Interim Results
First Quarter 2016

Arab Insurance Group (B.S.C.) - a reinsurance firm regulated by the Central Bank of Bahrain

Arig Swings Back Into Profit Zone In 1st Quarter 2016

12 May 2016

Bahrain: Following a full-year loss in 2015, the Arig Group rebounded to profitability announcing a 1st quarter net profit of US$ 0.8 million (Q1 2015: US$ 3.5 million) despite the negative influence of exchange rate developments, lower technical results and volatile equity markets. Quarterly net results were reduced by an upward adjustment by US$ 2.5 million to The Address Hotel fire loss million in Dubai, a construction claim of US$ 2.8 million in Qatar and foreign exchange losses of US$1.9 million.

The Group's improved combined ratio of 74.9% for the quarter is reflective of reductions in operating cost and acquisition expenses against the previous year (Q1 2015: 76.6%).

Consolidated investment income of US$ 4.5 million was generated over the reporting period (Q1 2015: US$ 6.3 million).

Gross written premiums increased to US$ 202.7 million for the Group over the quarter (Q1 2015: US$ 166.0 million) mainly on account of the increased Lloyd's portfolio following a dip in 2015.

Arig's shareholders' equity stood at US$ 248.7 million at 31 March 2016 (end of 2015: US$ 244.2 million). The book value per share was US$ 1.26 for the same period (end of 2015: US$ 1.23).

Key Results

(in million US$)	Q1 2016	Q1 2015
Gross premiums written	202.7	166.0
Technical result *	3.4	5.6
Underwriting result **	1.5	4.0
Investment income	4.5	6.3
Net profit	**0.8**	**3.5**
Combined ratio* **	**74.9%**	**76.6%**

	Q1 2016	Dec 2015
Shareholders' equity	248.7	244.2

** Technical result – returns from reinsurance operations before consideration of investment income and operating expenses*
*** Underwriting result – reinsurance results after investment income on insurance funds and related operating expenses*
**** Combined ratio – Incurred Losses/Earned Premium + Expenses / Written Premium*

Premium Development

Gross premiums written (in million US$)	**Q1 2016**	**Q1 2015**
Non-life premiums	195.4	151.2
Life premiums	7.3	14.8
Total	**202.7**	**166.0**

- *Arig reinstated its former position at the Lloyd's market with the acquisition of new capital quota share arrangements with our partner syndicates, prompting an increase of over 22% in annual gross written premiums. On the other hand, we continue to see reduced growth impulses coming from Emerging Markets following the decline in prices for natural resources and a general slowdown in the global economic expansion.*
- *Income from Life reinsurance was down for the quarter after it was decided to discontinue a large long-term account that was offered at technically insufficient terms for renewal. We will rather walk away from accounts than writing business at future losses.*

Net earned premiums (in million US$)	**Q1 2016**	**Q1 2015**
Earned premiums		
Non-life premiums	39.5	48.6
Life premiums	4.8	5.8
Total	**44.3**	**54.4**

Reinsurance Performance

Technical results (in million US$)	**Q1 2016**	**Q1 2015**
Non-life technical profit	2.5	3.6
Life technical profit	0.9	2.0
Total	**3.4**	**5.6**

- *Margins available from the reinsurance could not fully compensate for the new reserves we established catering for the deterioration of the Address Hotel loss, the fire at the Qatar Mall project, and the Tainan Earthquake loss in Taiwan. Property, and in particular Property Treaties continue to be the weakest performers in Arig's portfolio while we are working to keep their impact at a minimum.*

Combined Ratio	**Q1 2016**	**Q1 2015**
Claims ratio	65.6%	64.2%
Operational cost ratio	2.5%	3.4%
Acquisition cost ratio	6.8%	9.0%
Combined ratio	**74.9%**	**76.6%**

- *Steering against the unsatisfactory terms of trade in the reinsurance markets that pushed up Arig's claims ratio by 1.4%, the Group focused on operational efficiencies, achieving a reduction of internal and external expenses under the combined ratio calculation by 3%.*

Technical Reserves

(in million US$)	Q1 2016	Dec 2015
Unearned premiums	268.9	117.5
Unreported losses	232.0	245.0
Claims outstanding	322.9	317.0
Total	**823.8**	**679.5**

Asset Management

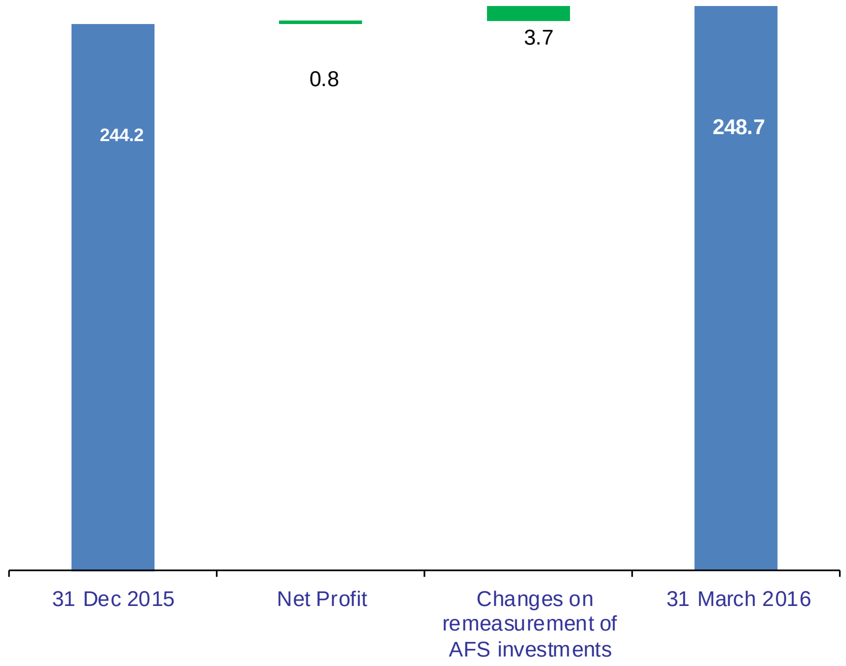
Investment income (in million US$)	**Q1 2016**	**Q1 2015**
Cash & bank deposits	0.3	0.4
Fixed maturities	4.1	3.4
Equities	(0.5)	2.6
Alternative Investments	0.6	(0.1)
Total	**4.5**	**6.3**
Rate of return on invested assets (annualised)	2.4%	3.5%

- *Equity earnings were affected by the volatility in the equity markets during the early part of 2016*

Investments (in million US$)	**Q1 2016**	**Dec 2015**
Cash & bank deposits	188.8	199.1
Fixed maturities	456.8	466.6
Equities	76.6	63.5
Alternative investments	16.2	17.4
Total	**738.4**	**746.6**

Shareholders' Equity

(in million US$)



Outlook

- *Even if the decline of the US Dollar appears to have been arrested, Emerging Markets continue to suffer from a glut in demand for natural resources and a generally slow world economy. Neither the markets in the U.S., nor China, Japan or Europe are radiating growth impulses for relief. As a result, budgets are cut and investments reduced even in the most dynamic growth regions.*

- *Insurers' revenues are affected on two fronts: while demand is declining on construction, transportation and affiliated risks, rates of operational accounts continue to be under pressure by surplus capacity in most of our territories. In tandem with deteriorating claims experience, this has already driven two of the largest regional markets into a deficit situation.*

- *Regional regulators are increasingly becoming aware of the financial risks arising from the current underwriting and reserving practices, even if the response is gradual and unique to each market. But we would expect that insurers and reinsurers will be facing increasing scrutiny that may result in pressure to reconsider the efficiencies of their deployed risk capital.*

- *At Arig we have been modeling our risk and operational capital needs under stress scenarios since 2008. Together with the reserving surplus regularly attested by our independent actuarial consultants, we believe we are in good shape for changes in market constitutions.*

- *There are early signs that markets may have reached their floor in certain segments. However, we do not expect a turnaround as long as capital continues to flow into our industry while demand is not expanding at the same pace. Subsequently our focus is on Arig's operational efficiencies, using our balance sheet, market presence and third party relationships in providing new products, services and know how to our customers. We continue to see growth areas that have largely been underexplored. Even if their volumes may not fully replace the business we need to let go as it under-performs, we believe that our first and foremost duty is to generate added value to our customers and shareholders rather than following the mainstream market all the way to its floor.*