Management Discussion & Analysis

Half Year 2010

Key results

- Net loss of $ 2.8 m for the half year compared to profit of $ 8.8 m for the same period last year
- Gross premium growth of 8.6% year-on-year achieved while maintaining underwriting caution and selectivity
- Technical profits lower than HY 2009
- Investment income impacted by the volatility in global equity markets

(in million $)	**HY 2010**	HY 2009
Gross Premiums Written	177.1	163.0
Technical Result *	5.0	9.3
Investment Income	5.5	15.4
Net Profit	(2.8)	8.8
Underwriting Result **	(4.1)	6.2
Non-Life Combined Ratio ***	97.3%	91.0%
	June 2010	Dec. 2009
Shareholders Equity	245.4	267.3
Book value per share ($)	1.20	1.27

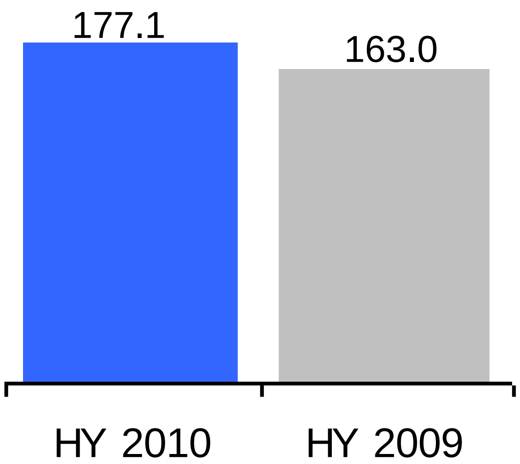
** Technical result – result of reinsurance operations before investment income and operating expenses*

*** Underwriting result – reinsurance results after investment income on insurance funds and related operating expenses*

**** Combined Ratio – aggregate of acquisition & operating cost over net premium written and claims over net earned premium*

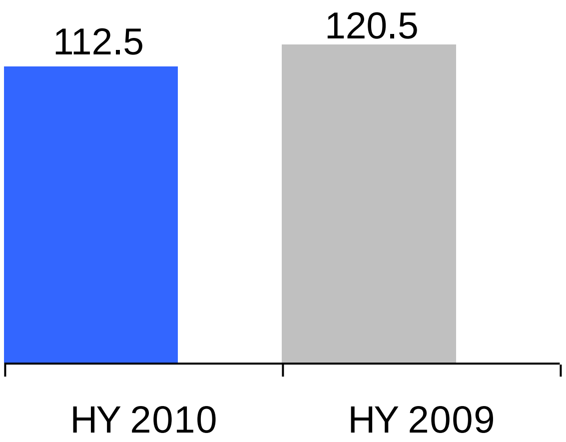
Reinsurance Premiums

Gross Written Premiums (in million $)



- 16% YTD growth in non-life premiums at $ 162.6 m (HY 2009: $ 140 m).
  - Increase in treaty Premiums on account of new treaties written through Hardy.
  - Focus on selective underwriting maintained
- Life premiums $ 14.5 m (HY 2009: $ 23 m) , impacted due to non renewal of a few inadequately priced accounts .

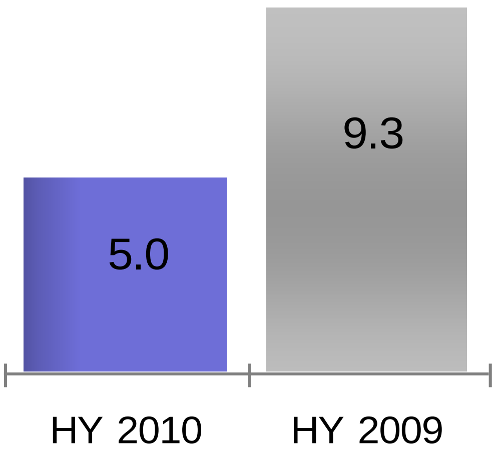
Net Earned Premiums (in million $)



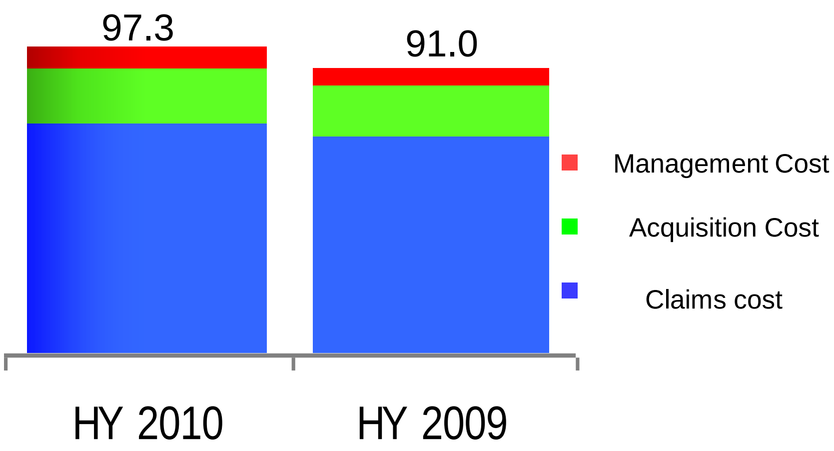
- Earned Premiums
  - Non-life premiums $ 102.3 m (HY 2009: $ 93.5 m)
  - Life premiums $ 10.2 m (HY 2009: $ 27 m - benefited from development of premiums relating to prior years)

Reinsurance Results

Technical results (in million $)



Non-Life Combined ratio (%)



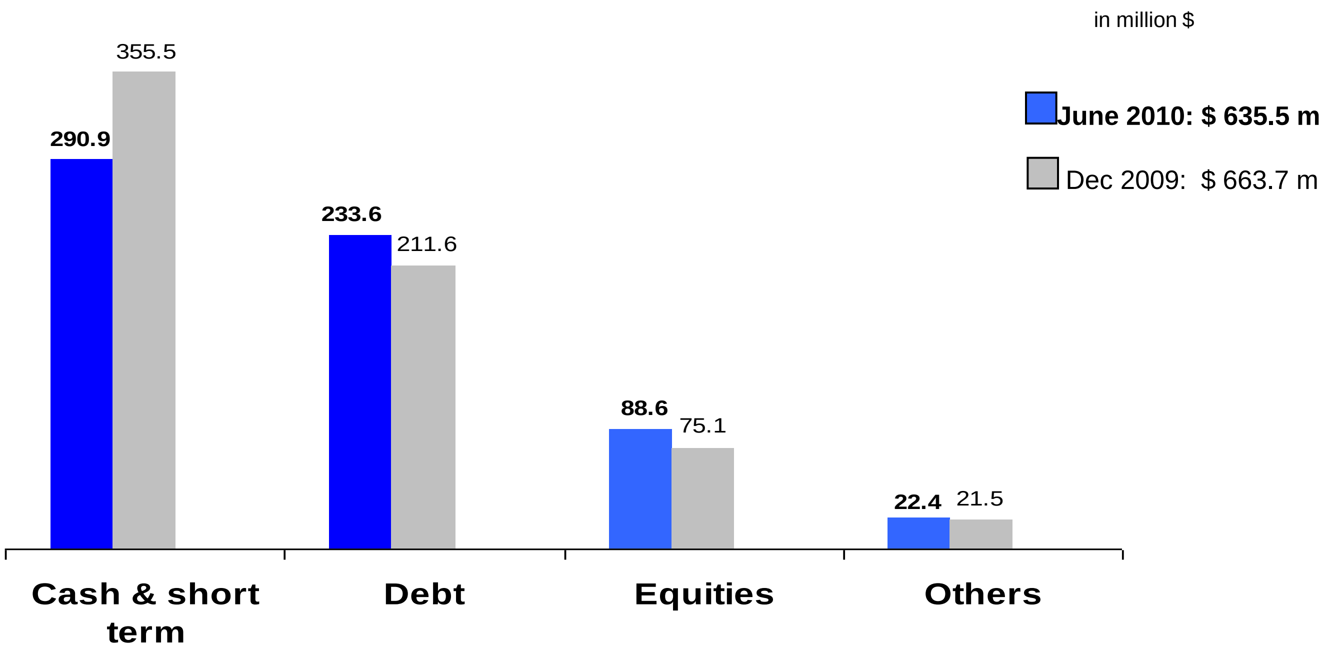
- Non life technical profit of $ 4.4 m (HY 2009: $ 7.6 m)
- Life portfolio recorded technical profit of $0.6 m (HY 2009: $ 1.7 m)
  – claims reserve includes element of prudential margins as required by regulators
- Claims ratio 73.5% (HY 2009: 69%, Year 2009: 67.9%)
  – Impact of few mid-sized losses reported during the period
- Acquisition cost levels higher at 16.6% (HY 2009: 15.8%; Year 2009: 23.3%)
- Management cost ratio higher at 7.2% (HY 2009: 6.2%; Year 2009: 7.5%)

Investment Income

- Earnings on cash & short-term deposits improved – increased allocation to higher interest earning GCC currency deposits.
- Fixed maturity earnings impacted by the low yield environment
- Significant volatility in equity markets during the second quarter affected equity earnings

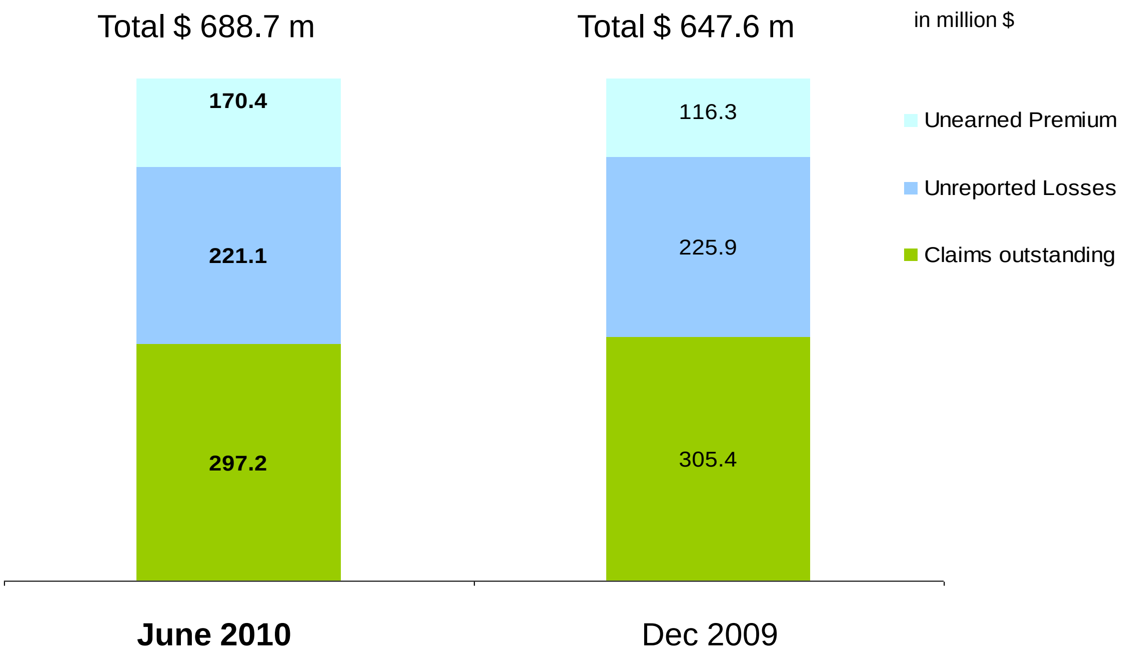
(in $ million)	**HY 2010**	HY 2009
Cash & Short term deposits	3.3	3.3
Fixed Maturities	4.6	6.6
Equity	(3.5)	6.7
Alternative Investments	1.1	(1.2)
Total	**5.5**	**15.4**
Rate of return	1.7%	4.6%

Investments



- Reduction in cash & short term investment on account of the pay out of dividends, certain old claims and allocation to other asset classes
- Cautious allocation to debt and equity classes during the period where valuations were attractive
- High liquidity levels maintained - further allocation to other asset classes as opportunities arise

Gross Technical Reserves



- Gross technical provisions increased by $ 41.1 m during the period mainly as a result of the seasonal increase in unearned premium.
- Non life technical reserves were assessed by external actuaries for adequacy

Subsidiaries’ Performance

Takaful Re

- Gross contributions from Participants, $ 22.6 m (HY 2009: $ 15.1 m)
- Fees for managing Islamic Reinsurance operations reached $ 3.6 m (HY 2009: $ 3.0 m)
- Investment income of $ 0.2 m (HY 2009 : $ 3 .0 m) mainly due to equity market volatility
- Net profit $ 0.3 m (HY 2009: $ 1.8 m) - Arig’s share

Gulf Warranties

- Revenue earned from administration of Extended Warranty insurance and related services was $ 1.9 m (HY 2009: $ 2.6 m); decrease reflects the drop in new vehicle sales across the GCC
- Net profit $ 144 thousand (HY 2009: $ 36 thousand) - Arig’s share

ARIMA

- External revenue from software sales & related services, $ 0.4 m (HY 2009: $ 0.8 m)

Outlook

- Competition likely to increase as reinsurance markets soften
- Greater emphasis on writing quality reinsurance accounts - expected to lead to continued positive technical performance
- As economic scenario in emerging markets which form Arig's core business area continue to improve, premium writings expected to benefit
- Increased demand for Personal line classes such as Life and Medical should contribute to premium growth.
- European debt and political uncertainties cloud near term outlook on investments. However, after the sharp fall in equities in the second quarter, valuations appear attractive