Annual Results
Financial Year 2014

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

Arig Reports Net Profits Of US$ 15.6 Million For 2014

12 February 2015

Bahrain: In a market characterised by global oversupply, Arig achieved net profits of US$ 15.6 million for the Group during its 2014 Financial Year (2013: US$ 18.6 million). While its Islamic reinsurance subsidiary, Takaful Re, produced a loss of US$ 4.9 million (2013: a loss of US$ 4.4 million), Arig's conventional reinsurance operations continued to perform well with net profits of US$ 20.5 million for the year (2013: US$ 24.0 million).

Group net profit for the fourth quarter 2014 alone was US$ 6.0 million (2013: US$ 6.0 million).

Consolidated gross premiums grew by 20% to US$ 315.3 million over the reporting period (2013: US$ 262.0 million), while net written premiums rose 6% to US$ 260.4 million. Conventional premiums made up 94% of the Group's premiums, whereas Takaful Re accounted for 6% in 2014.

Arig's combined ratio was 97.8% for the year whereas Takaful Re disappointed with a ratio of 147%, increasing the Group's overall combined ratio to 101.7%.

Investments generated US$ 20.5 million of profit, marginally higher than in the previous year (2013: US$ 20.4 million).

Yassir Albaharna, CEO of Arig, commented: "The majority of Arig's reinsurance portfolio performed well in a challenging market where we have seen risk premiums reducing year by year. Apart from the underwriting result, we are pleased to see our investment result holding up, while we are pursuing a strategy that protects our stakeholders' capital. Regrettably, and in spite of the measures taken in the past, Takaful Re continues to be a drag on the Group's performance. We are currently engaged in active discussions to decide on a solution that would safeguard the future profitability of our Re-Takaful interest."

Arig's shareholders' equity increased to US$ 264.5 million at the year end (end of 2013: US$ 249.2 million) with a book value per share of US$ 1.34 (end of 2013: US$ 1.26).

Key Results

(in million US$)	2014	2013
Gross premiums written	315.3	262.0
Technical result *	16.1	20.8
Underwriting result **	6.0	13.4
Investment income	20.5	20.4
Net profit	**15.6**	**18.6**
Combined ratio* **	**101.7%**	**97.8%**

	2014	2013
Shareholders’ equity	264.5	249.2

* *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$)	**2014**	**2013**
Non-life premiums	292.0	237.0
Life premiums	23.3	25.0
Total	**315.3**	**262.0**

- *While trading terms in the Emerging Markets remained challenging, Arig wrote increased volumes of business from the Lloyd's market. It should be noted that 2014 gross premiums include $27.8 million of premiums that were retroceded to a certain Lloyd's syndicate as part of an internal restructure agreed by the Lloyd's Franchise Board.*
- *Life premiums increased slightly in Arig's conventional book but saw a reduction in the Re-Takaful portfolio*

Net earned premiums (in million US$)	**2014**	**2013**
Earned premiums		
Non-life premiums	233.0	214.3
Life premiums	23.4	23.4
Total	**256.4**	**237.7**

- *Higher earnings were driven by business written through certain syndicates at Lloyd's*

Reinsurance Performance

Technical results (in million US$)	**2014**	**2013**
Non-life technical profit	9.0	15.0
Life technical profit	7.1	5.8
Total	**16.1**	**20.8**

- *Increased losses at Takaful Re, Arig's Re-Takaful subsidiary, reduced technical profits in 2014 while higher than expected returns from Arig's Life portfolio reflected in higher earnings from that segment of our business*

Combined Ratio	**2014**	**2013**
Claims ratio	66.8%	63.1%
Operational cost ratio	8.4%	7.5%
Acquisition cost ratio	26.5%	27.2%
Combined ratio	**101.7%**	**97.8%**

- *While Arig's claims load increased only marginally, Takaful Re's performance had a more tangible impact on the 2014 claims performance; operational expenses developed in a similar pattern*

Technical Reserves

(in million US$)	2014	2013
Unearned premiums	144.4	124.5
Unreported losses	214.9	215.5
Claims outstanding	348.3	338.6
Total	**707.6**	**678.6**

- *Increased unearned premium and loss reserves are corresponding to the growth in premiums written in 2014*

Asset Management

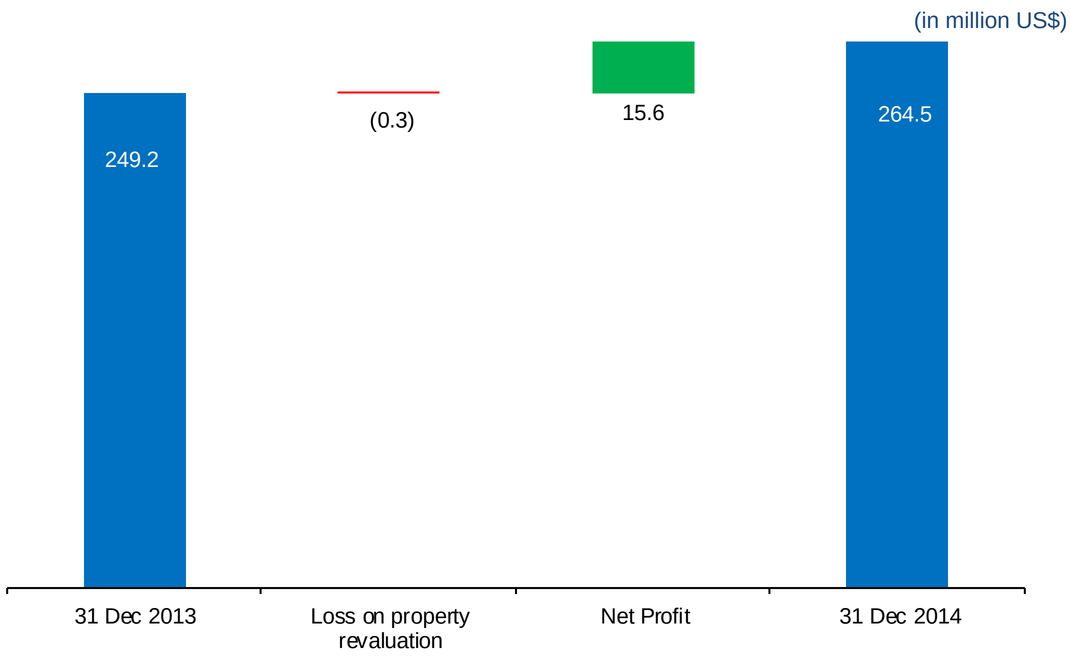
Investment income (in million US$)	**2014**	**2013**
Cash & bank deposits	1.7	2.9
Fixed maturities	12.3	7.4
Equities	5.9	10.6
Alternative Investments	0.6	(0.5)
Total	**20.5**	**20.4**
Rate of return on invested assets	3.0%	3.1%

- *In 2014, key interest rates declined, and prices of fixed income securities rose. This phenomenon resulted in attractive trading opportunities in "Available for sale "fixed income securities. Income booked in the fixed income portfolio was, for this reason, in excess of previous year's levels.*
- *Equity markets were volatile. The abrupt decline in crude oil prices in the second half of 2014, affected sentiment. Returns on all major equity indices were well below returns of the prior year. The performance of Arig's equity portfolio reflects this trend.*

Investments (in million US$)	**2014**	**2013**
Cash & bank deposits	193.2	273.7
Fixed maturities	433.4	291.7
Equities	77.2	61.3
Alternative investments	16.9	15.5
Total	**720.7**	**642.2**

- *Certain cash & bank deposits were reallocated to other asset classes over the reporting period*
- *Allocation to fixed maturities and equities was increased over the year taking advantage of the positive market trends*

Shareholders’ Equity



Outlook

- *According to the latest IMF forecast, the global economy is expected to expand by 3.5% in 2015 receiving a boost from lower oil prices, but projected to be more than offset by lower consumer demand and investments in most markets outside of the U.S.*
- *The insurance and reinsurance industry continues to be challenged by lower demand and overcapacities in the sector as another benign loss year and capital market investors' interest have helped to amass risk capital to a historical high. We expect risk pricing to stay under pressure even if there appears to be less margin for catastrophe covers to go much lower before outside capital investors lose interest.*
- *Equally, insurers' investments need to perform a balancing act between the protection of their principal and generating a meaningful return on capital that stays clear above inflation. Markets stay volatile and could correct at the slightest notion, hence proper risk management must be in place even if it comes at the expense of some earnings. Given the choice between peak investment risk and securing our investors' capital, we would always opt for the latter.*
- *Despite the truly demanding industry environment, Arig remains highly confident that we are well equipped to deal with the challenges at hand. Our reinsurance and investment portfolios are sufficiently diversified and risk management is vigilant. The company's reserving position is very strong and able to deal with surprises. While our business model may not deliver the spectacular results of a riskier portfolio in a good year, we also have not been placed in a position where the company needed to replenish capital as it was experienced in regional markets in recent times.*
- *Our markets are likely to show limited opportunities for profitable growth in 2015, yet we believe that by fine-tuning our operational platform further, the Group can realize its potential for solid returns throughout the business cycle.*