Management Discussion & Analysis

Year 2009

Key results

- Turnaround performance – both reinsurance and investment operations contribute to the positive results
- No compromise on quality of reinsurance book despite testing market conditions – reflected in improved combined ratio of the non-life book
- Rebound in investment earnings – losses of 2008 reversed
- Strong capital base – significant surplus over regulatory and internal capital model requirements

(in million $)	**2009**	2008
Gross Premiums Written	279.4	280.7
Technical Result *	16.5	9.6
Net Profit	21.9	(28.6)
Underwriting Result **	10.6	(15.3)
Non-Life Combined Ratio ***	98.7%	99.8%
	2009	2008
Shareholders Equity	267.3	239.6
Book value per share ($)	1.27	1.13

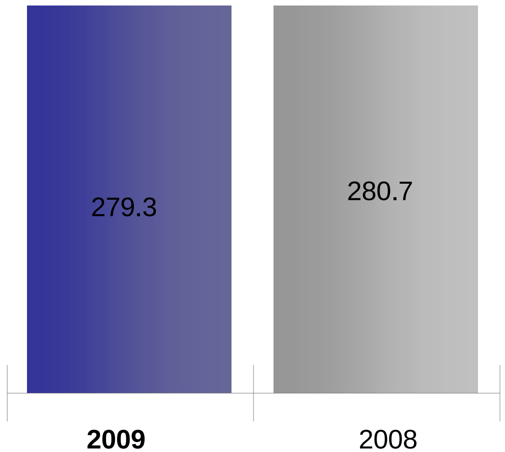
** Technical result – result of reinsurance operations before investment income and operating expenses*

*** 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*

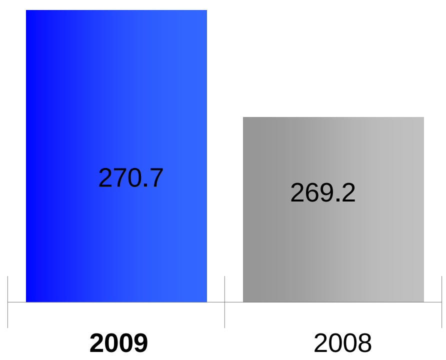
Reinsurance Premiums

Gross Written Premiums (in million $)



- 4% year on year growth in non-life premiums at $ 229.2 m (2008: $ 219.7 m)
  - Growth in non-cyclical medical class
  - Focus on selective underwriting
- Life premiums reached $ 50.2 m (2008: $ 61 m – included development of pipeline premiums of prior years from former Scottish Re portfolio; $ 16.6m)

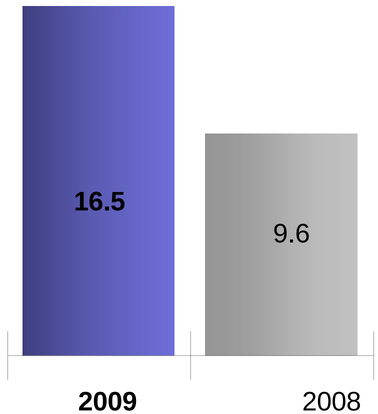
Net written Premiums (in million $)



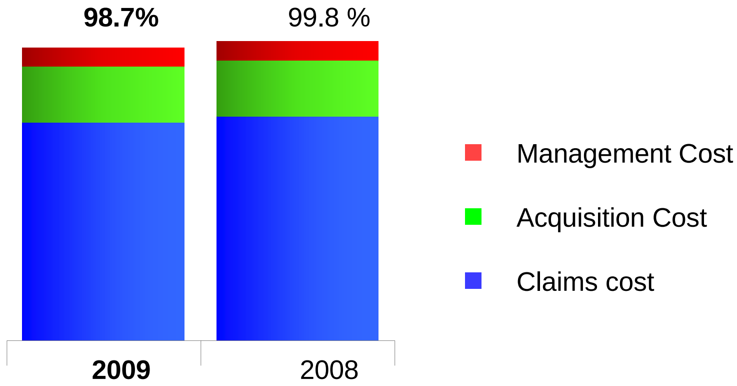
- Higher earned premiums:
  - Non-life premiums $ 221.0 m (2008: $ 208.5 m)
  - Life premiums 49.7 m (2008: $ 60.7 m)

Reinsurance Results

Technical results (in million $)



Non-Life Combined ratio



- Improved Non life technical profit of $ 16.5 m (2008: $ 9.4 m)
- Life portfolio recorded technical profit of $0.02 m (2008: $ 0.2 m) – claims reserve includes element of prudential margins as required by regulators

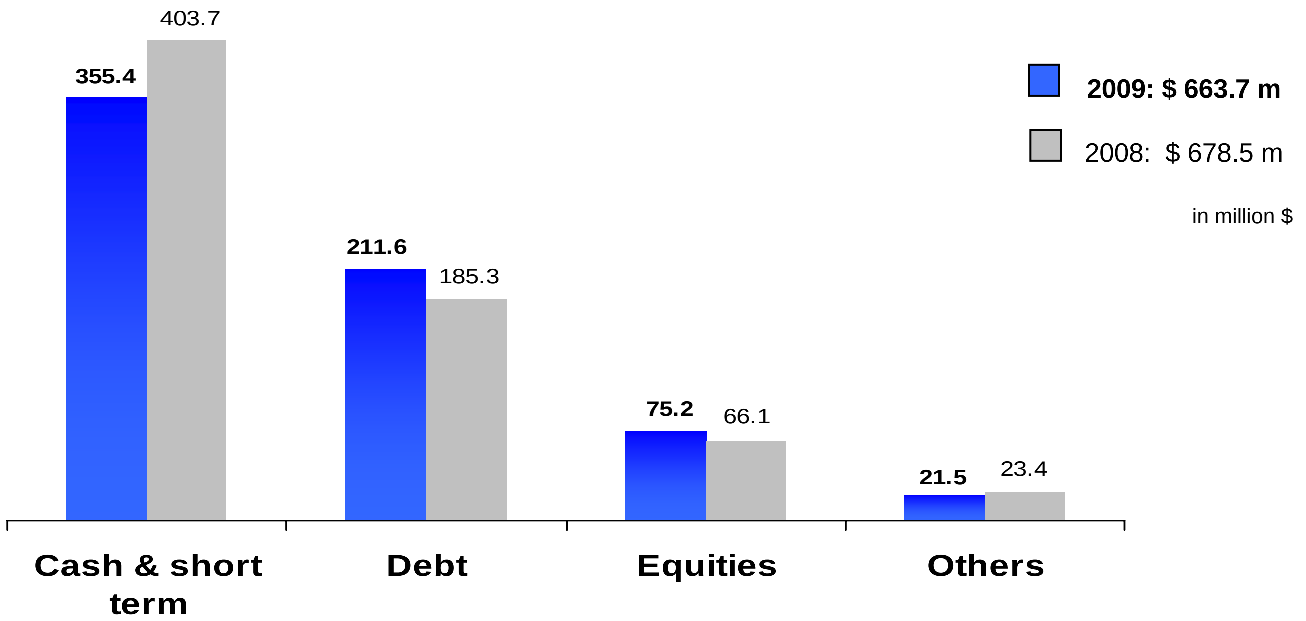
- Improved claims ratio 67.9% (2008: 70.1%)
  - favourable development of the portfolio
  - Includes few mid-sized losses; no major losses
- Acquisition cost levels maintained 23.3% (2008: 23%)
- Management cost levels increase slightly to 7.5% (2008: 6.7%) - higher performance linked incentives

Investment Income

- Investment earnings rebound as global market revive and long-term focussed strategies payoff
- Equity earnings benefitted from improved valuations and proactive portfolio management
- Reduced cash holdings and lower interest rates contributed to the lower income on cash & short term deposits
- Improved fixed maturity earnings resulted from higher allocation and rising bond yields
- Impairment provisions on certain alternative investments contributed to the negative income from this class of assets

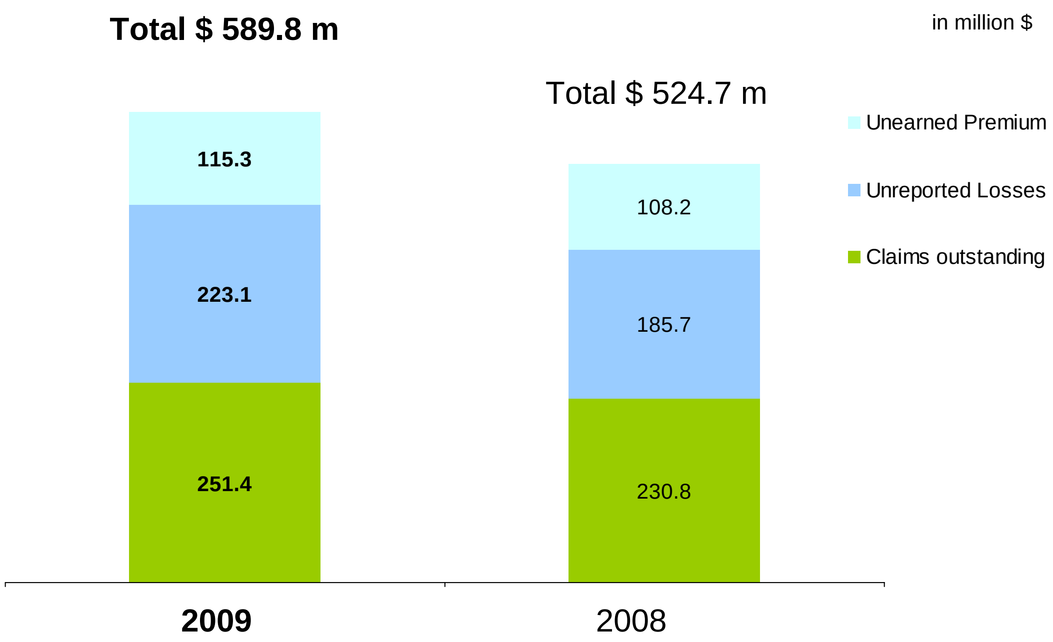
		($ m)
(in $ million)	**Year 2009**	Year 2008
Cash & Short term deposits	7.3	14.4
Fixed Maturities	13.7	0.3
Equity	13.2	(41.1)
Alternative Investments	(0.6)	0.4
Total	**33.7**	**(26.0)**
Rate of return	5.0%	-3.7%

Investments



- $ 56 m of borrowings repaid during the year, reducing cash holdings
- Cautious allocation to debt and equity classes during the year as markets recovered
- High liquidity levels maintained - further allocation to other asset classes planned as market conditions improve further

Technical Reserves



- Technical provisions increased by $ 65.1 m over the year mainly as a result of the increase in loss reserves in line with ultimate loss ratios established during the recent business planning exercise.
- Reserves were assessed by external actuaries for adequacy

Subsidiaries' Performance

Takaful Re

- Gross contributions from Participants, $ 48.7 m (2008: $ 34 m)
- Fees for managing Islamic Reinsurance operations reached $ 8.5 m (2008: $ 6 m)
- Investment income of $ 6.8 m (2008 loss: $ 11.9 m) mainly due to rally in equity markets
- Net profit $ 5.2 m (2008: net loss $ 6.0 m) - Arig's share

Gulf Warranties

- Revenue earned from administration of Extended Warranty insurance and related services was $ 5.0 m (2008: $ 7.6 m); decrease reflects the drop in new vehicle sales across the GCC
- Net profit $ 0.2 m (2008: $ 0.7m) - Arig's share

ARIMA

- External revenue from software sales & related services, $ 1.3 m (2008: $ 1.5 m)

Outlook

- Subdued global economic outlook forecast for 2010 – softening reinsurance market
- Focus on writing quality reinsurance accounts to be maintained as markets get increasingly competitive - expected to lead to continued positive technical performance
- HAIM the new joint venture with Lloyd’s underwriter Hardy Underwriting Group expected to generate significant revenue
  - attractive market of large-scale Energy and Construction accounts in the region to be targeted
- Premium writings would improve in tandem with economic recovery in emerging markets which form Arig’s core business area.
- Increased demand for Personal line classes such as Life and Medical should contribute to premium growth.
- Recovery of financial markets likely to benefit investment earnings.