Management Discussion & Analysis

3rd Quarter 2008

Highlights

Net loss of $ 10.8 m for the nine month period (3Q 2007: net profit of $ 10.3 m)

- Impact of global financial turmoil resulted in Investment loss for the 3rd quarter of $ 21.8 m (3Q 2007: Income $ 7.3 m)
- Improved reinsurance technical profits of $ 7.2 m for the period (3Q 2007: loss of $ 4.6 m)
- Underwriting loss of $ 7.7 m for the period (3Q 2007: loss of $ 3.7 m)
- Book value per share at $ 1.24 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 (3Q 2007: $ 0.05 per share)

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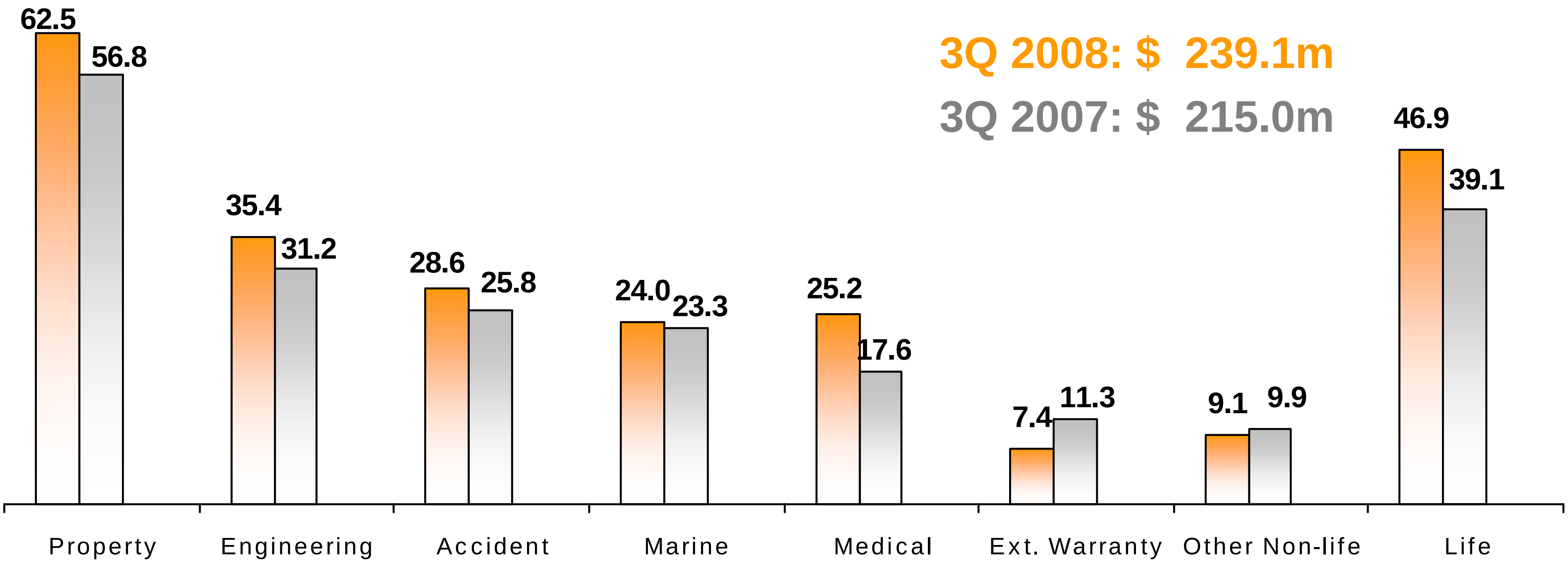
Highlights

(US $ m)

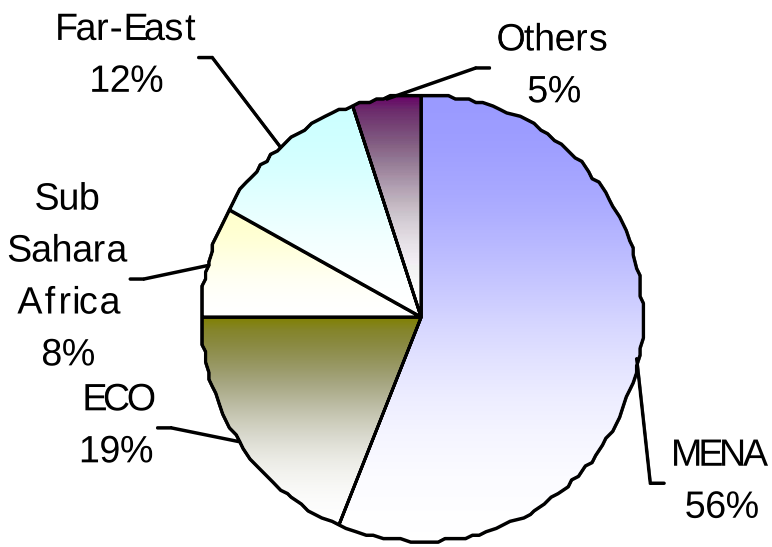
Financial Highlights	Jan-Sep		Year
	2008	2007	2007
Gross Premium Written	**239.1**	215.0	250.0
Technical Result	**7.2**	(4.6)	(3.0)
Underwriting Result	**(7.7)**	(3.7)	0.3
Investment Income	**(6.5)**	34.7	53.7
Operating Expenses	**25.7**	20.6	29.2
Net Profit	**(10.8)**	10.3	**23.7**
Investment Assets	**694.7**	698.4	711.7
Net Technical Provisions	**550.2**	484.0	459.1
Shareholders' Equity	**261.4**	284.3	298.4
Total Assets	**1,140.2**	1,073.3	1,049.8
Return on Equity %	**(3.9)**	3.6	8.0
Book Value per share (US $)	**1.24**	1.33	1.40

Gross Premium – by business line

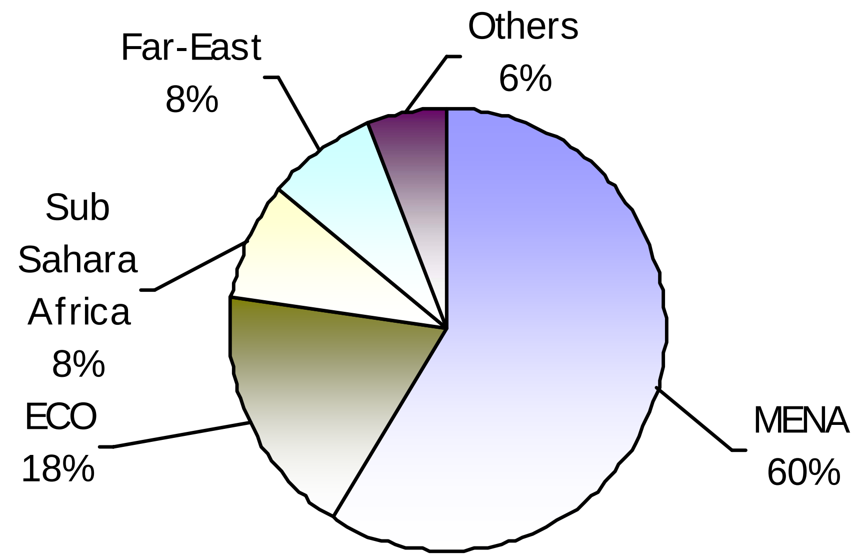


- Strong growth in premiums seen in the personal lines – Life & medical
- Non-life premium grew by 9% mainly in engineering and property classes

Non-life Gross Premium – by region



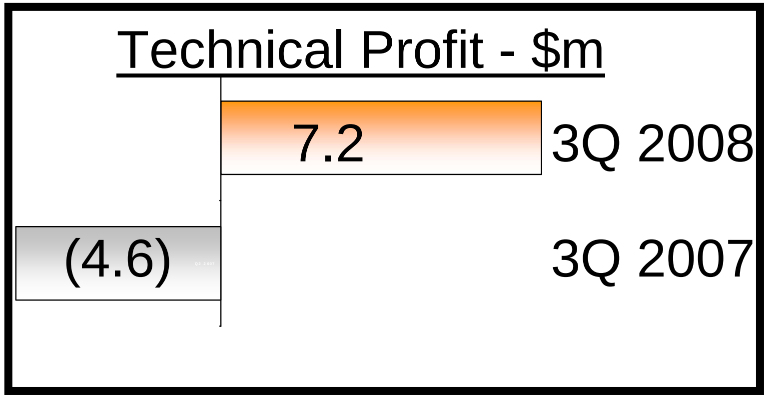
2008

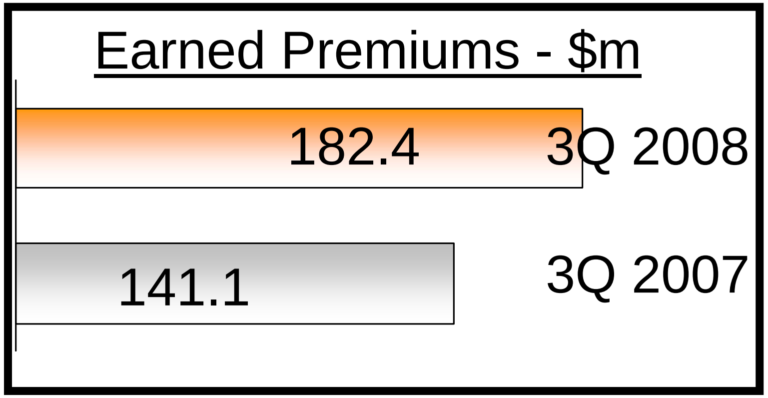


2007

- Proportion of Non- life premiums from Far-east increased to 12% from 8% in 3Q 2007 – Far-east premiums recorded significant growth of 55% growing to $ 22.8 m (3Q 2007: 14.7 m)
- MENA region premiums increased by 3% to $107.1m (3Q 2007: $ 103.6m) although contribution of the region to overall premiums fell to 56% (3Q 2007: 60%)

Technical Results





- Earned premiums were higher mainly from the Life portfolio which contributed $ 49 m (3Q 2007: $ 22.9 m)
- Improved technical profits (earned premiums less claims and acquisition costs)
  - Non life recorded technical profit of $ 4.3 m (3Q 2007: loss $ 7.3 m)
  - Life portfolio reported technical profit of $ 2.9 m (3Q 2007: $ 2.7 m)

Combined ratio

(%)

	3Q 2008	3Q 2007	Year 2007
Claims loss ratio	77.3	81.6	81.6
Acquisition Cost ratio	18.7	21.7	19.8
Operating Cost ratio	8.1	8.5	7.7
Combined ratio	104.1	111.8	109.1

- Claims loss ratio impacted by
  - Prudent reserving at 88.4% loss ratio on the enlarged life portfolio (3Q 2007: 84.5%)
  - Non-life portfolio recorded a lower loss ratio of 73.2% (3Q 2007: 81%)
    - 2008 included effect of several major losses reported during the period with a net impact of $ 9.7 m
    - 2007 was mainly impacted by ‘Gonu’ (net impact: $ 9.3 m)
- Acquisition cost ratio benefited from the negligible costs relating to the significant earned premiums from the Life portfolio
- The higher earned premium base helped to lower the operating cost ratio

Investment Income

(US$ m)

	3Q 2008	3Q 2007
Interest Income	**16.6**	17.0
Dividends	**3.0**	1.8
Realised Gains	**2.3**	13.0
Unrealised gains/(loss)	**(27.9)**	0.4
Impairment	**(1.8)**	(0.2)
Others	**1.3**	2.7
Total	**(6.5)**	34.7
Rate of return (annualised) %	(1.2)	6.7

- Investment earnings impacted by
  - The turmoil in global financial market witnessed this year leading to the steepest fall in capital market values in recent history
- Impact contained by
  - Lower allocation to equities and strict application of stop loss policies
  - Higher asset allocation to cash & short term maturities
- ‘Others’ mainly comprises exchange gains on Kuwaiti Dinar deposits

Operating Costs

(US$ m)

	3Q 2008	3Q 2007
Parent	**17.9**	14.9
Takaful Re	**1.8**	1.3
Gulf Warranties	**4.8**	3.7
ARIMA	**1.1**	0.6
Arig UK	**0.1**	0.1
Total Group	**25.7**	20.6

- 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 Saudi operations

Subsidiaries

Takaful Re

- Gross contributions from Participants grew to $ 34.5 m (3Q 2007: $ 18.9 m)
- Fees for managing Islamic Reinsurance operations $ 4.7 m (3Q 2007: $ 2.4 m)
- Investments reported losses of $ 6.1 m (3Q 2007 income: $ 7.4 m) as result of the fall in equities markets
- Net loss (Arig share); $ 3.0 m (3Q 2007: net profit $ 3.9 m)

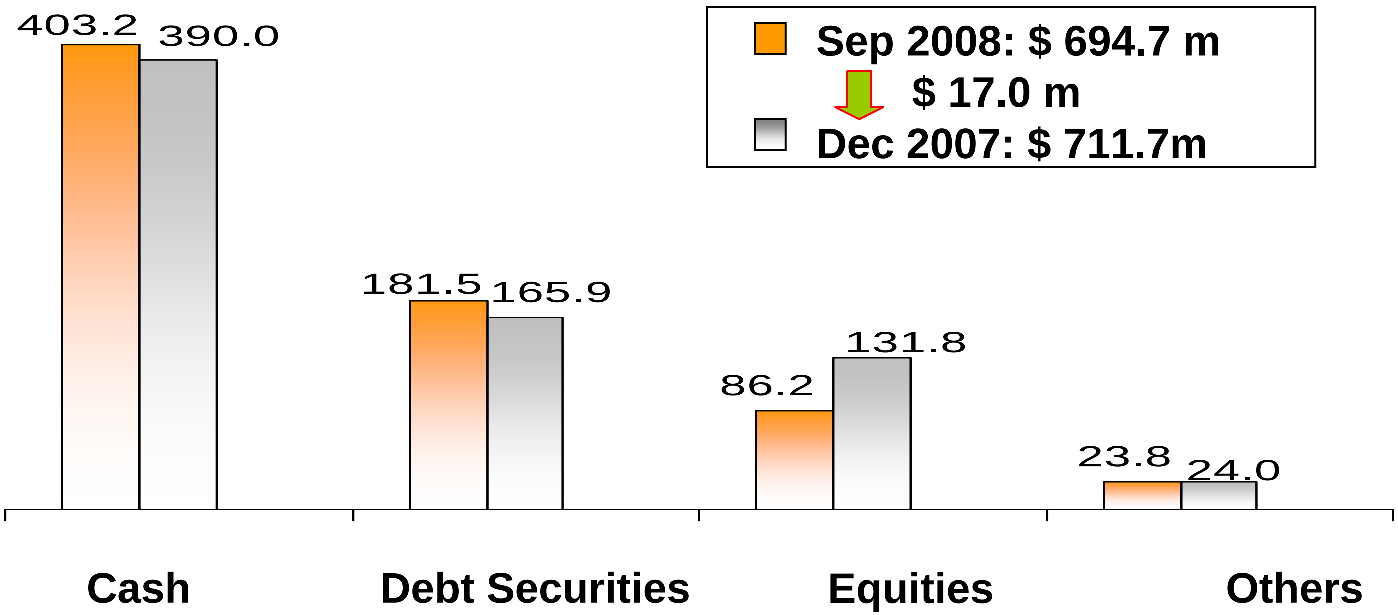
Gulf Warranties

- Revenue earned from administration of extended warranty insurance and related services, $ 5.3 (3Q 2007: $ 5.0 m)
- Net profit (Arig share) $ 0.3 m (3Q 2007 net profit: $ 0.7 m)

ARIMA

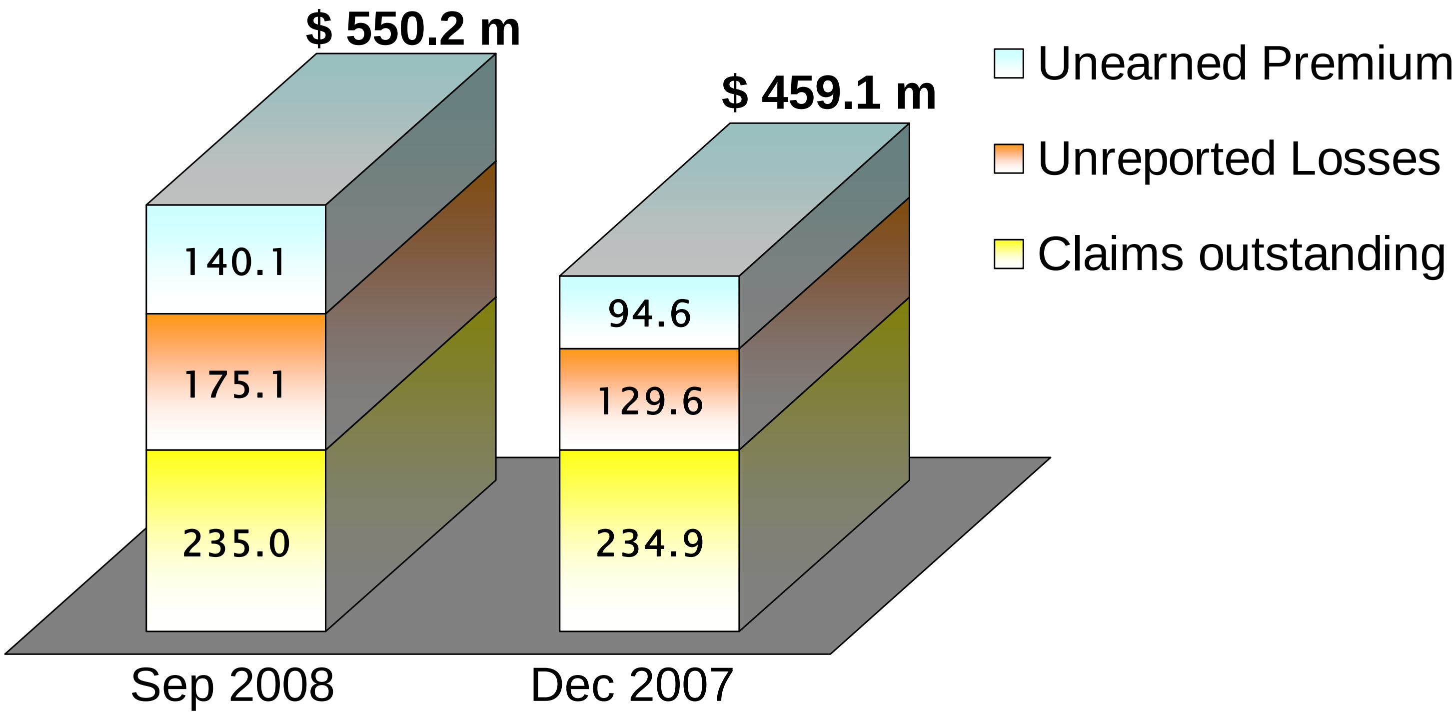
- Income from software sales & related services, $ 1.2 m (3Q 2007: $ 0.6 m)

Investments



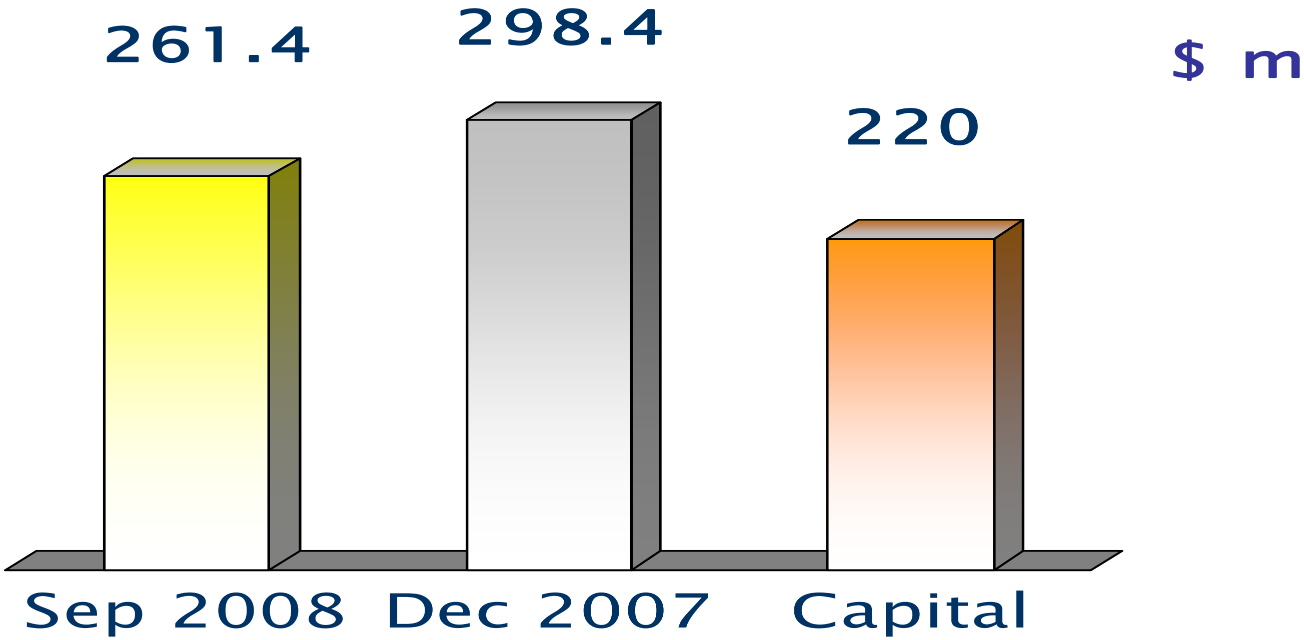
- High allocation in cash & short term on account of the very volatile market conditions
- Decrease in equity holdings represent withdrawals made to reduce exposure in the falling global equity market

Technical Reserves



- Technical provisions increased by $ 91.1 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 $ 37 m mainly due to
  - Dividends for 2007; $ 15.9 m
  - Directors' remuneration; $ 1.0 m
  - Changes on remeasurement of available for sale assets, US$ 8.2 m
  - Net loss of US$ 10.8 m

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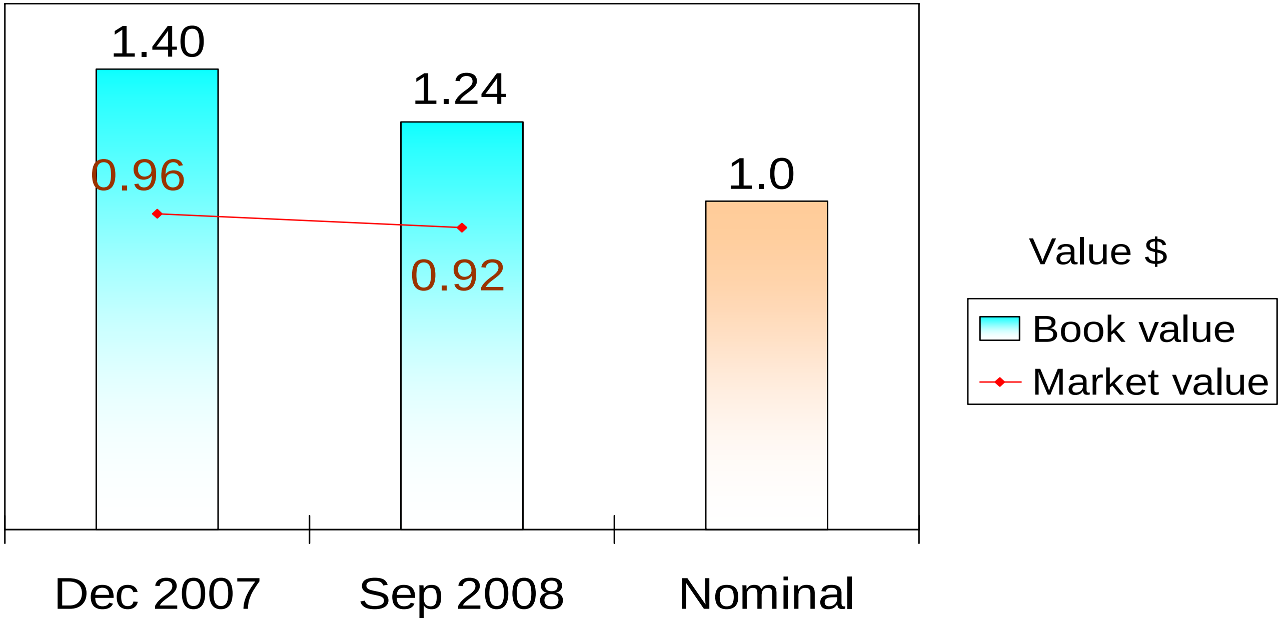
Arig Share



- Price/Book value (Sep 2008); 0.74

Outlook

- Depressed investment earnings likely to impact full year performance
- More adequate pricing in traditional treaty & facultative business expected to lead to better risk returns in the medium term
  - Lower investment earnings likely to compel a ‘back to basics’ approach by insurers
  - Conservative underwriting approach with focus on profitable writing
- Continued strong growth in non-cyclical Life and medical portfolios, expected to
  - reduce acquisition costs
  - Improve performance