Annual Results

Financial Year 2012

Arig Swings Back To Net Profit Of US$ 15.3 Million In 2012

13 February 2013

Bahrain: Arig delivered net profits of US$ 15.3 million under its 2012 Financial Year results (2011: net loss of US$ 19.1 million). The Company's reinsurance book and investment income both contributed to the rebound. The company's technical result stood at US$ 27.0 million (2011: loss of US$ 0.4 million) based on a combined ratio of 96.9% for the non-life reinsurance portfolio (2011: 108.6%). Investments yielded US$ 21.4 million (2011: US$ 4.0 million), or 3.3% (2011: 0.6%) return on investible assets. Arig's net profit for the fourth quarter 2012 alone was US$ 5.0 million (Q4 only 2011: net loss of US$ 7.6 million).

The performance of the Company in 2012 was supported by Arig's favorable claims experience with an associated drop in the Company's non-life loss ratio by 14 points to 57.9%. Strong earnings were aided by increased profitability in Arig's Life book and lower operational cost. Gross premiums written reduced by 3.6% to US$ 238.6 million for the year (2011: US$ 247.5 million), mostly owing to the effects of political turmoil, applied sanction measures and continuing price competition.

Yassir Albaharna, CEO of Arig, commented: "No doubt, maintaining strict underwriting discipline and a conservative investment strategy has kept Arig away from the pitfalls of uncontrolled growth and declining profitability. Arig had a strong rebound in a competitive market place and I believe we are now enjoying the fruits of our past efforts. On average, the returns from our reinsurance portfolio have trended upwards even though original market rates continued to slide throughout most of the Emerging Markets."

Arig's shareholders' equity stood at US$ 247.1 million at the end of 2012 (end of 2011: US$ 222.4 million) with a book value per share of US$ 1.25 for the same period (end of 2011: US$ 1.12).

Key Results

(in million US$)	2012	2011
Gross premiums written	238.6	247.5
Technical result *	27.0	(0.4)
Underwriting result **	19.9	(14.5)
Investment income	21.4	4.0
Net profit / (loss)	**15.3**	**(19.1)**
Non-life combined ratio* **	**96.9%**	**108.6%**

Shareholders' equity	247.1	222.4

* *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 – aggregate of acquisition and operating cost over net premiums written and claims incurred over net earned premiums

Premium Development

Gross premiums written (in million US$)	**2012**	**2011**
Non-life premiums	215.4	224.5
Life premiums	23.2	23.0
Total	**238.6**	**247.5**

- *Gross Written Premium was lower by 3.6% year-on-year as a sluggish world economy, continued price competition in most of the Emerging Markets and political instability in the Arab world reflected in lower revenues*

Net earned premiums (in million US$)	**2012**	**2011**
Non-life premiums	194.2	189.6
Life premiums	24.0	33.3
Total	**218.2**	**222.9**

Reinsurance Performance

Technical results (in million US$)	**2012**	**2011**
Non-life technical profit	22.6	(2.4)
Life technical profit	4.4	2.0
Total	**27.0**	**(0.4)**

- *Despite super-storm Sandy, 2012 proved to be a benign year for large-scale losses for Arig. However, catastrophe business remained affected by a certain deterioration of prior year cat losses from Thailand and New Zealand*
- *With the exception of Marine Hull, all other lines were profitable*

Non-life portfolio	**2012**	**2011**
Claims ratio	57.9%	72.0%
Operational cost ratio	8.4%	8.9%
Acquisition cost ratio	30.6%	27.7%
Non-life combined ratio	**96.9%**	**108.6%**

- *Acquisition costs were influenced by changes in the business mix and lower net written premiums*

Gross Technical Reserves

(in million US$)	2012	2011
Unearned premiums	100.4	102.2
Unreported losses	212.3	231.4
Claims outstanding	288.3	285.1
Total	**601.0**	**618.7**

- *The adequacy of technical reserves has been validated by independent external actuaries*

Asset Management

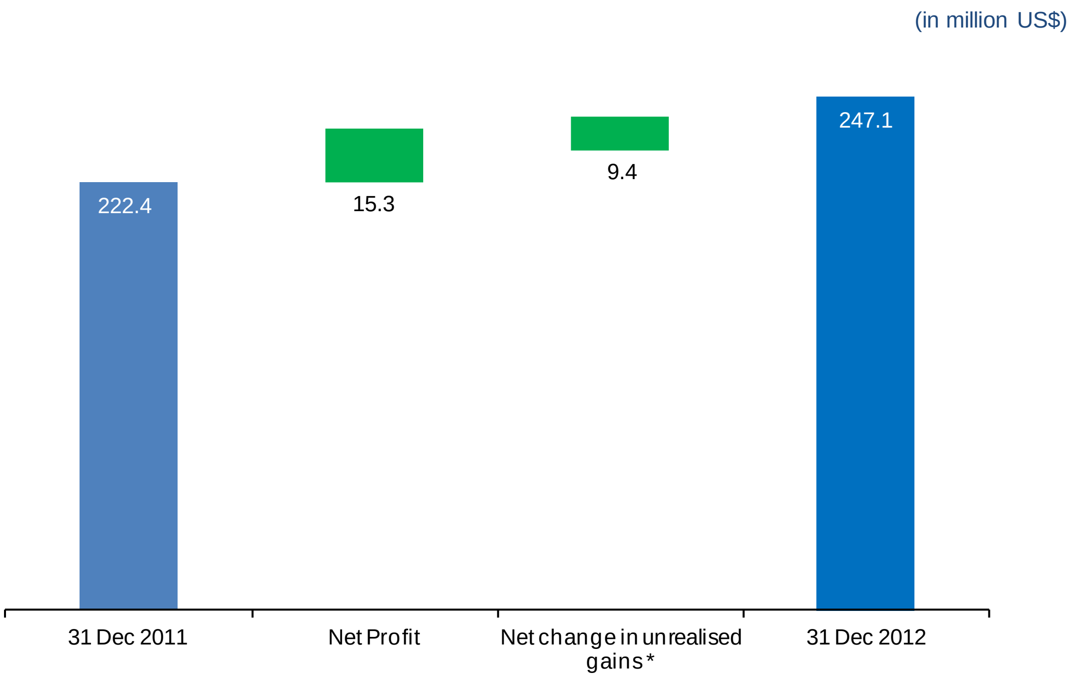
Investment income (in million US$)	**2012**	**2011**
Cash & bank deposits	4.0	4.0
Fixed maturities	10.4	7.7
Equities	7.7	(6.1)
Alternative Investments	(0.7)	(1.6)
Total	**21.4**	**4.0**
Rate of return on invested assets	3.3%	0.6%

- *Investment earning gains reflect active trading in equities and higher yielding fixed maturities as financial markets improved throughout the year*

Investments (in million US$)	**2012**	**2011**
Cash & bank deposits	335.6	345.3
Fixed maturities	246.3	205.7
Equities	53.4	82.4
Alternative investments	18.2	19.4
Total	**653.4**	**652.8**

- *Cash & bank deposits reduced as prior borrowings were repaid*
- *The allocation to fixed maturities was increased due to improving yield in the regional markets.*

Shareholders’ Equity



Including property revaluation gains

Outlook

- *The IMF forecasted only marginal growth for global and regional GDPs for the year 2013. As Emerging Markets are assumed to remain well below their 10-year averages, we do not expect to see significant top line growth this year.*
- *Our clients continue to be influenced by the low interest rate regime, which has caused markets to become more conscious about the quality of risks to be accepted. At the same time, retro markets have hardened further, stopping regional reinsurance capacities from aggressive expansion. We have seen some improvement in terms during recent renewals and expect this trend to show throughout the year. Scope creep is expected to continue. We see our markets consolidating, not hardening.*
- *Through our participation in the portfolios of three Lloyd's syndicates with a specific focus on Specialty lines we are participating on preferred accounts, which would not be viable for Arig to write on its own. Our professional partners in London ensure that this book of business, which is expected to contribute just under US$ 60 million of gross written premium to our portfolio, will be underwritten, managed and controlled on the basis of best industry practices.*
- *Following the sale of the Hardy Underwriting Group to CNA in 2012, Arig's relationship with the company reduced to our joint venture HAIM, the highly profitable Lloyd's coverholder for high-end Engineering, Energy and Political Risks accounts. The loss of premium from Hardy is fully compensated by our new relationships at Lloyd's.*
- *While the performance of Arig's reinsurance portfolio has reached a rather satisfactory level, more efforts will be spent on operational efficiencies within the Group, profitable growth wherever achievable, and a number of out-of-the-box approaches to enlarge the professional footprint in our markets.*