Management Discussion & Analysis

Year 2008

Year 2008: Key results

Net loss of $ 28.6m for the year compared to net profit $ 23.7m in 2007

- Impact of global financial turmoil resulted in Investment losses of $ 26.1m (2007: Income $ 53.7m)
- Improved reinsurance technical profits of $ 9.6m for the year (2007: loss $ 3m)
- Underwriting loss of $ 15.9m for the year (2007: profit $ 0.3m)
- Book value per share $ 1.13 per share (Year- end 2007: $ 1.40 per share) after dividend distribution for 2007 of $ 0.075 per share
- Return on average shareholders funds; -10.6% (2007: 8.0%)

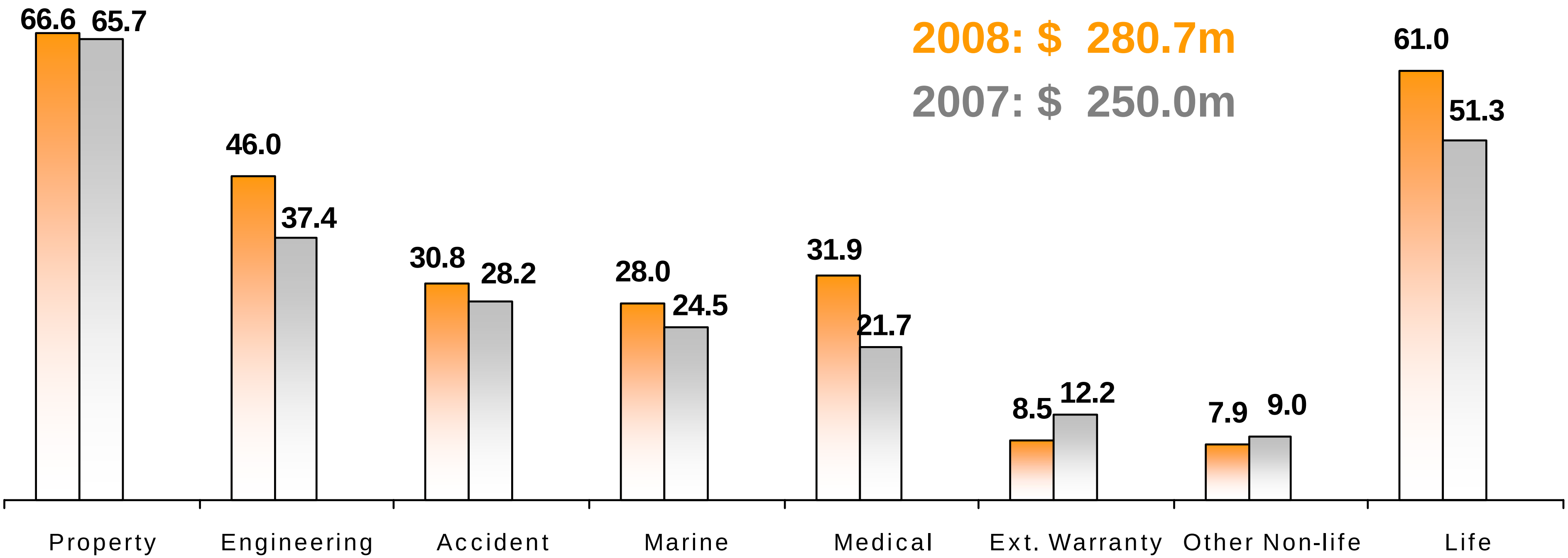
Year 2008: Key Financials

(US$ m)

Income Statement	2008	2007
Gross Premiums Written	**280.7**	250.0
Underwriting Result	**(15.9)**	0.3
Investment (Loss) Income	**(26.1)**	53.7
Operating Expenses	**32.4**	29.2
Net (Loss) Profit	**(28.6)**	23.7

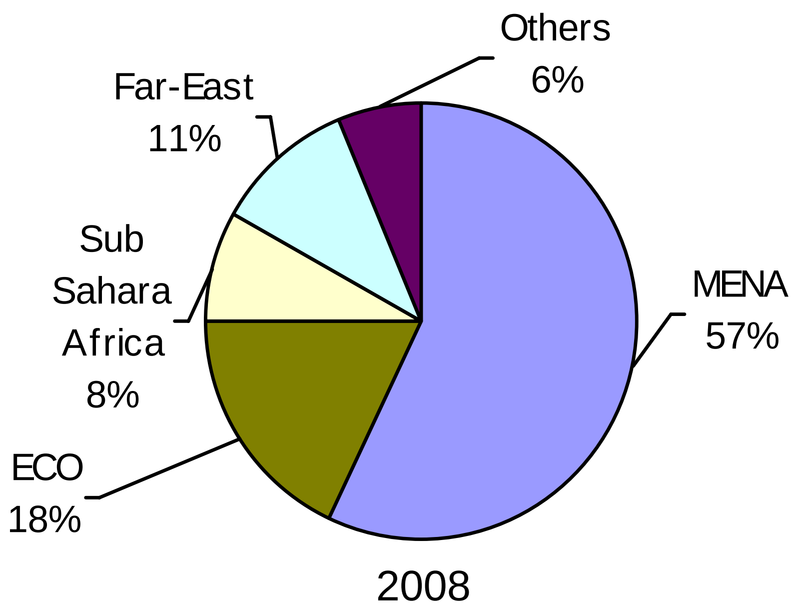
Balance Sheet	2008	2007
Investment Assets	**678.5**	711.7
Net Technical Provisions	**524.7**	459.1
Shareholders' Equity *	**239.6**	298.4
Total Assets	**1,079.8**	1,049.8
Return on average equity %	**-10.6%**	8.0%
Book value per share (US $)	**1.13**	1.40

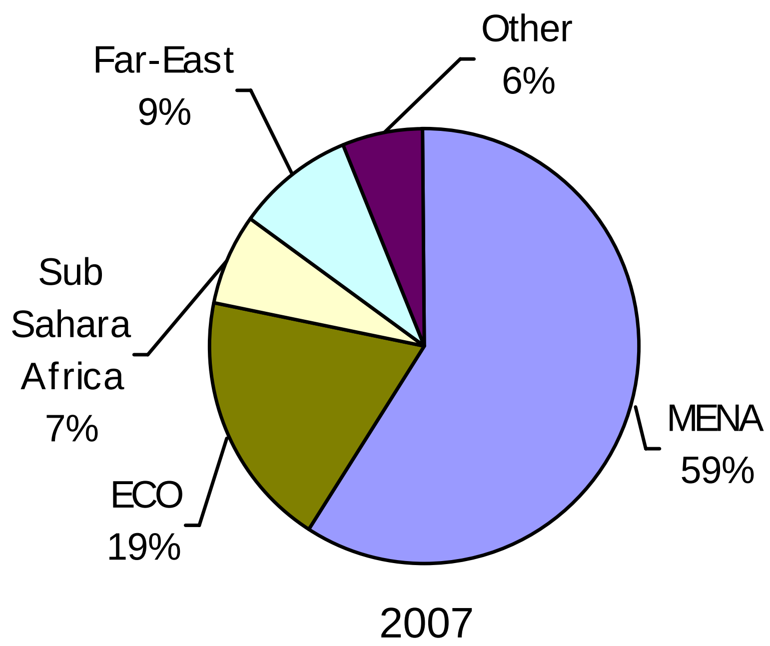
2008: Gross Premium



- Treaty prorata, medical and life premiums benefited from realisation of higher pipeline premium in respect of prior years
- Non-life premium grew by 12% mainly in medical and treaty prorata (marine cargo/engineering/casualty).

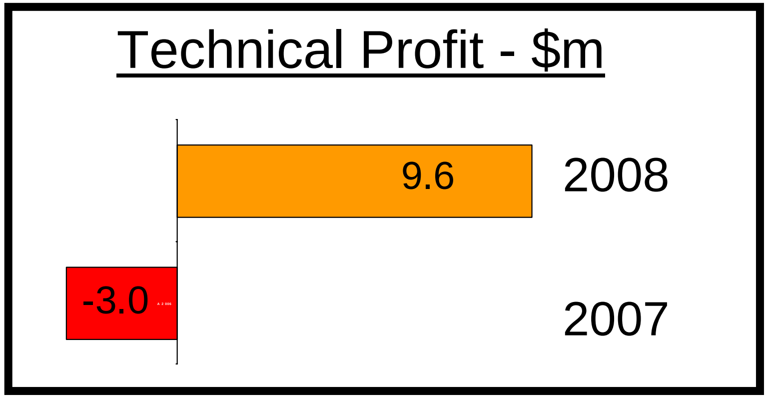
Non-life Gross Premium – by region

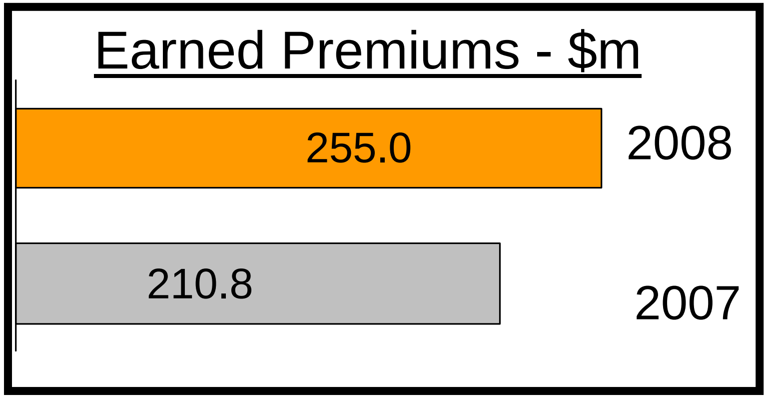




- Singapore branch grew 44% mainly in casualty business
  - from $ 16.9m in 2007 to $ 24.4m in 2008
  - contribution to total non-life premium increased to 11% from 9% in 2007
- Contribution of MENA region reduced to 57% although premiums grew by 7% compared to 2007

Technical Results





- Earned premiums were higher mainly from:
  - Life portfolio which contributed $ 63.5m (2007: $ 47.3m) and
  - Treaty proportional which contributed $ 108.9m (2007: $ 92.9m)
- Improved technical profits (earned premiums less claims and acquisition costs)
  - Non life recorded technical profit of $ 9.4m (2007: loss $ 5.9m)
  - Life portfolio reported technical profit of $ 0.2m (2007: $ 2.9m)

Combined ratio

(%)

	2008	2007
Claims loss ratio (to NEP)	76.1	81.6
Acquisition Cost ratio (to NWP)	19.1	17.8
Underwriting Operating Costs (to NWP)	6.6	6.9
Combined ratio	101.8	106.3

- Improved claims loss ratio mainly from
  - Lower loss ratio on non-life portfolio of 70.1% (2007: 78.6%) in view of favourable development of the book of business reflecting the application of stricter underwriting discipline
  - Prudent reserving on life portfolio resulted in a higher loss ratio of 94.1% (2007: 91.9%)
- Acquisition cost ratio was higher mainly on treaty prorata engineering and accident lines
- Operating cost ratio was lower mainly due to higher earned premiums

Investment Income

(US$ m)

	2008	2007
Cash & Short term deposits	**12.4**	18.5
Fixed Maturities	**(0.3)**	5.8
Equity	**(26.9)**	12.7
Alternative Investments	**0.2**	3.6
Total Parent	**(14.6)**	40.6
Rate of return	**-2.6%**	7.4%
Takaful Re	**(11.9)**	12.0
Rate of return	**-9.6%**	9.3%

- Investment earnings impacted by
  - Dramatic decline in equity markets during 2008.
- Impact contained by
  - Strict application of stop loss policies
  - Increased asset allocation to cash & short term maturities

Operating Costs

(US$ m)

	2008	2007
Parent	**21.6**	20.1
Takaful Re	**2.3**	1.8
Gulf Warranties	**6.6**	6.2
ARIMA	**1.6**	0.9
Arig UK	**0.2**	0.2
Total Group	**32.3**	29.2

- Higher costs in Parent mainly due to staff increases – includes impact of full year costs related to Scottish Re staff absorbed on portfolio acquisition
- Increase in costs in Takaful Re mainly due to expansion of marketing team
- Gulf Warranties employed additional staff in line with plans to manage the service contract with a major customer in Saudi Arabia

Subsidiaries Performance

Takaful Re

- Gross contributions from Participants grew to $ 34m (2007: $ 20.3m)
- Fees for managing Islamic Reinsurance operations $ 6m (2007: $ 3.6m)
- Investments suffered a loss of $ 11.9 m (2007 income: $ 12m) mainly due to losses on equities
- Net loss (Group accounting basis); $ 11.1m (2007: net profit $ 11.7m) – Arig share of loss $ 6m (2007: net profit $ 6.3m)

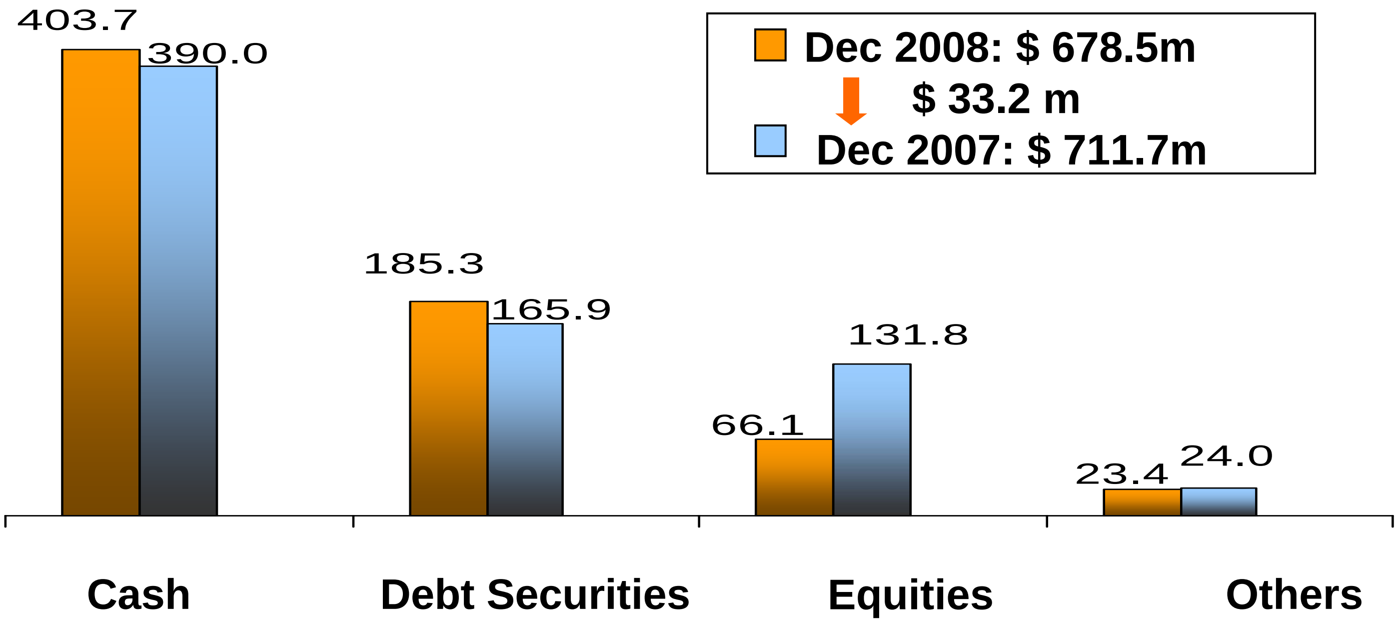
Gulf Warranties

- Revenue earned from administration of extended warranty insurance and related services, $ 7.6m (2007: $ 8.5m) – impacted by fall in vehicle sales
- Net profit $ 1.1m (2007: $ 1.9 m) – Arig share $ 0.7m (2007: $1.2m)

ARIMA

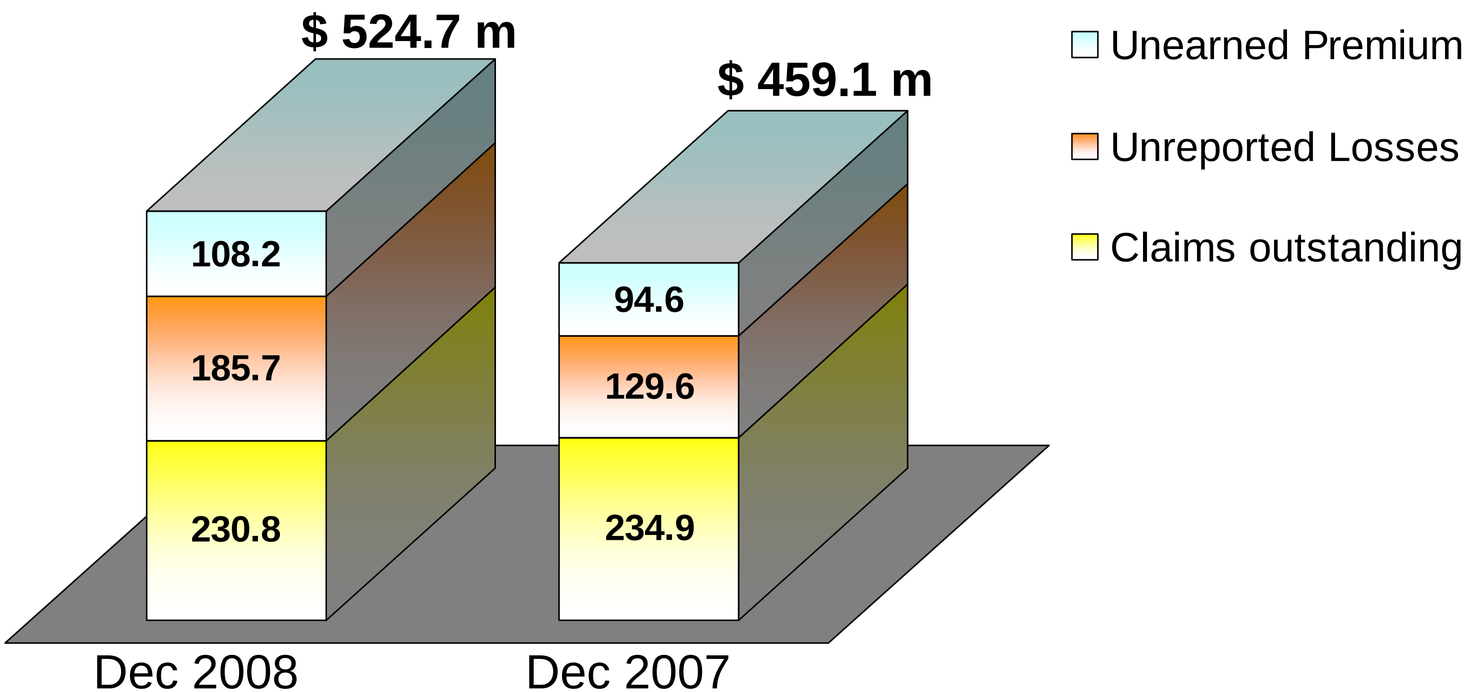
- Income from software sales & related services, $ 1.5m (2007: $ 1m)

Investments



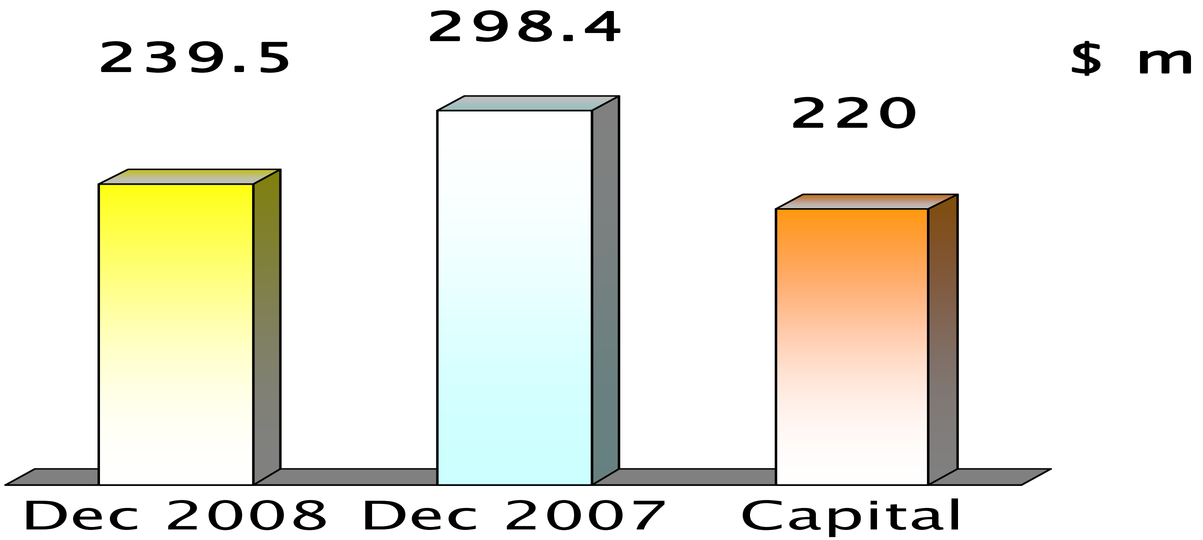
- Increased allocation in cash & short term on account of the very volatile market conditions – 59.4% of total investments at year-end.
- Reduced weighting in equities to limit exposure in a declining market
- Investments are valued after unrealised write-downs of $ 35.8m

Technical Reserves



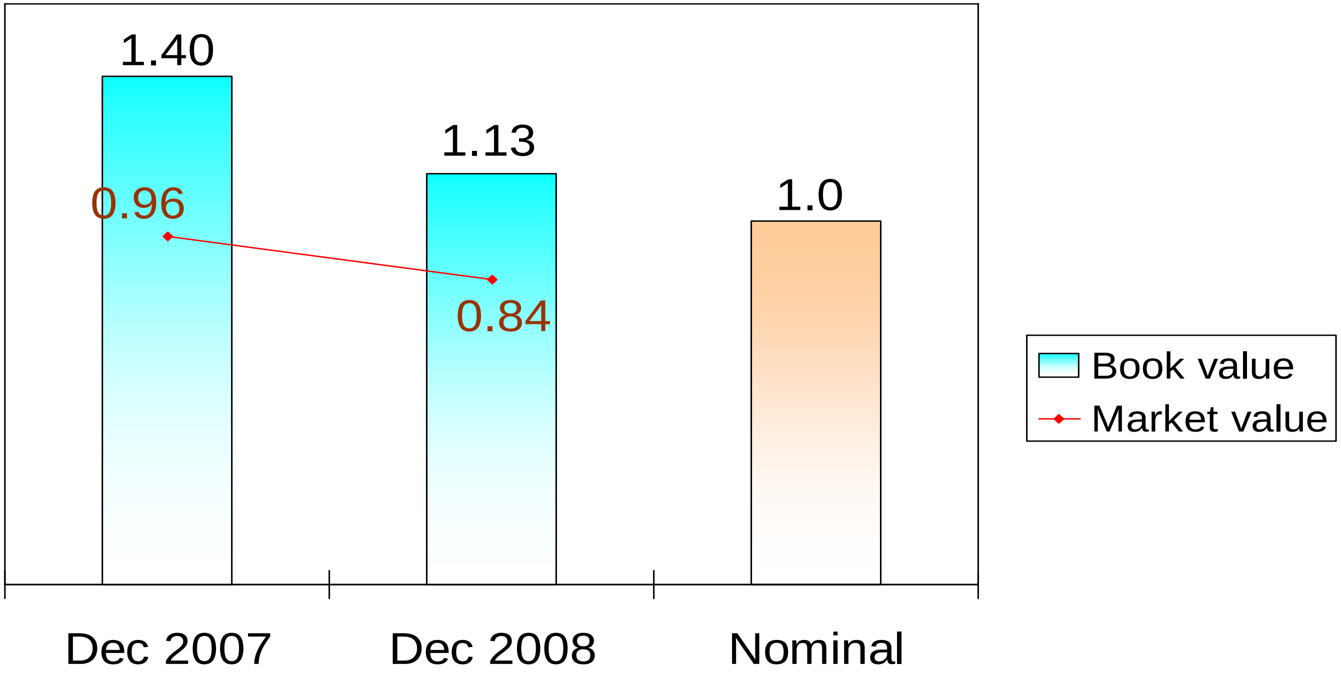
- Technical provisions increased by $ 65.6m - mainly due to increase in provision for unreported losses
- Held reserves compared to external actuaries assessments shows overall redundancy

Shareholders Equity



- Shareholders equity decreased by $ 58.9m mainly due to
  - Net loss for 2008; $ 28.6m
  - Dividends for 2007; $ 15.9m
  - Changes on remeasurement of available for sale assets, US$ 12.0m
- Shareholders' fund (excluding investment in subsidiaries) at over 180% of the assessed economic capital for reinsurance operations

Arig Share



- Price/Book value (Dec 2008); 0.74

Outlook

- Positive trend in technical results expected to continue
  - after years of softening markets, prices expected to harden
  - falling investment yields likely to compel insurers to increase primary insurance rates
  - recent renewals saw improved terms from technically underpriced markets

- Market uncertainties likely to influence certain sectors
  - Life sector likely to see lower growth, especially products tied to home mortgages
  - slowdown expected in construction & transport sectors

- Arig ready to take advantage of financial market turnaround when it occurs
  - expected to benefit from valuation reversals and arising opportunities
  - market recovery hinges on
    - recovery of major economies & global demand for commodities
    - restoration of financial institutional credibility

arig