Management Discussion & Analysis

HY 2008

Highlights

Net profit of $ 11.4 m for the half year (HY 2007: $ 18.6 m)

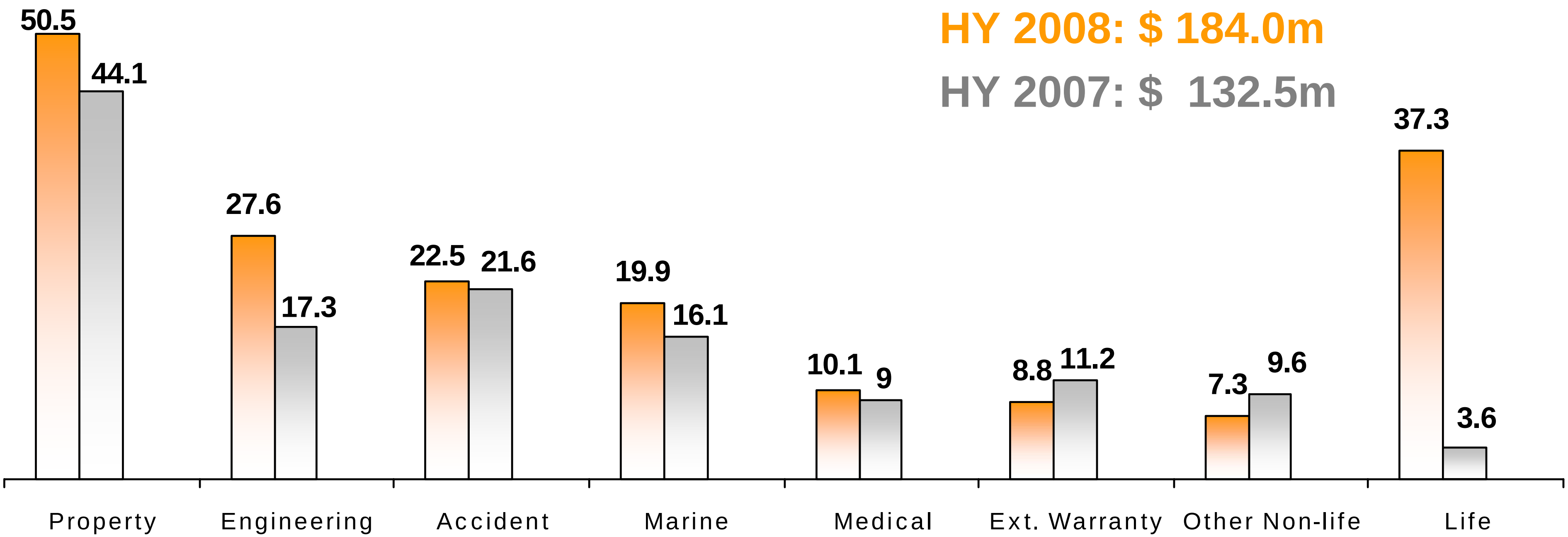
- Improved reinsurance technical profits of $ 6.4 m for the period (HY 2007: $ 3.9 m)
- Underwriting profit of $ 3.7 m for the period (HY 2007: $ 7.0 m)
- Book value per share at $ 1.37 per share (Year- end 2007: $ 1.40 per share) after dividend distribution for 2007 of $ 0.075 per share
- Earnings per share at $ 0.05 per share (HY 2007: $ 0.09 per share)

Highlights

(US$ m)

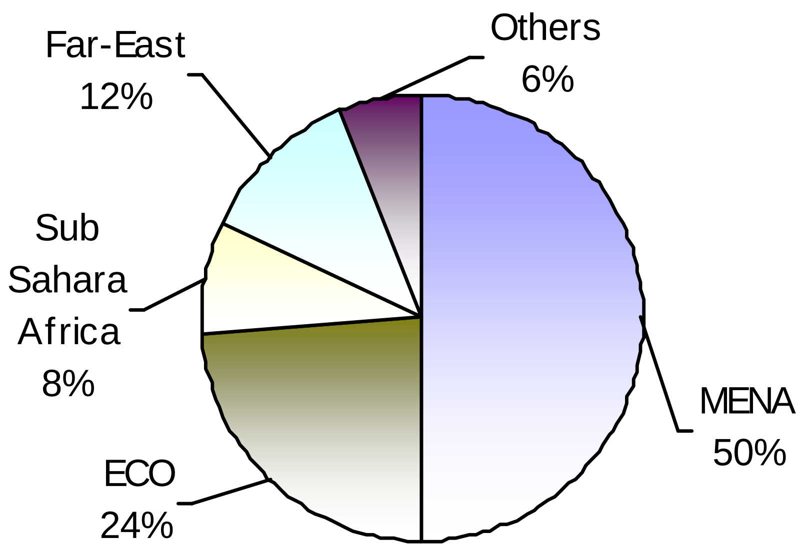
Financial Highlights	Jan-Jun		Year
	2008	2007	2007
Gross Premium Written	**184.0**	132.5	250.0
Underwriting Result	**3.7**	7.0	0.3
Investment Income	**15.3**	27.4	53.7
Operating Expenses	**16.9**	12.5	29.2
Net Profit	**11.4**	18.6	**23.7**
Investment Assets	**715.2**	677.2	711.7
Net Technical Provisions	**545.6**	417.5	459.1
Shareholders' Equity	**289.4**	288.7	298.4
Total Assets	**1,140.3**	997.3	1,049.8
Return on Equity %	**3.9%**	6.4%	8.0%
Book Value per share (US $)	**1.37**	1.35	1.40

Gross Premium – by business line

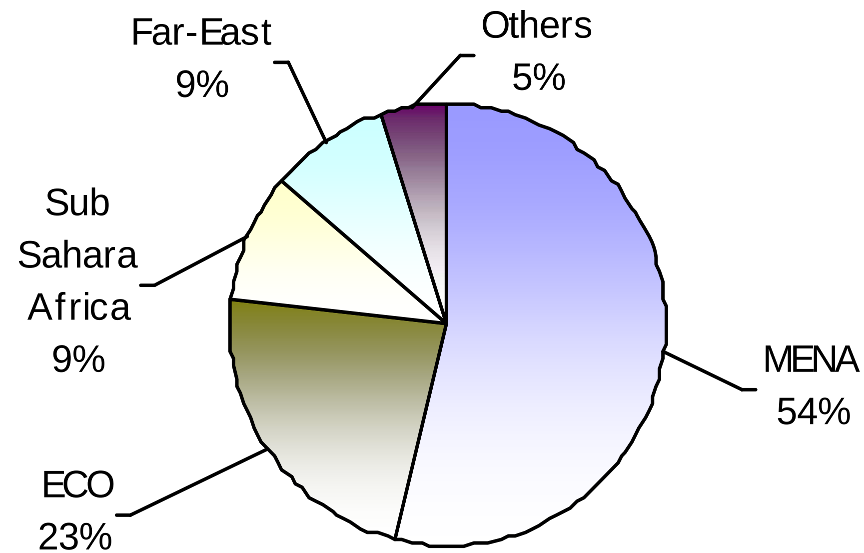


- Steep increase in Life premiums was mainly on account of the Scottish Re portfolio acquired in mid - 2007
- Non-life premium grew by 14% mainly in engineering and property classes

Non-life Gross Premium – by region



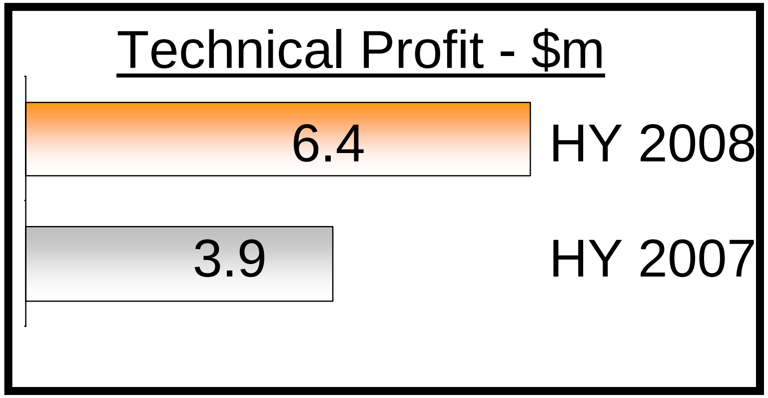
2008

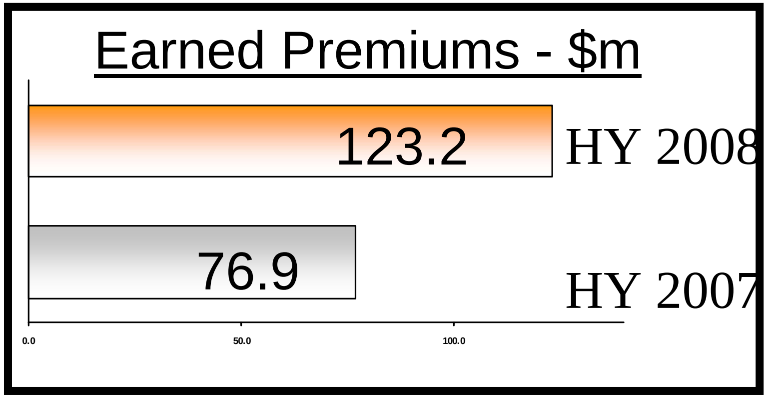


2007

- Proportion of Non- life premiums from Far-east increased to 12% from 9% in HY 2007 – Far-east premiums recorded significant growth of 53% growing to $ 17.4 m (HY 2007: 11.4 m)
- Proportion of premiums from the MENA region fell to 50% (HY 2007: 54%) although premiums increased by 6% to $73.2 (HY 2007: $ 69.1m)

Technical Results





- Earned premiums were higher mainly from the Life portfolio which contributed $ 36.7 m (HY 2007: $ 3.5 m)
- Improved technical profits (earned premiums less claims and acquisition costs)
  - Non life recorded technical profit of $ 4.6 m (HY 2007: $ 3.4 m)
  - Life portfolio reported technical profit of $ 1.8 m (HY 2007: $ 0.5 m)

Combined ratio

(%)

	HY 2008	HY 2007	Year 2007
Claims loss ratio	75.6	71.6	81.6
Acquisition Cost ratio	19.2	23.4	19.8
Operating Cost ratio	7.5	9.6	7.7
Combined ratio	102.3	104.6	109.1

- Claims loss ratio impacted by
  - Prudent reserving on the enlarged life portfolio of 89.6% (HY 2007: 81.6%)
  - Non-life portfolio recorded a lower loss ratio of 69.7% (HY 2007: 71.1%)
    - Included effect of major losses relating to
      - Pakistan riots in December 2007; $ 1.7 m
      - Pollution claim on sunk vessel Erica relating to Dec 1999; $ 1.1 m
- Acquisition cost ratio benefited from the negligible costs relating to the significant earned premiums from the Life portfolio
- Operating cost ratio was lower mainly due to the higher earned premiums

Investment Income

(US$ m)

	HY 2008	HY 2007
Interest Income	**12.1**	11.2
Dividends	**2.5**	1.3
Realised Gains	**3.7**	5.8
Unrealised gains/(loss)	**(4.6)**	8.8
Impairment	**(0.5)**	
Others	**2.1**	0.3
Total	**15.3**	27.4
Rate of return (annualised)	4.3%	8.1%

- Investment earnings impacted by
  - Global investment volatility, particularly the sharp fall in equity markets in January/February, mainly in US equities
- Impact contained by
  - Strict application of stop loss policies
  - Higher asset allocation to cash & short term maturities
- Other income mainly comprises exchange gains on Kuwaiti Dinar deposits

Operating Costs

(US$ m)

	HY 2008	HY 2007
Parent	**11.3**	9.1
Takaful Re	**1.5**	0.8
Gulf Warranties	**3.3**	2.1
ARIMA	**0.7**	0.4
Arig UK	**0.1**	0.1
Total Group	**16.9**	12.5

- Higher costs in Parent mainly due to
  - Increase in staff numbers and corresponding costs, including staff absorbed on acquisition of Scottish Re Life portfolio
  - Higher business promotion costs; sponsorship of GAIF conference in Bahrain
- Increase in costs in Takaful Re mainly due to increase in staff numbers, rent and travel costs
- Gulf Warranties employed additional staff in line with plans to manage the service contract with NCB, Saudi Arabia

Subsidiaries

Takaful Re

- Gross contributions from Participants grew to $ 17.8 m (HY 2007: $ 9.0 m)
- Fees for managing Islamic Reinsurance operations $ 2.9 m (HY 2007: $ 1.4 m)
- Investment earnings declined to $ 2.7 m (HY 2007 income: $ 5.1 m) mainly due to losses on US equities
- Net profit (Group basis); $ 1.6 m (HY 2007: net profit $ 2.6 m)

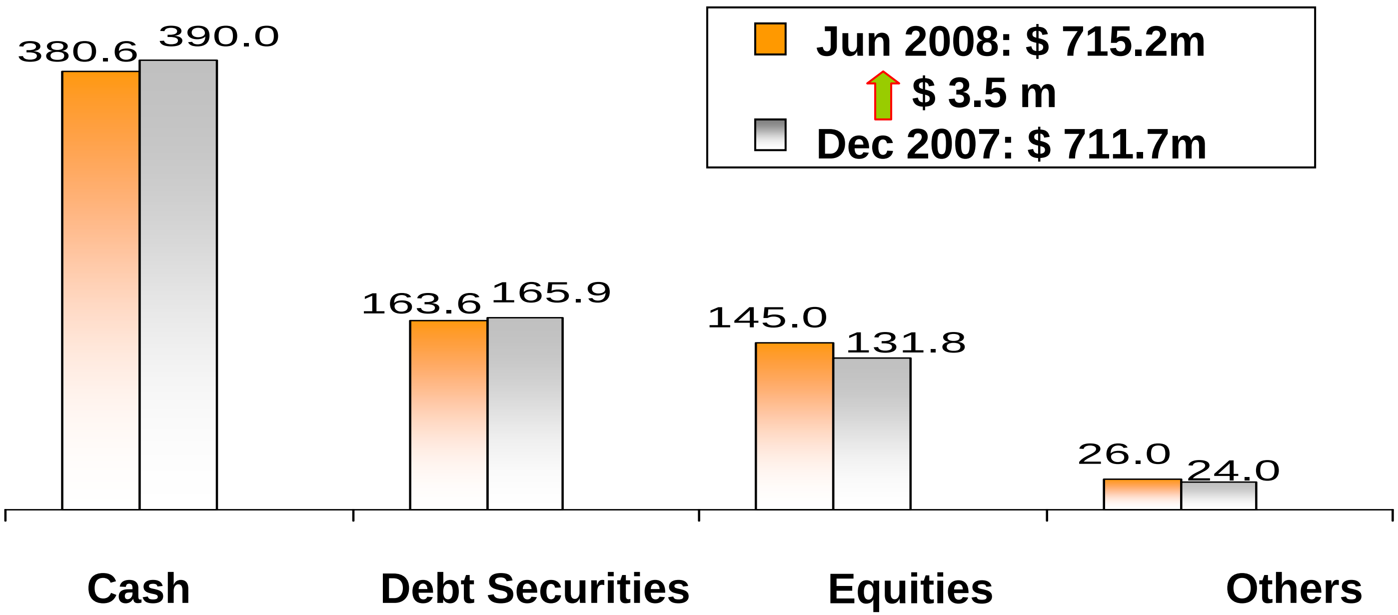
Gulf Warranties

- Revenue earned from administration of extended warranty insurance and related services, $ 3.4 (HY 2007: $ 2.8 m)
- Net profit $ 0.1m (HY 2007 net profit: $ 0.4 m)

ARIMA

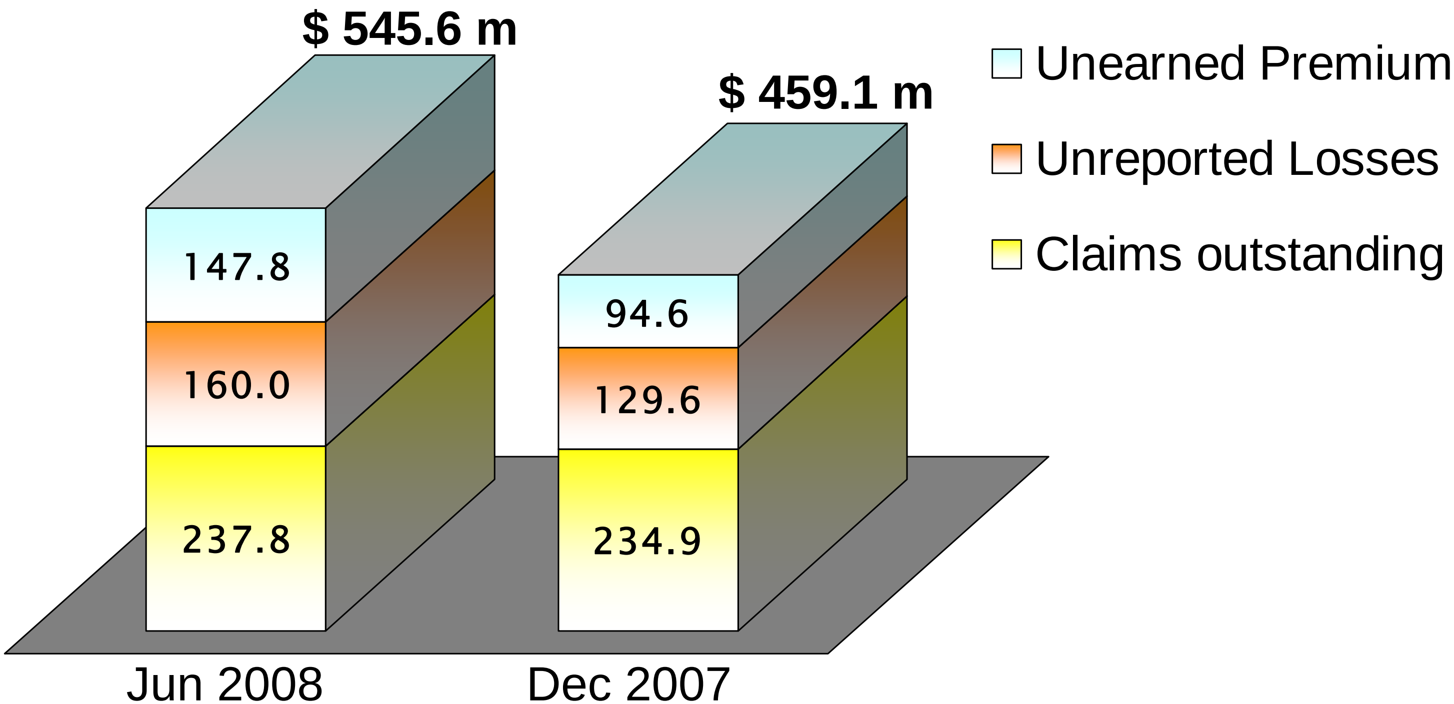
- Income from software sales & related services, $ 0.8 m (HY 2007: $ 0.3m)

Investments



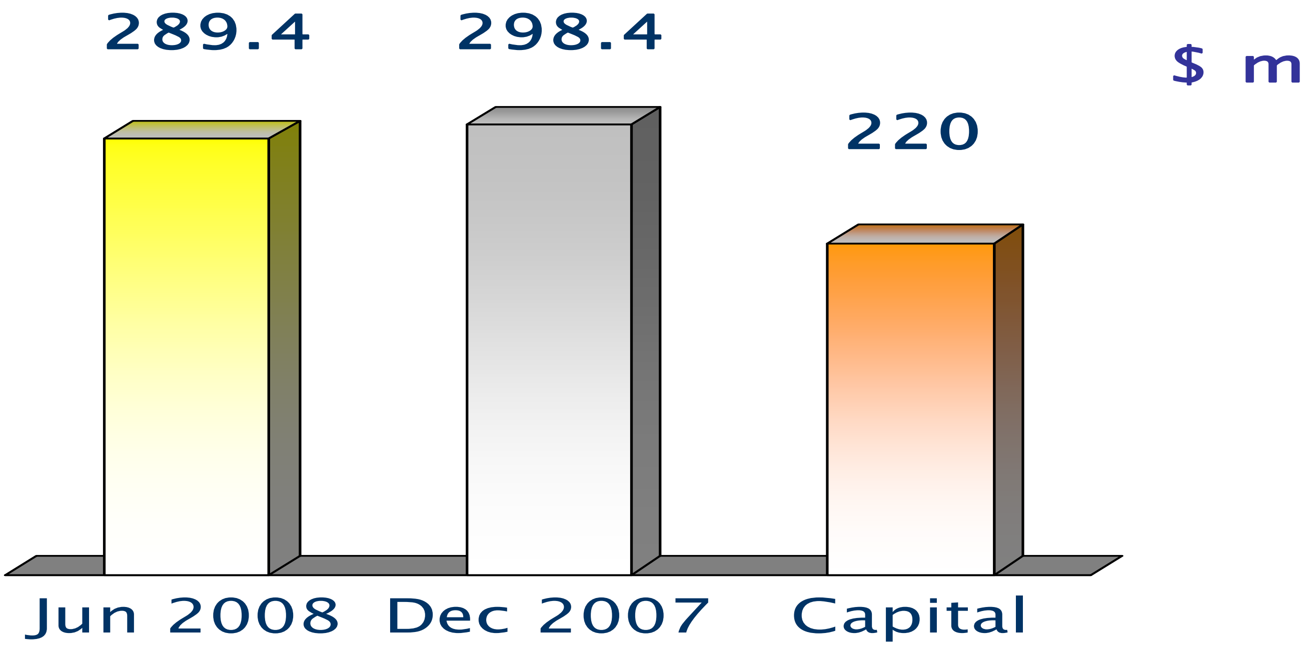
- High allocation in cash & short term on account of the very volatile market conditions
- Increase in equity holdings represent tactical allocations made, after markets bottomed out, to benefit from potential growth

Technical Reserves



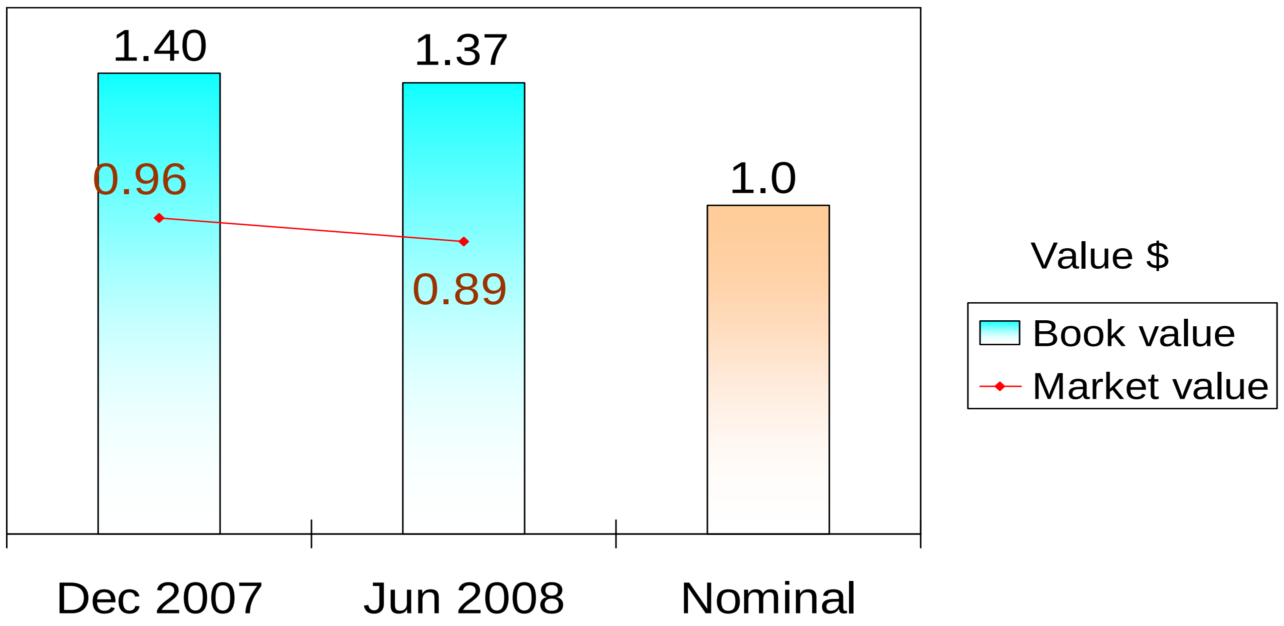
- Technical provisions increased by $ 86.5 m - mainly due to
  - increase in provision for unearned premium in line with seasonal trends and increase in premium income
  - Increase in unreported losses – mainly mathematical reserves relating to the Life business

Shareholders Equity



- Shareholders equity decreased by $ 9 m mainly due to
  - Dividends for 2007; $ 15.9 m
  - Directors' remuneration; $ 1.0 m
  - Changes on remeasurement of available for sale assets, US$ 2.6 m
- The decrease was partly offset by net profit for the period of $ 11.4 m

Arig Share



- Price/Book value (June 2008); 0.65
- Price/earnings (annualised); 8.2 times

Outlook

- Strong growth in non-cyclical Life and medical portfolios, expected to
  - reduce acquisition costs
  - Improve performance
- traditional treaty & facultative business expected to perform better
  - Positive growth dynamics in the portfolio
  - Conservative underwriting approach with focus on profitable writing
- Impact of global volatility on investment earnings to be contained through
  - Proactive but cautious investment strategies directed to capture opportunities as they arise
- Despite the challenging conditions Arig expects to consolidate its business model and improve underwriting returns