13		**(3,570)**	**(7,562)**	(2,494)	(5,080)	(12,897)
Borrowing cost			**(472)**	**(1,122)**	(830)	(1,459)	(3,079)
Other income	14		**4,183**	**9,554**	1,475	3,976	14,668
Other expenses and provisions	15		**(64)**	**(498)**	(305)	(327)	(3,442)
Profit for the period			**10,239**	**12,836**	12,681	21,012	29,671
Minority interests			**(1,756)**	**(1,397)**	(1,728)	(2,421)	(6,016)
Net profit attributable to shareholders			**8,483**	**11,439**	10,953	18,591	23,655
Earnings per share attributable to shareholders :	16	US$		**0.05**		0.09	0.11

The accompanying notes 1 to 20 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 2008

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Shareholders' equity	Minority interests	Total equity (reviewed)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Changes on remeasurement of available for sale assets	-	-	-	(2,070)	-	(2,070)	-	(2,070)	65	(2,005)
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	(137)	-	(137)	(439)	(576)	(160)	(736)
Transfer of net depreciation on revalued property	-	-	-	-	(182)	(182)	182	-	-	-
Net (expense) recognised directly in equity	-	-	-	(2,207)	(182)	(2,389)	(257)	(2,646)	(95)	(2,741)
Net profit for the period	-	-	-	-	-	-	11,439	11,439	1,397	12,836
Total recognised (expense) income	-	-	-	(2,207)	(182)	(2,389)	11,182	8,793	1,302	10,095
Purchase of treasury shares	-	(835)	-	-	-	-	-	(835)	-	(835)
Dividends paid	-	-	-	-	-	-	(15,922)	(15,922)	-	(15,922)
Directors' remuneration paid	-	-	-	-	-	-	(1,026)	(1,026)	-	(1,026)
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(3,283)	(3,283)
Balances at 30 June 2008	220,000	(7,383)	23,813	11,006	7,766	42,585	34,246	289,448	62,743	352,191

The accompanying notes 1 to 20 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 2007

(In thousands of U.S. Dollars)

	Share capital	Treasury stock	Reserves				Retained earnings	Shareholders' equity	Minority interests	Total Equity (audited)
			Legal	Investment revaluation	Property revaluation	Total				
Balances at 31 December 2006	220,000	(4,293)	21,414	7,456	7,872	36,742	40,947	293,396	58,964	352,360
Revaluation of property	-	-	-	-	431	431	-	431	-	431
Changes on remeasurement of available for sale assets	-	-	-	6,020	-	6,020	-	6,020	84	6,104
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	(263)	-	(263)	(1)	(264)	-	(264)
Transfer of net depreciation on revalued property	-	-	-	-	(355)	(355)	355	-	-	-
Net income recognised directly in equity	-	-	-	5,757	76	5,833	354	6,187	84	6,271
Net profit for the year	-	-	-	-	-	-	23,655	23,655	6,016	29,671
Total recognised income	-	-	-	5,757	76	5,833	24,009	29,842	6,100	35,942
Purchase of treasury shares	-	(2,255)	-	-	-	-	-	(2,255)	-	(2,255)
Dividends paid	-	-	-	-	-	-	(21,465)	(21,465)	-	(21,465)
Directors' remuneration paid	-	-	-	-	-	-	(1,080)	(1,080)	-	(1,080)
Transfer to legal reserves	-	-	2,399	-	-	2,399	(2,399)	-	-	-
Share of dividend declared by subsidiary	-	-	-	-	-	-	-	-	(340)	(340)
Balances at 31 December 2007	220,000	(6,548)	23,813	13,213	7,948	44,974	40,012	298,438	64,724	363,162
Parent company balances at 31 December 2007	220,000	(6,548)	23,747	13,096	7,948	44,791	40,195	298,438	-	298,438

The accompanying notes 1 to 20 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				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	40,947	293,396	58,964	352,360
Changes on remeasurement of available for sale assets	-	-	-	34	-	34	-	34	(12)	22
Transfers for recognition of gains/losses on disposal of available for sale assets	-	-	-	183	-	183	(7)	176	-	176
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)
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 20 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 2008

(In thousands of U.S. Dollars)

	Note	For the financial year-to-date 30 June 2008 (reviewed)	For the financial year-to-date 30 June 2007 (reviewed)	For the year ended 31 December 2007 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES:				
Premiums received		**126,441**	148,215	297,178
Reinsurance premiums paid		**(7,418)**	(7,194)	(14,760)
Claims paid		**(105,145)**	(130,108)	(257,446)
Reinsurance receipts in respect of claims		**5,147**	2,916	14,083
Investment income received		**5,116**	4,282	15,000
Interest received		**13,678**	14,931	27,120
Dividends received		**2,495**	1,296	2,223
Interest paid		**(1,344)**	(1,561)	(3,206)
Operating expenses paid		**(11,523)**	(11,363)	(26,227)
Other income/expenses, net		**8,261**	(3,492)	2,098
Insurance deposits paid		**(6,732)**	(208)	(3,891)
Purchase of trading investments		**(136,171)**	(91,281)	(243,932)
Sale of trading investments		**113,842**	88,553	260,633
Directors' remuneration paid		**(1,026)**	(1,080)	(1,080)
Net cash provided by operating activities	17	**5,621**	13,906	67,793
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of portfolio		**-**	-	6,621
Maturity/sale of investments		**26,077**	40,476	76,025
Purchase of investments		**(26,837)**	(22,436)	(39,368)
Collateralised cash deposits received		**45**	666	263
Purchase of fixed assets		**(6,523)**	(369)	(1,009)
Purchase of intangible assets		**(247)**	-	(108)
Net cash (used in) provided by investing activities		**(7,485)**	18,337	42,424
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends paid		**(15,318)**	(21,643)	(21,747)
Purchase of treasury shares		**(835)**	(943)	(2,255)
Net borrowings		**7,476**	1,459	(10,127)
Net cash used in financing activities		**(8,677)**	(21,127)	(34,129)
Net (decrease) increase in cash and cash equivalents		**(10,541)**	11,116	76,088
Effect of exchange rate on cash and cash equivalents		**2,763**	224	5,664
Cash and cash equivalents, beginning of period		**386,293**	304,541	304,541
Cash and cash equivalents, end of period		**378,515**	315,881	386,293

The accompanying notes 1 to 20 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 2008

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 2007 that were prepared in accordance with International Financial Reporting Standards (IFRS). 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 2008	31 December 2007	30 June 2007
At fair value through profit or loss			
Held for trading			
Debt securities			
- Others	**-**	-	1,532
Common stock of listed companies	**123,280**	107,264	118,713
	123,280	107,264	120,245
Designated at fair value on initial recognition			
Debt Securities			
- Other	**25,907**	26,966	38,109
	25,907	26,966	38,109
Held to maturity			
Debt securities			
- Supra-nationals and OECD country governments	**27,935**	33,918	33,826
- Other investment grade	**36,954**	44,942	56,936
	64,889	78,860	90,762
Available for sale			
Debt securities			
- Supra-nationals and OECD country governments	**39,659**	26,441	39,695
- Other investment grade	**15,172**	9,063	8,916
- Non-OECD country governments	**5,274**	6,138	4,655
- Other	**10,682**	16,134	14,839
Common stock of listed companies	**2,801**	2,047	2,046
Common stock of unlisted companies	**18,964**	22,511	14,326
Other	**25,909**	23,942	22,756
	118,461	106,276	107,233
	332,537	319,366	356,349

Debt securities amounting to US$ 46.0 million (31 December 2007: US$ 48.5 million; 30 June 2007: US$ 45.2 million) have been pledged as security for reinsurance trust agreements, letters of credit and guarantees and US$ 53.2 million (31 December 2007: US$ 54.0 million; 30 June 2007: 64.4 million) for borrowings.

5. ACCRUED INCOME

	US$ '000		
	30 June 2008	31 December 2007	30 June 2007
Accrued insurance premiums	**117,001**	67,155	72,960
Accrued interest	**4,102**	5,999	4,954
	121,103	73,154	77,914

6. REINSURERS' SHARE OF TECHNICAL PROVISIONS

	US$ '000		
	30 June 2008	31 December 2007	30 June 2007
General insurance business			
- Claims outstanding	**60,582**	63,372	61,871
- Unreported general insurance claims	**6,952**	10,160	9,547
- Deferred retrocession premium reserve	**3,431**	1,497	3,457
	70,965	75,029	74,875
Life insurance business			
- Life insurance claims outstanding	**83**	296	248
- Life insurance unreported losses	**463**	430	173
	546	726	421
	71,511	75,755	75,296

7. OTHER ASSETS

	US$ '000		
	30 June 2008	31 December 2007	30 June 2007
Intangible assets :			
- Goodwill	**1,893**	1,893	1,893
- Present value of future profits (PVFP)	**5,000**	5,000	-
- Computer software	**9,688**	9,538	9,253
	16,581	16,431	11,146
Less: accumulated amortisation	**(9,676)**	(9,088)	(8,543)
Net intangible assets	**6,905**	7,343	2,603
Other assets :			
- Collateralised cash deposits	**3,927**	3,971	3,568
- Prepayments and other receivables	**9,302**	15,366	11,864
	13,229	19,337	15,432
	20,134	26,680	18,035

8. TAKAFUL PARTICIPANTS' FUND ACCOUNTS

i) BALANCE SHEET

	US$ '000		
	30 June 2008	31 December 2007	30 June 2007
ASSETS			
Cash & cash equivalents	**4,641**	3,721	1,657
Accrued income	**11,928**	11,354	11,383
Insurance receivable	**8,340**	6,018	1,638
Insurance deposits	**4,633**	2,711	1,211
Deferred acquisition costs	**5,341**	3,609	3,470
Deferred wakala fees	**2,924**	2,281	2,249
Other assets	**1,704**	-	165
	39,511	29,694	21,773
LIABILITIES			
Accounts payable	**11,534**	7,434	4,939
TAKAFUL FUND			
Unearned contributions	**14,625**	11,418	11,248
Outstanding claims	**6,399**	5,077	1,420
Unreported losses	**9,265**	6,968	4,412
	30,289	23,463	17,080
Accumulated deficit	**(2,312)**	(1,203)	(246)
	39,511	29,694	21,773

ii) STATEMENT OF PARTICIPANTS' REVENUE

	US$ '000		
	Year-to-date 30 June 2008	Year ended 31 December 2007	Year-to-date 30 June 2007
Gross contributions	**17,806**	20,339	9,042
Outward reinsurance premiums	**(381)**	(694)	(267)
Unearned contributions	**(3,212)**	(2,440)	(2,280)
Net earned contributions	**14,213**	17,205	6,495
Reported losses	**(7,027)**	(5,062)	(1,203)
Provision for unreported losses	**(2,384)**	(4,632)	(2,137)
Claim and related expenses	**(9,411)**	(9,694)	(3,340)
Policy acquisition costs	**(4,860)**	(6,545)	(3,233)
Deferred policy acquisition costs	**1,732**	1,376	1,236
Policy acquisition costs	**(3,128)**	(5,169)	(1,997)
Fee payable to operator (Wakala fee)	**(2,940)**	(3,579)	(1,352)
Investment income	**70**	41	-
Other income	**87**	45	-
Deficit for the period	**(1,109)**	(1,151)	(194)

9. TECHNICAL PROVISIONS

Technical provisions comprise:

	US$ '000		
	30 June 2008	31 December 2007	30 June 2007
General insurance business			
Claims outstanding	**285,847**	288,513	279,624
Unreported losses	**115,912**	104,125	93,928
Unearned premiums	**138,337**	83,712	113,371
	540,096	476,350	486,923
Life insurance business			
Claims outstanding	**12,610**	10,007	3,167
Unreported losses	**51,499**	36,062	2,118
Unearned premiums	**12,949**	12,440	608
	77,058	58,509	5,893
	617,154	534,859	492,816

10. OTHER LIABILITIES

	US$ '000		
	30 June 2008	31 December 2007	30 June 2007
Accrued expenses	**2,891**	3,218	2,141
Post employment benefits	**12,351**	12,337	12,435
Accrual for scheme of arrangement fees	**3,231**	3,231	3,043
Reinsurance premiums accrued	**11,861**	11,861	10,775
Employee share scheme	**1,829**	1,287	971
Dividends payable	**1,504**	522	560
Other	**16,136**	11,246	13,510
	49,803	43,702	43,435

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

The Group's non-life reinsurance business consists of two main business segments, treaty and facultative mainly involving underwriting of property and marine classes. Life business mainly involves short term group life policies and long term life policies. Life portfolio does not contain investment linked policies.

	US$ '000								
	Financial year-to-date 30 June 2008					Financial year-to-date 30 June 2007			
	Non-life		Life						
	Treaty	Facultative	Short term	Long term	Total	Treaty	Facultative	Life	Total
REVENUES :									
Gross premiums written	127,905	18,799	23,603	13,667	183,974	111,805	17,005	3,647	132,457
Outward reinsurance premiums	(6,056)	(1,273)	(106)	21	(7,414)	(5,576)	(1,578)	(41)	(7,195)
Change in unearned premiums - gross	(51,694)	(3,098)	(479)	-	(55,271)	(44,669)	(2,818)	(142)	(47,629)
Change in unearned premiums - reinsurance	1,417	517	-	-	1,934	(1,012)	241	-	(771)
Net earned premiums	71,572	14,945	23,018	13,688	123,223	60,548	12,850	3,464	76,862
Investment income attributable to insurance funds	4,449	1,586	256	297	6,588	6,298	4,100	99	10,497
	76,021	16,531	23,274	13,985	129,811	66,846	16,950	3,563	87,359
COSTS AND EXPENSES :									
Gross claims paid	(39,519)	(9,990)	(9,872)	(5,281)	(64,662)	(42,115)	(7,997)	(1,564)	(51,676)
Claims recovered from reinsurers	3,942	844	361	-	5,147	1,857	898	-	2,755
Change in provision for outstanding claims – gross	(946)	3,341	(1,041)	(1,446)	(92)	(1,012)	(1,412)	(476)	(2,900)
Change in provision for outstanding claims - reinsurance	(1,871)	(914)	(213)	-	(2,998)	2,639	257	(61)	2,835
Change in provision for unreported losses - gross	(11,659)	(283)	(9,849)	344	(21,447)	(5,090)	681	(752)	(5,161)
Change in provision for unreported losses - reinsurance	(2,066)	(1,142)	158	-	(3,050)	(850)	(48)	26	(872)
Claims and related expenses	(52,119)	(8,144)	(20,456)	(6,383)	(87,102)	(44,571)	(7,621)	(2,827)	(55,019)
Policy acquisition costs	(34,461)	(3,807)	(742)	(414)	(39,424)	(28,296)	(3,478)	(150)	(31,924)
Policy acquisition costs recovered from reinsurers	1,581	223	-	-	1,804	1,463	224	-	1,687
Change in deferred policy acquisition costs -gross	14,981	635	(571)	(294)	14,751	11,360	620	17	11,997
Change in deferred policy acquisition costs - reinsurance	(597)	(157)	-	-	(754)	333	(80)	-	253
Policy acquisition costs	(18,496)	(3,106)	(1,313)	(708)	(23,623)	(15,140)	(2,714)	(133)	(17,987)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	(6,061)	(6,061)	-	-	-	-
Operating expenses	(5,737)	(1,559)	(800)	(930)	(9,026)	(5,400)	(969)	(462)	(6,831)
Segment underwriting result	(331)	3,722	705	(97)	3,999	1,735	5,646	141	7,522
Operating expenses – unallocated #					(286)				(569)
Underwriting result					3,713				6,953

 # Unallocated operating expenses represent corporate expenses.

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

	Year ended 31 December 2007				
	Non-life		Life		Total
	Treaty	Facultative	Short term	Long term	
REVENUES :					
Gross premiums written	163,747	34,881	21,678	29,662	249,968
Outward reinsurance premiums	(10,635)	(3,983)	(110)	(33)	(14,761)
Change in unearned premiums - gross	(14,733)	(3,109)	(2,217)	(1,659)	(21,718)
Change in unearned premiums - reinsurance	(2,719)	(11)	-	-	(2,730)
Net earned premiums	135,660	27,778	19,351	27,970	210,759
Investment income attributable to insurance funds	11,566	7,145	312	519	19,542
	147,226	34,923	19,663	28,489	230,301
COSTS AND EXPENSES :					
Gross claims paid	(90,391)	(33,707)	(17,504)	(10,268)	(151,870)
Claims recovered from reinsurers	7,706	6,246	-	12	13,964
Change in provision for outstanding claims - gross	(18,168)	10,776	2,227	(1,390)	(6,555)
Change in provision for outstanding claims - reinsurance	4,592	(623)	(61)	99	4,007
Change in provision for unreported losses – gross	(15,902)	1,215	(893)	810	(14,770)
Change in provision for unreported losses - reinsurance	858	(1,143)	3	-	(282)
Claims and related expenses	(111,305)	(17,236)	(16,228)	(10,737)	(155,506)
Policy acquisition costs	(40,949)	(7,381)	(477)	(1,284)	(50,091)
Policy acquisition costs recovered from reinsurers	2,990	275	-	(3)	3,262
Change in deferred policy acquisition costs - gross	2,474	841	485	293	4,093
Change in deferred policy acquisition costs - reinsurance	984	-	-	-	984
Policy acquisition costs	(34,501)	(6,265)	8	(994)	(41,752)
Change in life insurance business technical provisions, net of reinsurance	-	-	-	(16,500)	(16,500)
Operating expenses	(10,732)	(2,386)	(1,054)	(1,442)	(15,614)
Segment underwriting result	(9,312)	9,036	2,389	(1,184)	929
Operating expenses – unallocated #					(659)
Underwriting result					270

 # Unallocated operating expenses represent corporate expenses.

12. INVESTMENT INCOME

	US$ '000				
	Financial year-to-date 30 June 2008			Financial year-to-date 30 June 2007	Year ended 31 December 2007
	Insurance funds	Shareholders' funds	Total		
Interest income					
- Investments designated at fair value through profit or loss	**519**	**479**	**998**	564	1,174
- Others	**5,057**	**6,054**	**11,111**	10,596	23,160
Dividends	**1,111**	**1,385**	**2,496**	1,296	2,223
Realised gains					
- Trading investments	**261**	**1,087**	**1,348**	2,960	12,149
- Investment designated at fair value through profit or loss	**103**	**95**	**198**	1,051	845
- Available for sale	**951**	**1,256**	**2,207**	1,828	4,029
Gain (loss) on remeasurement of investments at fair value through profit or loss					
- Trading investments	**(1,699)**	**(1,789)**	**(3,488)**	8,573	7,742
- Investments designated at fair value through profit or loss	**(551)**	**(508)**	**(1,059)**	249	(2,047)
Impairment loss	**(282)**	**(260)**	**(542)**	-	(715)
Other	**1,118**	**952**	**2,070**	329	5,133
	6,588	**8,751**	**15,339**	27,446	53,693

13. OPERATING EXPENSES

	US$ '000				
	Financial year-to-date 30 June 2008			Financial year-to-date 30 June 2007	Year ended 31 December 2007
	Underwriting	Non-Underwriting	Total		
Salaries and benefits	**7,346**	**5,018**	**12,364**	8,785	20,584
General and administration	**1,966**	**2,544**	**4,510**	3,695	8,586
	9,312	**7,562**	**16,874**	12,480	29,170

14. OTHER INCOME

	US$ '000		
	Financial year-to-date 30 June 2008	Financial year-to-date 30 June 2007	Year ended 31 December 2007
Third party administration services	**3,902**	3,180	9,141
Fees on managing Islamic reinsurance operations	**2,919**	1,352	3,580
Foreign exchange gain (loss)	**1,729**	(1,099)	(937)
Software sales and related services	**846**	343	955
Interest on cash balances	**51**	110	200
Other	**107**	90	1,729
	9,554	3,976	14,668

15. OTHER EXPENSES AND PROVISIONS

	US$ '000		
	Financial year-to-date 30 June 2008	Financial year-to-date 30 June 2007	Year ended 31 December 2007
Provision for doubtful receivable & deposits	**(37)**	(91)	285
Scheme of arrangement fee	**-**	-	188
Intangible asset amortised	**500**	-	500
Other	**35**	418	2,469
	498	327	3,442

16. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

Basic earnings per share has been computed as follows:

		Financial year-to-date 30 June 2008	Financial year-to-date 30 June 2007	Year ended 31 December 2007
Weighted average number of shares outstanding	'000	**212,383**	214,861	213,939
Net profit	US$'000	**11,439**	18,591	23,655
Earnings per share	US$	**0.05**	0.09	0.11

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

	US$ '000		
	Financial year-to-date 30 June 2008	Financial year-to-date 30 June 2007	Year ended 31 December 2007
Profit before minority interests	**12,836**	21,012	29,671
Increase in insurance funds	**66,000**	43,749	89,159
Change in insurance receivable/payable, net	**(11,075)**	6,275	(4,601)
Change in accrued income	**(47,949)**	(34,850)	(30,090)
Change in other assets/liabilities, net	**(14,191)**	(22,280)	(16,346)
Net cash provided by operating activities	**5,621**	13,906	67,793

18. PRINCIPAL SUBSIDIARIES

At 30 June 2008, 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 2007.

19. RELATED-PARTY TRANSACTIONS

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

	US$ '000		
	Financial year-to-date 30 June 2008	Financial year-to-date 30 June 2007	Year ended 31 December 2007
i) Directors			
- Remuneration paid	1,026	1,130	1,080
- Allowances	35	60	104
ii) Key management compensation			
- Salaries and other short-term employee benefits	520	473	992
- Post employment benefits	-	-	288
- Share-based compensation	-	-	94

20. 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 2007: US$ 7.1 million; 30 June 2007: US$ 11.1 million). The Group also has commitments of US$ 22.20 million (31 December 2007: US$ 28.6 million; 30 June 2007: nil) towards purchase of property.