Interim Results

Nine months 2015

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

A Testing Industry Environment Leaves Its Mark on Arig's Third Quarter Returns

12 November 2015

Bahrain: Global overcapacities, earthquake losses from Nepal and a swing in the equity markets have jointly pushed the Arig Group's net profits down to US$ 1.4 million nine months into 2015 (nine months 2014: US$ 9.6 million). Arig and its Corporate Member at Lloyd's contributed a profit of US$ 5.5 million (nine months 2014: US$ 11.8 million) while its Islamic subsidiary Takaful Re returned a loss of US$ 3.9 million (nine months 2014: a loss of US$ 2.2 million).

Net result for the third quarter alone was a loss of US$ 4.8 million (Q3 2014: a profit of US$ 4.9 million).

The Group's underwriting result was US$ 2.6 million for the period (nine months 2014: US$ 1.4 million) based on a combined ratio of 97.1% (nine months 2014: 97.8%). Income from investments was lower year-on-year at US$ 10.1 million (nine months 2014: US$ 19.3 million) following a world-wide swing in share prices during the third quarter of 2015.

Gross premium income over the nine month period decreased to US$ 212.6 million (nine months 2014: US$ 298 million) as shifts in Arig's Lloyd's portfolio, voluntary premium cutbacks by Takaful Re and the influence of exchange rate developments contributed to the reduction.

The Group wrote gross premiums of US$ 26.5 million during the third quarter (Q3 2014: US$ 61.2 million).

Yassir Albaharna, CEO of Arig, commented: "The recent turmoil in financial markets has been a challenge to many, but we continue to follow a conservative investment policy. On another front, a special shareholders' meeting for Takaful Re is being called next month since Arig did not receive unanimous approval to the offer made to purchase the minority shares. This is an important move towards enhancing the Group's earnings potential."

Arig's shareholders' equity stood at US$ 253.0 million on 30 September 2015 (end of 2014: US$ 264.5 million). Book value per share was US$ 1.28 at the end of the third financial quarter 2015 (end of 2014: US$ 1.34).

Key Results

(in million US$)	3Q 2015	3Q 2014
Gross premiums written	212.6	298.0
Technical result *	13.4	7.8
Underwriting result **	2.6	1.4
Investment income	10.1	19.3
Net profit	**1.4**	**9.6**
Combined ratio* **	**97.1%**	**97.8%**

	3Q 2015	Dec 2014
Shareholders' equity	253.0	264.5

* *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$)	3Q 2015	3Q 2014
Non-life premiums	188.2	276.2
Life premiums	24.4	21.8
Total	**212.6**	**298.0**

- *Pricing discounts and a general widening of conditions as a result of serious overcapacities continued to exert considerable downward pressure on premium levels.*
- *The termination of a capital quota share at Lloyd's and the reduction of our support in another led to a noticeable reduction in our incoming premiums in 2015. Reduced lines in the Far East and, to a lesser extent in Africa in conjunction with exchange rate movements reinforced this development, which was only partially offset by increases in our Medical, Life and Extended Warranty business.*
- *In addition, Takaful Re continued with its voluntary cutbacks of what has shown to be an underperforming book of business.*

Net earned premiums (in million US$)	3Q 2015	3Q 2014
Earned premiums		
Non-life premiums	148.0	176.0
Life premiums	19.5	17.9
Total	**167.5**	**193.9**

- *The decrease in net earned premiums was less pronounced. Part of the reduction in our Lloyd's portfolio resulted from the planned discontinuation of a fronting arrangement.*

Reinsurance Performance

Technical results (in million US$)	**3Q 2015**	**3Q 2014**
Non-life technical profit	8.9	2.7
Life technical profit	4.5	5.1
Total	**13.4**	**7.8**

- *While most lines of business returned expected profits, our pro rata treaty book was affected by two earthquake events in South Asia that mainly hit the 2014 Year of Account.*

Combined Ratio	**3Q 2015**	**3Q 2014**
Claims ratio	66.4%	69.2%
Operational cost ratio	8.7%	6.9%
Acquisition cost ratio	22.0%	21.7%
Combined ratio	**97.1%**	**97.8%**

Technical Reserves

(in million US$)	3Q 2015	Dec 2014
Unearned premiums	164.1	144.4
Unreported losses	235.6	214.9
Claims outstanding	333.7	348.3
Total	**733.4**	**707.6**

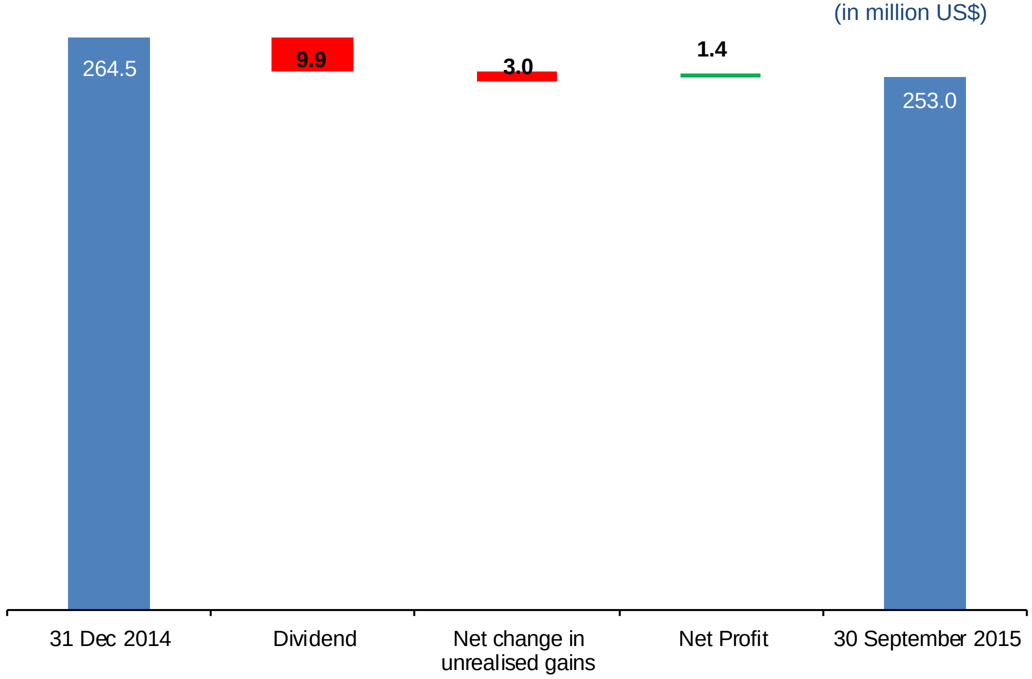
Asset Management

Investment income (in million US$)	**3Q 2015**	**3Q 2014**
Cash & bank deposits	1.1	1.5
Fixed maturities	9.1	7.1
Equities	(0.4)	10.6
Alternative Investments	0.3	0.1
Total	**10.1**	**19.3**
Rate of return on invested assets	1.8%	3.8%

- *Equities are showing considerably weaker performance in 2015 as a direct result of a major swing in global markets during the third quarter of this year. Though only moderately invested in the asset class, Arig was not immune to this development.*

Investments (in million US$)	**3Q 2015**	**Dec 2014**
Cash & bank deposits	206.0	193.2
Fixed maturities	454.4	433.4
Equities	81.6	77.2
Alternative investments	17.8	16.9
Total	**759.8**	**720.7**

Shareholders' Equity



Outlook

- *The ‘Perfect Storm’ in the reinsurance market place continues. A toxic mix of absent major catastrophe events, oversupply of risk capital, reduced buyer’s appetite and marginal investment income from traditional asset classes has continued to depress industry results.*
- *A prolonged slump in most of the larger Emerging Markets including China has had a negative effect on growth and, therefore, insurance demand. In the Middle East this trend was reinforced by sharply reduced income from the sale of fossil fuels, which traditionally help fund major public projects that also have a knock-on effect on the private sector.*
- *We see little change in our near-term outlook. Arig’s efforts are therefore concentrated around offering new products through expanding our distribution into under-developed segments of the market. Even if this will require a start-up period, we expect future benefit to be superior to that coming from commodity products, which currently form the mainstay of the regional reinsurance markets.*
- *In the interim we are aiming to strategically de-risk our existing portfolio by avoiding peak risks and accumulation in our exposure especially as we feel that risk and risk reward are following differing trend lines. We are looking to lay off risk and keep our written shares at an increasingly granular level.*
- *Even though there is a remaining risk of a further correction in the equity markets, we believe our portfolio is sufficiently balanced between the ability to remain opportunistic and our duty to protect shareholders’ and policyholders’ funds.*
- *While the economic and industry outlook continues to look mixed, Arig is well equipped to manage the cycles that represent a hallmark of our industry.*